

sagafurs.



# Financial Statements Bulletin

## 1 November 2019–31 October 2020

26 January 2021

## SAGA FURS OYJ

### FINANCIAL STATEMENTS BULLETIN 1 NOVEMBER 2019–31 OCTOBER 2020

#### Negative impacts of the COVID-19 pandemic on the business of Saga Furs Oyj lessened in the second half of the year but the result was clearly negative

- For the financial year 1 November 2019–31 October 2020, the value of Saga Furs Oyj's sales decreased by 47 per cent compared to the previous corresponding period and amounted to EUR 157 million (2018/2019: EUR 297 million).
- Because the COVID-19 pandemic hampered auctions and there was a drop in the demand for pelts, both the number of pelts sold and the price level decreased.
- During the financial year, the Company auctioned a total of 8.0 million pelts (8.8 million pelts).
- Consolidated net turnover decreased by 37 per cent to EUR 28 million (MEUR 45).
- Consolidated operating expenses decreased by 11 per cent to EUR 43 million (MEUR 48).
- Consolidated operating loss was EUR 13 million (a loss of MEUR 2).
- Consolidated net financial income increased to EUR 2.2 million (MEUR 1.7).
- Consolidated loss before tax stood at EUR 10.4 million (a loss of MEUR 0.7).
- Earnings per share were EUR –2.37 (EUR –0.19).
- The Board of Directors proposes to the General Meeting that for the financial year of 1 November 2019–31 October 2020 no dividend shall be paid.

#### In the second half-year, sales perked up, cost savings yielded results and the Company made profits

- In the half-year 1 May 2020–31 October 2020, the Company's value of sales decreased to EUR 112 million (MEUR 170).
- Consolidated net turnover decreased by one fourth, amounting to EUR 18 million (MEUR 24).
- Operating expenses decreased to EUR 20 million (MEUR 23).
- The operating profit showed a drop, leading to a loss of EUR 50,000 (profit of EUR 1.5 million).
- The Group's profit/loss before tax decreased to EUR 0.5 million (MEUR 1.1 million).

Consolidated key figures	5/20-10/20		11/19-10/20		5/19-10/19		11/18-10/19	
	6 mo	12 mo	6 mo	12 mo	6 mo	12 mo	6 mo	12 mo
Total sales, MEUR	111,6	156,9	170,2	296,9				
Total amount of skins sold, million pcs	6,4	8,0	5,6	8,8				
Net turnover, MEUR	18,5	28,2	24,0	44,7				
Operating profit/loss, MEUR	0,0	-12,6	1,5	-2,4				
Profit before taxes, MEUR	0,5	-10,4	1,1	-0,7				
Earnings per share, EUR	0,07	-2,37	0,23	-0,19				
Return on equity, (ROE) %	0,3 %	-10,2 %	0,9 %	-0,8 %				
Return on investment, (ROI) %	1,3 %	-5,0 %	1,1 %	0,2 %				

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## Business overview

The beginning of Saga Furs' reporting period 1 November 2019–31 October 2020 was characterised by weaker demand for pelts due to several successive warm winters in our main market areas, and long-term oversupply. From the beginning of the year 2020, the COVID-19 pandemic led to a collapse in global consumer demand, impeded the design of new collections by fashion houses, thus crippling demand for pelts in the short term.

Moreover, the travel and gathering restrictions imposed due to the pandemic prevented the organisation of Saga Furs' traditional auctions in March and June. Under the exceptional circumstances, the company successfully organised its first online auction in March-April. The June-July and September auctions, held later than planned, attracted clearly fewer participants than usual.

A total of 8.0 million pelts were sold at Saga Furs' auctions in the 2019/2020 financial year (2018/2019: 8.8 million). Of the pelts brokered, 7.4 million were mink pelts, 0.5 million fox pelts, 75 000 Finn raccoon pelts and 50 000 Karakul lamb pelts. The number of mink pelts traded grew year-on-year, but the price level was approximately one fifth lower. The purchases of fox and Finn raccoon pelts, mostly used for trimmings, remained selective throughout the financial year, and the price level remained low. A considerable number of the mink pelts offered for sale were carried over for sale in the next financial year. The value of the Group's brokerage sales decreased to EUR 157 million (EUR 297 million) and net turnover to EUR 28 million (EUR 45 million).

During the period, Saga Furs' brokerage of North American mink pelts saw major growth as consequence of the previously signed agreement with North American Fur Auctions Inc (NAFA). Saga Furs also gained the exclusive right to use the BLACKGLAMA label in the marketing of high-quality black mink. Most North American mink pelts were offered as a separate collection, and they were graded by the grading centre operating in Wisconsin, USA.

Due to the collapse in the demand for pelts due to the pandemic, Saga Furs decided to carry over about one fifth of the collected pelts for grading in the next financial year, to reduce the negative financial impacts. In March, the company initiated statutory cooperation negotiations with the personnel on temporary fixed-term layoffs. The negotiations led to the decision to temporarily lay off all of the group's personnel for one month during the financial year. The temporary layoffs and other economising measures were estimated to bring more than EUR 3 million of savings mainly during the second half of the financial year.

Due to the negative financial impacts of the coronavirus pandemic, Saga Furs lowered its profit forecast for the financial year in March. The company's Board of Directors also proposed to the General Meeting that no dividend be paid in this situation. At that time, the company estimated that the company's result for the current financial year would be negative.

On 6 May 2020, the Board of Directors of Saga Furs Oyj appointed M.Sc. Magnus Ljung as the company's new CEO.

On 20 May 2020, Saga Furs announced that it would initiate another round of statutory cooperation negotiations to improve its profitability and to adjust the number of personnel and the production capacity. The negotiations were a part of a more extensive cost savings programme, and applied to all Group personnel. The decisions made after the conclusion of the negotiations in mid-July affected the employment relationship of more than 30 employees. In total, the economising measures will result in personnel cost savings of almost 20 per cent. The savings will be realised mainly in the 2020–2021 financial year and fully in the 2021–2022 financial year.

After the negotiations, Saga Furs announced a reform of the organisation with a focus on four main operations in the future. The four focus areas are 1) pelt acquisition, 2) pelt grading, 3) sales and marketing and 4) producer and buyer financing. The new organisational model is more efficient than the previous one, and reflects the considerably decreasing fur production. Simultaneously, operating methods were streamlined and overlapping responsibilities eliminated.

Regardless of the exceptional situation, pelt collection, grading and storage continued as usual at Saga Furs. Pelt storage volumes were exceptionally high due to the sudden decrease in demand and carrying over of pelts to future financial periods.

Saga Furs' solvency decreased clearly during the financial year as a result of the postponed sales of pelts due to the coronavirus pandemic. The company's own operations took up more financing than previously, and producers have charged exceptionally high advance payments from the company. In order to cover the increased working capital needs, Saga Furs applied for the loan guarantee granted due to the COVID-19 pandemic from Finnvera, but the guarantee was not granted. On 13 May 2020, the company decided to suspend advance payments to producers in order to safeguard its solvency. At all auctions during the financial year, the pelts were sold to meet an immediate need, and as consequence, they were redeemed at an exceptionally rapid pace and there was no need to grant financing to buyers. Therefore, the Group's liquidity normalised by the end of the financial year, and advance payments to producers continued from the end of October.

Since December 2019, Saga Furs has required that all European farms that send fox and mink pelts to Saga Furs for brokerage must have met the assessments of the WelFur certification system measuring animal welfare in three different stages of the breeding season. During the financial year, in cooperation with the Finnish Fur Breeders' Association (FIFUR), the company continued the operational programme to develop Finnish responsible fur production, developed its own corporate responsibility programme and piloted the pelt traceability solution with its customers.

Regardless of the restrictions imposed due to the COVID-19 pandemic, Saga Furs continued its efforts to increase the use of responsibly produced fur in fashionwear collections. The Fur Vision events for designers were organised at a smaller scale than usual in Paris, Milan, New York and certain big cities in Asia. Under the exceptional circumstances, Fur Vision transferred to a digital format more than before.

Saga Furs will relocate its product development and training centre, which has operated in Copenhagen since 1988, to Vantaa. The centre will be opened adjacent to the company headquarters early in 2021. Due to this transfer, Saga Furs sold the office building in Copenhagen.

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## Brokerage sales and turnover

The COVID-19 pandemic affected Saga Furs' auction operations, and the volume and value of brokerage sales in the financial year markedly, particularly in spring and summer 2020. However, at the September auction, brokerage sales were restored to the level of the corresponding auction in the previous year, thanks to the record-high volume of mink pelts.

Mostly due to the decline in the amount of pelts traded, the value of Saga Furs' brokerage sales decreased by 47 per cent year-on-year, totalling EUR 157 million (MEUR 297). In the financial year, the company sold a total of 8.0 million fur pelts (2018/2019: 8.8), of which 7.4 million were mink pelts (6.5), 0.5 million fox pelts (2.0 million), and 75,000 Finn raccoon pelts (160,000). A significant number of mink and fox pelts were transferred for sale in the following financial year due to the decline in demand due to the COVID-19 pandemic.

Saga Furs' turnover decreased in the financial year 37 per cent and was EUR 28 million (MEUR 45).

Saga Furs Oyj held the first auction of the financial year from 19 to 20 December 2019. The value of brokerage sales at the auction totalled EUR 12 million (12/2018: MEUR 20). Approximately 250,000 fox and 34,000 Finn raccoon pelts were on offer in the auction. Karakul sheep pelts and sable pelts were also offered. More than 200 buyers from all important market areas attended the auction, and as is typical of December auctions, the purchases were replenishment purchases. Approximately half of the fox pelts were sold and the price level of the pelts decreased by approximately 5 per cent from the September 2019 auction. A warm early winter and the economic slowdown in China, the main market for blue fox, had an impact on auction sales, and some of the higher-quality pelts were left unsold. All the Finn raccoon pelts offered were sold at an almost stable price level.

Saga Furs had to postpone its second auction of the period, scheduled for March, to April due to the restrictions on travel and gatherings imposed in order to control the COVID-19 pandemic. As the restrictions were extended, the company organised its first online pelt auction from 23 March to 9 April 2020 instead of the traditional auction. The value of brokerage sales at the company's first online auction totalled EUR 31 million (3/2019: MEUR 106). The online auction worked well and attracted more than 150 buyers, mainly from the Asian markets. This gave the customers the opportunity to purchase raw materials for the immediate needs of garment manufacturers. In the online auction, 1.3 million mink pelts or approximately half of the offering were sold, as well as 75,000 fox pelts, corresponding to approximately 15 per cent of the offering.

On 13–15 May 2020, Saga Furs offered the possibility to make replenishment purchases of the pelts that remained unsold in the online auction to those customers who had not been able to participate in April due to the restrictions caused by the coronavirus pandemic. Demand remained low.

The third official auction of the period had to be postponed from June to July due to the COVID-19 pandemic. The company managed to hold the auction from 29 June to 7 July 2020, using special arrangements. The value of brokerage sales at the auction totalled EUR 20 million (6/2019: MEUR 100). During the spring, the pandemic had severely affected the retail of consumer durables and the expectations of retailer trade. In many important market areas, consumers' purchasing behaviour was extremely cautious in fear of the second wave of the COVID-19 pandemic, and in some areas, the first wave of the pandemic continued with full force. In China, the company's most important market area, the import of products of animal origin had become distinctly more difficult as part of the measures to combat the pandemic. Due to the aforementioned facts, the expectations for the July auction were not high. In the company's opinion, however, it was important to hold the auction to satisfy the reviving demand and to ensure that fur would still be used in garment collections. The auction attracted about 50 buyers, considerably fewer than usual. The strict travel restrictions caused by the pandemic markedly reduced the number of buyers arriving from non-EU countries. However, the largest purchases were destined to China. At the auction, 5 million mink, 835,000 fox and 49,000 Finn raccoon pelts were on offer.

The last auction of the financial year was held from 8 to 16 September 2020. The value of brokerage sales totalled EUR 72 million (9/2019: MEUR 70). The auction attracted 60 buyers, more than any other international auction in 2020. Of the record number of 5.6 million mink pelts on offer, 4.2 million were sold, which is the highest number of mink pelts

ever traded by the company at a single auction. In addition, 700,000 fox and 50,000 Finn raccoon pelts were on offer. In September, consumer demand was still exceptionally uncertain. As result of the COVID-19 pandemic, in the main markets the fashion industry did not have time to design and manufacture new collections during the spring. This particularly affected the demand for fox pelts, used as trimmings, as it is easy to exclude trimmings from the collections. As consequence, the demand for fox pelts in the auction was low. While the largest purchases were made for China, customers from Turkey and Greece also bought pelts.

### Sales in the half-year period 1 May–31 October 2020

In May–November, the Company sold 6.0 million mink pelts (May 2019 to October 2019: 4.3 million pelts), 270,000 fox pelts (1.1 million pelts), 37,000 Finn raccoon pelts (73,000) and 12,000 Karakul lamb pelts (65,000). During the review period, the value of sales fell by 34 per cent, totalling EUR 112 million (MEUR 170).

#### Value of sales per auction

Auction	Sales		Value		Sales		Value	
	1,000 pelts	EUR 1,000						
	2019/2020	2019/2020	2018/2019	2018/2019	2017/2018	2017/2018	2017/2018	2017/2018
December	197	11 629	320	19 602	294	18 333		
March	1 360	31 865	2 919	106 722	3 676	139 930		
June	1 173	24 583	3 347	99 498	3 570	105 976		
September	4 442	71 528	2 211	69 697	1 767	48 795		
Private Treaty	830	17 341	34	1 335	34	1 415		
Total	8 002	156 945	8 830	296 854	9 341	314 449		

## Financial position and result and key performance indicators

The number of pelts sold during the financial year 2019/2020 decreased by 9 per cent from the previous financial year to 8.0 million pelts (8.8 million pelts in the previous financial year) after a significant number of fox pelts remained unsold. The exchange rate of the US dollar against the euro, weighed with auction sales, decreased by 2.9 per cent from the previous financial year. The euro-denominated price level of fox pelts decreased by 13 per cent and that of mink pelts by 22 per cent from the previous financial year. Due to the decrease in the number of pelts sold and the pelt price level, the value of sales decreased by 47 per cent year-on-year, totalling EUR 157 million (MEUR 297).

Consolidated net turnover for the financial year decreased by 37 per cent, amounting to EUR 28 million (MEUR 45). The bulk of the net turnover, 87 per cent (89%), consisted of commission fees collected for pelt trading. The commission fees from producers accounted for 38 per cent (31%) and the commission fees from buyers for 50 per cent (59%) of the consolidated net turnover. The remainder was generated from sales of pelting services to producers. The share of commission fees collected from Finnish customers, both producers and buyers, was 8 per cent (17%) and the share of commission fees collected from international customers was 80 per cent (72%). Other operating income increased by 150 per cent to EUR 1.9 million (EUR 760,000) due to the sale of the Design Centre property in Denmark and cost support from the State Treasury.

Consolidated operating expenses decreased by 11 per cent compared to the previous corresponding period, totalling EUR 43 million (MEUR 48). Saga Furs is not the owner of the pelts it auctions, so the majority of the collection and grading costs of the increased number of pelts in the financial year was realised and, in accordance with the IFRS rules, only a part of the costs can be carried over to the financial year in which the pelts are sold. Therefore, operating expenses did not decrease in the same proportion as sales during the review period.

Personnel expenses decreased by 20 per cent year-on-year, totalling EUR 15 million (MEUR 19). Depreciation increased from EUR 3.8 million to EUR 6.0 million as a result of the adoption of IFRS 16. Other operating expenses were EUR 20 million (MEUR 23). Other operating expenses included credit losses of EUR 1,6 million (MEUR 0) recorded for receivables from buyers.

Consolidated operating loss in the financial year was EUR -13 million (MEUR -2). The operating result weakened due to a decrease in turnover caused by a sharp decline in sales.

Consolidated net financial income grew by 31 per cent, totalling EUR 2,2 million (MEUR 1,7), despite the EUR 3,6 million credit loss (MEUR 2.6). The increase was mainly due to the increase in the number of pelts collected and the increase in producer receivables brought about by the delay in the sale of pelts.

Consolidated loss before taxes stood at EUR -10,4 million (a loss of MEUR). Direct taxes, including the change in deferred taxes, improved the result for the financial year by EUR 2,0 million (EUR -0,7 thousand).

Consolidated operating loss was EUR -8,4 million (MEUR -0,7).

Return on equity was -10,2 per cent (-0,8 per cent), with earnings per share amounting to EUR -2,37 (-0,19).

The Group's equity ratio at the end of the financial year was 42,9 per cent (on 31 October 2019: 54,8%). The company's liquidity markedly weakened in the first half of the financial year as a result of the postponed sales of pelts due to the coronavirus pandemic. The company's own operations took up more funding than previously, and fur breeders charged exceptionally high advance payments from the company. Liquidity returned to normal after the September auction. At the end of the financial year, receivables from fur breeders stood at EUR 103 million (MEUR 92). Receivables from buyers were EUR 31 million (MEUR 40).

The consolidated balance sheet total was EUR 186 million (on 31 October 2019: MEUR 175). The comparable balance sheet total before the adjustments due to IFRS 16 stood at EUR 179 million on 31 October 2020.

Equity per share was EUR 22,01 (on 31 October 2019: EUR 24,38 EUR and on 31 October 2018: EUR 25,14).

### **Financial performance for the half-year period 1 May to 31 October 2020**

Consolidated net turnover decreased by 23 per cent compared to the previous corresponding period, amounting to EUR 18 million (MEUR 24). The decline of turnover slowed down as sales perked up.

Cost adjustments led to a decrease in operating expenses compared to the previous corresponding period, totalling EUR 20 million (MEUR 23). Due to a decrease in turnover, operating profit for the second half of the financial year decreased to a loss of EUR 50,000 (profit of MEUR 1.5).

Net interest income increased to EUR 3.7 million due to higher financing volume. Credit losses increased to EUR 2.9 million. However, net financial income increased by EUR 0.8 million to EUR 0.5 million (-0.3 MEUR). Consolidated profit before tax stood at EUR 0.5 million (MEUR 1.1) in the second half of the financial year.

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## **Capital expenditure**

Consolidated gross capital expenditure during the financial year before the effects of IFRS 16 totalled EUR 1.5 million (MEUR 0.9), representing 5 per cent (2.0%) of net turnover. Of the capital expenditure, 43 per cent was spent on the parent company's intangible assets, 52 per cent on the parent company's tangible assets, and one per cent on the subsidiaries' tangible assets. The most significant investments were related to the machinery and equipment required by the higher number of mink pelts.

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## **Personnel**

The number of permanent Group staff in the financial year averaged 171 persons (160 in the previous corresponding period) and that of fixed-term employees, 161 (185). The majority of the Group's fixed-term employees work on a seasonal basis in various duties in grading and processing of pelts.

At the end of the financial year, the Group employed 156 individuals (173). Of them, 149 (160) were permanent employees, of whom 33 (29) worked abroad.

Of the permanent staff members, 55 per cent (53%) were male and 45 per cent (47%) female. Of them, the average age of 125 (117) persons was 47 (47) years, 6 (8) persons were under 30 years of age and 63 (60) over 50 years of age. The time of service of permanent staff averaged 12.3 (12.5) years. On average, seasonal employees were employed on fixed-term basis for 5.1 (5.5) months in the parent company, and for 3.9 (5.3) months in Furfix Oy.

During the financial year, the personnel's annual reward system used was based on four company level performance targets plus personal targets, if applicable. The system applies to all Group employees after a certain period of service. The remuneration of the company's Board of Directors and executives is explained in the Salary and Remuneration Report, available on the company's website. In the financial year, salaries and remunerations in the Group totalled EUR -15 million and in the parent company EUR -12 million (2018/2019: MEUR -15 and MEUR -12).

In February 2020, the company conducted a personnel survey. Survey results indicate that staff members' average work satisfaction is good, and the results improved from the previous survey in almost all sectors.

During the financial year, Saga Furs conducted two rounds of statutory cooperation negotiations with the personnel. Due to the financial impacts of the COVID-19 pandemic, the company initiated statutory cooperation negotiations in March with the personnel on temporary fixed-term layoffs. The negotiations concerned all members of the group's staff and led to the decision to temporarily lay off all of the group's personnel for one month during the financial year. The

second round of statutory cooperation negotiations in May-June focussed on structural reform of the organisation and higher operational efficiency. The company's decisions made after the negotiations affected the employment relationship of more than 30 employees throughout the Group.

Due to the COVID-19 pandemic, Saga Furs implemented a range of measures to improve employees' occupational safety and encouraged them to work remotely to reduce the risk of infection. By the end of the financial year, no cases of COVID-19 had been detected among the personnel.

	Parent company			Group		
	2019/2020	2018/2019	2017/2018	2019/2020	2018/2019	2017/2018
Number of personnel average	<b>246</b>	265	272	<b>332</b>	345	356
- permanent employees	<b>117</b>	120	118	<b>171</b>	160	160
- fixed-term employees	<b>129</b>	145	154	<b>161</b>	185	196
Number of personnel at the end of fiscal year Oct, 31.	<b>108</b>	125	120	<b>156</b>	173	169

## Share trade and share performance

Saga Furs Oyj's share capital totalled EUR 7,200,000 at the end of the financial year and the number of shares stood at 3,600,000, of which 900,000 were Series A shares and 2,700,000 Series C shares. These include a total of 63,088 Series A and C shares held by the company.

Between 1 November 2019 and 31 October 2020, a total of 402,000 Series C shares of the company were traded, accounting for approximately 15 per cent of the total number of Series C shares. The value of shares traded totalled EUR 3.1 million. The highest price of the share during the period was EUR 12.50, the lowest price was EUR 5.08, and the average price was EUR 5.48. The shares closed at EUR 5.22. During the financial year, the price of the company's publicly traded Series C share decreased by approximately 50 per cent.

The company's market capitalisation stood at EUR 19 (39) million on 31 October 2020.

A list of the Company's largest shareholders as of 30 October 2020 is available for viewing on the company's website.

## Annual General Meeting

Saga Furs Oyj's General Meeting of 29 April 2020 confirmed the company's financial statements for the financial year 1 November 2018–31 October 2019. The General Meeting approved the Board of Directors' proposal that no dividend be paid to the shareholders, and the Board of Directors was authorised to decide on a maximum dividend of EUR 0.50 per share at a later time. The authorisation will be valid until the next Annual General Meeting.

The General Meeting did not confirm the remuneration policy of the bodies. The policy will be prepared further and presented to the General Meeting at the next Annual General Meeting at the latest.

Kenneth Ingman (deputy Marcus Nordmyr), Jari Isosaari (Arto Isopahkala), Lasse Joensuu (Markku Kujanen), Anders Kulp (Daniel Blomqvist), Virve Kuusela (Marja Tiura), Isto Kärkäinen (Mikko Nordberg), Magnus Ljung (Kaj Wik) and Kennet Myllykoski (Hermann Kankaanpää) were elected members of the Board of Directors of Saga Furs. Following the General Meeting, Jari Isosaari was elected Chair and Kenneth Ingman Deputy Chair of the Board of Directors at the first meeting of the Board.

The General Meeting elected KPMG Oy Ab as the company's auditor, with Jukka Rajala, Authorised Public Accountant, as the auditor with principal responsibility.

## Changes in company management

Saga Furs announced the replacement of the company's CEO on 6 May 2020. Pertti Fallenius who has been the company's CEO since 2009 stepped down from the company's operational management, and Magnus Ljung started as the new CEO. Juha Huttunen continues as the Company's Deputy Managing Director and the CEO's substitute.

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## Business risks and uncertainties

Saga Furs' risks are managed in a systematic and predictive way so that the company is able to estimate and manage business-related risks, threats and opportunities.

The risks associated with Saga Furs Oyj's business are divided into business and strategy risks, financial risks and operational risks. As the operating environment is changing, the risks associated with strategic choices may increase, but the company aims to manage and limit the possible effects of risks. If, however, these risks were realised, they could considerably impair the business and financial position of the company and weaken its financial performance or value. Other risks that are not currently considered to be significant or that the company is not currently aware of may also become significant.

The company operates in a cyclical industry, and it takes time before responses to changes become visible in the business. The demand for fur is not steady throughout the year, since fur is primarily used during the winter season. Pelt prices may fluctuate greatly, depending on the demand at the time of the auction and on global production volumes. Being an important operator, Saga Furs aims to level out price fluctuations by moving pelts for sale at following auctions, and even in the following financial year.

### Most significant business and strategy risks

Failure to foresee changes in the operating environment and in strategic choices could impair the company's competitiveness or profitability and reduce its market share. The fur trade is sensitive to cyclical fluctuations, and a downturn in the global economy could lead to a weaker market situation and increased competition. Changes in the economic or political situation of individual countries, as well as saturation of an individual market area could have a significant impact on Saga Furs' business. A significant change in the retail structure of a key market area, and new operators, unfamiliar with the fur trade, entering the industry could affect the company's business. The impact would be particularly severe should one of the above-mentioned take place in China, the company's most important market.

Restrictions on travel and gatherings imposed due to the COVID-19 pandemic or similar infectious diseases would harm the organisation of Saga Furs' auctions and impair brokerage sales. The company seeks to minimise such impacts by, for example, organising online auctions and transferring other customer service operations to the Internet. If infectious diseases were to spread in fur farms, key export countries might take precautions and impose restrictions on the import of raw pelts. This could impair brokerage sales, even if the import of dressed pelts remained unchanged. According to studies by the European Centre for Disease Prevention and Control ECDC, the coronavirus cannot survive on raw pelts for any long periods of time. The risk of the virus being present in raw pelts is eliminated securely through the storage process at the company.

Mink pelt production has decreased drastically due to the COVID-19 pandemic. Unless a functioning vaccine against the coronavirus is detected, the risks caused by the spread of the virus may limit the availability of financing for producers and further decrease production. Banning of mink farming in key producer countries would have a major effect on the company's business.

A stronger-than-expected decline in the fashion and textile industry's fur sales and the use of fur in general, or a long-term weakness following from, for example, changes in consumer demand due to general attitudes, or an infectious disease, could lead to decreasing business volumes and delays in pelt sales. What is more, this would further reduce the availability of financing in the fur trade.

A decline in Finnish production could hamper the business of service providers in the fur value chain and weaken regional employment. Digitalisation and new competing business models could have a major impact on the company's customer base, and the loss of important producer-customers could affect its business.

Saga Furs operates internationally, and the industry is affected by various local laws and regulations as well as the relative competitive ability of various areas. Changes in these fields could lead to an increase in production costs or changes in the market environment, which, in turn, might have a negative impact on the company's profitability. In addition, limitations on free trade, changes in the geopolitical situation or stronger protectionist measures could result in a more challenging market environment.

Saga Furs has a strong reputation and trademark. However, challenges related to the image of the company and the industry could have an impact on the company's business and financial performance. Animal well-being and health play a key role in responsibility and sustainability measures, certification and pelt quality, all of which are part of the company's brand. The realisation of these risks could impair the company's operations.

### Most significant financial risks

The business of the Saga Furs group involves different kinds of financial risks: credit and other counterparty risks, country, solvency, currency, interest rate and commodity risks. These risks are taken because of commercial reasons, such as the credit loss risk that is accepted in order to increase the pelt volumes received or sold or to increase the pelt prices. The financial and economic departments are responsible for financial risk management in the Saga Furs group, and the business units seek to reduce the indirect impacts of financial risks on the company's financial result according to the instructions given by the company's Board of Directors. The company seeks to balance its financial risks in

proportion to the company's equity, distributable assets and result before taxes. These risks and how they are managed are described in more detail in note 25 to the consolidated financial statements.

### **Operational and other risks**

Major accidents in the company's production facilities, such as fires, machine breakdowns or severe defects in information systems could interrupt the company's business activities. The company has prepared contingency plans in case of the realisation of these risks, and its business is insured in this respect.

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## **Main events after the end of the financial year**

In early November 2020, the Government of Denmark announced that all minks in the country's mink farms, an estimated 15–17 million animals, must be euthanised due to the mutated COVID-19 virus detected on the farms. Denmark is one of the world's largest producers of mink pelts. Later, the Danish Government decided that no new minks may be imported to the country before the year 2022. In practical terms, the Government's policy means an end to mink farming at the current scale in Denmark. Due to these events, the auction company Copenhagen Fur, owned by Danish fur farmers, announced that it will terminate its operations by 2023.

On 13 November 2020, Saga Furs announced having concluded a multi-year licensing agreement to ensure exclusive rights to use the BLACKGLAMA fur brand. Saga Furs will continue the sales of this dark mink pelt grade, labelled the finest in the world. At the same time, the company reported that it will strengthen the marketing of the BLACKGLAMA brand in the key market areas in Asia, Russia, Europe and the United States.

Of the 310,000 fox pelts offered by Saga Furs in an extra online auction held on 13 November 2020, almost one half were sold, and 65 per cent of the blue fox pelts on offer were sold. Selective purchases of mutation fox and Finnracon pelts were made.

The December auction of the 2020/2021 financial year was held online from 15 to 17 December 2020, and it attracted more than 100 buyers from all main markets. The value of brokerage sales at the auction totalled EUR 28 million (12/2019: MEUR 12). Unlike before, mink pelts were offered in the auction, and of the 850,000 pelts on offer, more than 80 per cent were sold. The price level of mink pelts was on average 50 per cent higher year-on-year. 100 per cent of the 120,000 blue and shadow fox pelts offered were sold and the price level increased by approximately 20 per cent. Of the 100,000 mutation and silver fox pelts offered, one fifth was sold and the price level was steady.

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## **Future outlook**

### **Estimate of market development**

In the current financial year 2020/2021, the fur pelt market is expected to gradually recover from the dramatic drop in demand caused by the COVID-19 pandemic. With regard to the recovery of the mink pelt markets, there are two significant drivers: decline in global pelt production and simultaneous gradual increase in demand for pelts. However, there are significant uncertainty factors associated with positive market development, such as the development of the COVID-19 pandemic and its impacts on the value chain of the entire fur trade, the possibilities of Western fashion houses to bring new collections of fur to the market and the purchasing behaviour of Asian consumers.

The production of fur pelts and particularly mink pelts has witnessed a clear global decline due to the long-term oversupply and low market price levels for pelts. In the current financial year, this development is accelerated by, for example, the policies adopted by the Dutch and the Danish Governments as a response to the COVID-19 pandemic, which cut the global supply of mink pelts by nearly a third during this period and in practice put an end to mink farming in these countries. In the summer of 2021, global production of mink pelts is estimated to be only 10–12 million pelts, less than a third of the production in 2018. Production of Finnish fox pelts has also declined due to oversupply and the low price level for pelts. In the summer of 2021, their production is estimated to be approximately half of the production in 2018. In the international auctions of 2020/2021, the number of mink pelts offered for sale still clearly exceeds 20 million and the number of fox pelts is nearly two million due to the large amount of pelts carried over from the previous period.

The risks that the COVID-19 virus presents to the fur trade and Saga Furs are described in the Risks section of this Report.

Possible subsidence of the COVID-19 pandemic thanks to a successful vaccination programme provides Western fashion houses with the possibility to create new collections with sustainably produced fur. It should also perk up the consumption demand for fashion. In this winter period, sales volumes will probably remain modest, and intensification of trade is not expected until the beginning of the period 2021/2022. Financial distress of retail operators has led to the clearance sale of stock of old fur garments, especially in North America. Despite the cold start to the winter season, consumption demand for fur garments has been conservative in Eastern Europe, for example in Russia, due to the COVID-19 pandemic.

Development of consumer demand in China, South Korea and other Asian countries play a significant role for the market development. In China, the largest fur market, the disturbance to the economy caused by the COVID-19 virus has almost ceased, and the consumption demand for fur garments is returning to the normal level. The cold weather at the start of the winter has fuelled this positive development – the growing middle class in China buys fur garments mainly because of their practicality. The sale of luxury items is also at a good level in China, both online and on the shopping streets of large cities. The price level of locally produced fur skins has increased, contributing to the sale of sustainably produced Western furs perceived to be high quality, with regard to fox pelts for trimmings and collars.

The Chinese market has driven the change to an upward trend in mink pelt prices. The demand for mink is expected to support the demand for fox pelts and their price increase but for fox pelts, positive development starts more slowly because they are mainly used in garment trimmings. From the perspective of the profitability of fur production, pelt prices are expected to remain challenging.

## Business outlook

In addition to the December 2020 auction, Saga Furs Oyj will arrange auctions in March, June and September 2021 taking into account the COVID-19 restrictions. The company expects its market position to strengthen and estimates that its auctions during this financial year will offer nearly 9.5 million mink pelts, more than 1.9 million fox pelts and 130,000 Finnracon pelts. These volumes include the previously graded 1.7 million mink pelts, 1.2 million fox pelts and 85,000 Finnracon pelts which were carried over from the previous financial year.

It is premature to estimate the sales of auctions in the 2020/2021 financial year on the basis of the December 2020 auction, even if the demand for mink pelts was at a good level in December. Global decrease in the supply of mink pelts and gradual recovery of demand create conditions for a gradual increase of mink pelt prices during the entire period. The sales volumes and price levels of fox and Finnracon pelts are expected to recover slightly from the previous period. Important uncertainty factors, particularly those associated with the COVID-19 pandemic, still remain on the markets, however.

Saga Furs estimates that the Company's value of sales and turnover during the financial year 2020/2021 will clearly improve from the previous financial year and return to the level of 2018/2019. The costs of the Group's SPVs were clearly reduced due to the savings made in 2020. At the Group level, costs will probably remain nearly at the level of 2018/2019 due to the IFRS write-downs related to the pelts carried over from the previous financial year. Consolidated net financial income is expected to decrease significantly due to the lower financing volume. The profit/loss for the financial year will depend on the sales results of the upcoming auctions, forecasting of which would be premature in the current market situation.

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## Accounting principles

The information in this financial statements bulletin is based on the report of the Board of Directors and the audited financial statements to be published at [www.sagafurs.com](http://www.sagafurs.com) by 28 January 2021 at 16:00. The financial statements bulletin was prepared in accordance with the IAS 34 Interim Financial Reporting standard.

### *IFRS 16 Leases*

IFRS 16 standard was published in January 2016. It describes the principles for the recording, valuation and presentation of leases as well as the information presented in the financial statements. According to the standard, the leases of all lessees are processed in a similar manner: the lessee records the right-of-use assets and lease liabilities for leases with a term of more than 12 months in the consolidated balance sheet.

The Group adopted the IFRS 16 standard on 1 November 2019 using the simplified approach. As instructed in the implementation instructions of IFRS 16, the comparison figures have not been adjusted. The relevant estimates and considerations concerning the application of the standard are mainly related to the assessment of the lease period and the use of the discount rate.

The Group's business premises are mainly owned by the Group. However, the introduction of IFRS 16 increased the value of assets and liabilities shown on the balance sheet in terms of the previous office and other leases included in the operating leases.

The Group applies the standard for the first time in this financial year that started on 1 November 2019.

Other changes to standards that came into effect on 1 January 2019 did not have an impact on the reported figures.

**Consolidated statement of financial position, IFRS**

EUR 1,000

<b>ASSETS</b>	<b>31.10.2020</b>	31.10.2019
Non-current assets		
Property, plant and equipment	<b>31 653</b>	30 111
Intangible assets	<b>2 879</b>	2 718
Deferred tax assets	<b>3 834</b>	896
Investments	<b>358</b>	358
Long-term receivables	<b>12 486</b>	8 508
Non-current assets, total	<b>51 211</b>	42 591
Current assets		
Inventories	<b>3 991</b>	1 288
Interest-bearing receivables from buyers	<b>13 666</b>	21 292
Interest-bearing receivables from fur breeders	<b>97 299</b>	87 639
Non-interest-bearing receivables	<b>19 481</b>	21 428
Tax assets based on taxable income for the period	<b>36</b>	37
Cash and cash equivalents	<b>415</b>	757
Current assets, total	<b>134 888</b>	132 440
Total assets	<b>186 099</b>	175 031
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>31.10.2020</b>	31.10.2019
Equity attributable to parent company's shareholders		
Share capital	<b>7 200</b>	7 200
Share premium account	<b>254</b>	254
Other funds	<b>21 105</b>	21 105
Translation difference	<b>51</b>	50
Retained earnings	<b>49 227</b>	57 623
Shareholders' equity, total	<b>77 838</b>	86 233
Compulsory reservations	<b>26</b>	68
Non-current liabilities	<b>5 170</b>	0
Deferred tax liabilities	<b>3 417</b>	2 490
Current liabilities		
Interest-bearing liabilities	<b>78 556</b>	59 992
Trade and other payables	<b>21 038</b>	26 081
Deferred taxes based on the taxable income	<b>54</b>	167
Current liabilities, total	<b>99 648</b>	86 240
Total liabilities	<b>108 234</b>	88 731
Total shareholders' equity and liabilities	<b>186 099</b>	175 031

**Consolidated statement of comprehensive income**

EUR 1,000	1.5.2020- 31.10.2020 6 mo	1.11.2019- 31.10.2020 12 mo	1.5.2019- 31.10.2019 6 mo	1.11.2018- 31.10.2019 12 mo
Net turnover	18 491	28 181	23 991	44 677
Other operating income	1 582	1 876	356	758
Materials and supplies	-942	-1 392	-1 379	-2 385
Employee benefits	-6 868	-14 994	-9 015	-18 761
Depreciation and impairment loss	-3 179	-6 035	-1 824	-3 825
Other operating expenses	-9 134	-20 221	-10 667	-22 851
Operating profit/loss	-50	-12 584	1 462	-2 386
Financial income	5 375	8 516	2 631	5 218
Financial expenses	-4 873	-6 316	-2 970	-3 536
Profit/loss before tax	453	-10 385	1 124	-705
Income tax	-204	1 987	-324	25
Net profit/loss for the reporting period	249	-8 397	800	-680
<b>Other comprehensive income</b>				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Translation differences		2		-6
Total comprehensive income/expense	249	-8 395	800	-687
Earnings per share, EUR, basic (EUR) *)	0,07	-2,37	0,23	-0,19

\*) There are no factors diluting the key performance indicator

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**Consolidated statement of cash flows**

EUR 1,000	<b>1.11.2019- 31.10.2020</b>	1.11.2018- 31.10.2019
	<b>12 mo</b>	12 mo
<b>Cash flow from operating activities</b>		
Payments received for selling on commission	<b>155 005</b>	305 877
Cash received from other operating income	<b>1 723</b>	471
Cash paid for other operating expenses	<b>-191 435</b>	-310 541
Cash flow from operating activities before financial items and taxes	<b>-34 706</b>	-4 192
Interests, paid	<b>-2 535</b>	-446
Other financial expenses	<b>-4 075</b>	-2 745
Interest, received	<b>8 136</b>	4 964
Other financial income	<b>37</b>	169
Direct taxes paid	<b>-135</b>	-211
<i>Net cash flow from operating activities (A)</i>	<b>-33 279</b>	-2 461
<i>Cash flow from investment activities</i>		
Investments in tangible and intangible assets	<b>-1 411</b>	-880
Proceeds from sale of tangible and intangible assets	<b>3 513</b>	204
Investments in other assets	<b>0</b>	-3
Proceeds from investments	<b>0</b>	246
<i>Net cash flow from investments activities (B)</i>	<b>2 101</b>	-433
<i>Cash flow from financing activities</i>		
Proceeds from short-term borrowings	<b>35 001</b>	2 126
Re-payments of short-term borrowings	<b>-1 613</b>	-130
Re-payments of IFRS 16 borrowings	<b>-2 551</b>	0
Dividends paid	<b>0</b>	-1 768
<i>Net cash flow from financing activities (C)</i>	<b>30 837</b>	228
Change in cash flows (A+B+C) increase (+) / decrease (-)	<b>-341</b>	-2 666
Cash and cash equivalents, 31 Oct	<b>415</b>	757
./. Cash and cash equivalents, 1 Nov	<b>757</b>	3 423
Net change in cash and cash equivalents	<b>-341</b>	-2 666

## Consolidated statement of changes in shareholders' equity

### Consolidated statement of changes in shareholders' equity Nov 1,2018-Oct 31,2019

EUR 1,000	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, Oct 31,2018	7 200	254	21 105	52	0	60 322	88 933	0	88 933
Implementation of IFRS 9 - standard						-1 359	-1 359		-1 359
Implementation of IFRS 15 - standard						1 114	1 114		1 114
Shareholders' equity, Nov 1,2018	7 200	254	21 105	52	0	60 077	88 688	0	88 688
Result for the reporting period						-680	-680		-680
Other comprehensive income/expense				-1		-5	-6		-6
Dividend						-1 768	-1 768		-1 768
Transfer to counter-cyclical budgetary fund						0	0		0
Shareholders' equity, Oct 31,2019	7 200	254	21 105	50	0	57 623	86 233	0	86 233

### Consolidated statement of changes in shareholders' equity Nov 1,2019-Oct 31,2020

EUR 1,000	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, Nov 1,2019	7 200	254	21 105	50	0	57 623	86 233	0	86 233
Result for the reporting period						-8 397	-8 397		-8 397
Other comprehensive income/expense				2		1	2		2
Shareholders' equity, Oct 31,2020	7 200	254	21 105	52	0	49 227	77 838	0	77 838

**Adaptation of IFRS 16 standard**

EUR 1,000

<b>ASSETS</b>	<b>31.10.2020</b>	<b>IFRS 16</b>	<b>31.10.2020</b> Before IFRS 16 adjustment
Non-current assets			
Property, plant and equipment	31 653	7 212	24 441
Intangible assets	2 879		2 879
Deferred tax assets	3 834	4	3 830
Investments	358		358
Long-term receivables	12 486		12 486
Non-current assets, total	51 211	7 216	43 995
Current assets			
Inventories	3 991		3 991
Interest-bearing receivables from buyers	13 666		13 666
Interest-bearing receivables from fur breeders	97 299		97 299
Non-interest-bearing receivables	19 481		19 481
Tax assets based on taxable income for the period	36		36
Cash and cash equivalents	415		415
Current assets, total	134 888		134 888
Total assets	186 099	7 216	178 883
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>31.10.2020</b>		<b>31.10.2020</b> Ennen IFRS 16 oikaisua
Equity attributable to parent company's shareholders			
Share capital	7 200		7 200
Share premium account	254		254
Other funds	21 105		21 105
Translation difference	51		51
Retained earnings	49 227	-15	49 242
Shareholders' equity, total	77 838	-15	77 853
Compulsory reservations	26		26
Non-current liabilities	5 170	5 170	0
Deferred tax liabilities	3 417		3 417
Current liabilities			
Interest-bearing liabilities	78 556	2 062	76 494
Trade and other payables	21 038		21 038
Deferred taxes based on the taxable income	54		54
Current liabilities, total	99 648	2 062	97 586
Total liabilities	108 234	7 231	101 003
Total shareholders' equity and liabilities	186 099	7 216	178 883

**Adaptation of IFRS 16 standard**

EUR 1,000	<b>1.11.2019- 31.10.2020</b>	IFRS 16 adjustment	1.11.2019- 31.10.2020 Before IFRS 16 adjustment
	<b>12 mo</b>		12 mo
Net turnover	<b>28 181</b>	0	28 181
Other operating income	<b>1 876</b>	0	1 876
Materials and supplies	<b>-1 392</b>	0	-1 392
Employee benefits	<b>-14 994</b>	0	-14 994
Depreciation and impairment loss	<b>-6 035</b>	-2 568	-3 467
Other operating expenses	<b>-20 221</b>	2 608	-22 829
Operating profit/loss	<b>-12 584</b>	40	-12 624
Financial income	<b>8 516</b>	0	8 516
Financial expenses	<b>-6 316</b>	-59	-6 258
Profit/loss before tax	<b>-10 385</b>	-19	-10 366
Income tax	<b>1 987</b>	4	1 984
Net profit/loss for the reporting period	<b>-8 397</b>	-15	-8 382
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Translation differences	<b>2</b>	0	2
Total comprehensive income/expense	<b>-8 395</b>	-15	-8 380
Earnings per share, EUR, basic (EUR) *)	<b>-2,37</b>	0,00	-2,37

\*) There are no factors diluting the key performance indicator

## Key performance indicators

	<b>11/19-10/20</b>	11/18-10/19
	<b>12 mo</b>	12 mo
Total sales, MEUR	<b>156,9</b>	296,9
Net turnover, MEUR	<b>28,2</b>	44,7
Operating profit/loss, MEUR	<b>-12,6</b>	-2,4
% of net turnover	<b>-44,7 %</b>	-5,3 %
Profit before taxes, MEUR	<b>-10,4</b>	-0,7
% of net turnover	<b>-36,8 %</b>	-1,6 %
Earnings per share, EUR	<b>-2,37</b>	-0,19
Equity per share, EUR	<b>22,01</b>	24,38
Return on equity (ROE)-%	<b>-10,2 %</b>	-0,8 %
Return on investment (ROI)-%	<b>-5,0 %</b>	0,2 %
Equity-to-assets ratio, %	<b>42,9 %</b>	54,8 %
Gearing	<b>1,07</b>	0,69
Gross capital expenditure, MEUR	<b>1,5</b>	0,9
% of net turnover	<b>5,2 %</b>	2,0 %
Average number of personnel	<b>332</b>	345

### Principles for calculating key performance indicators:

Return on equity (ROE)-%	= Profit/Loss for the financial period x 100 / shareholders' equity *)
Return on investment (ROI)-%	= (Profit/Loss before taxes + interests and other financial costs - credit losses) x 100 / (balance sheet total - non-interest-bearing short-term liabilities) *)
Equity-to-assets ratio, %	= Shareholders' equity x 100 / (balance sheet total - advances received)
Gearing	= (Interest-bearing borrowed capital - cash and securities and financial securities) / shareholders' equity
Earnings per share, EUR	= Profit/Loss for the financial period / average number of outstanding shares
Equity per share, EUR	= Shareholders' equity / number of outstanding shares on the balance sheet date

\*) The divisor applied to the key performance indicators is calculated as the average of the numbers in the balance sheet of the financial period and of the previous financial period.

**Commitments and contingencies**

EUR 1.000	<b>Oct 31,2020</b>	Oct 31,2019
<b>Mortgages given and receivables pledged in security for debt</b>		
Loans from financial institutions	<b>68 266</b>	35 816
Mortgages on property	<b>50 875</b>	54 071
Mortgages on company assets	<b>203 027</b>	2 691
Pledges given	<b>47 911</b>	29 209
<b>Derivative contracts</b>		
Forward exchange agreements	<b>9 831</b>	0

**Related Party Transactions**

<b>EUR 1.000</b>	<b>2019/2020</b>	2018/2019
	<b>12 mo</b>	12 mo
<b>Transactions with related parties:</b>		
<i>Net turnover</i>		
- parent association	2	4
- other related party	263	353
<i>Other operating income</i>		
- parent association	35	43
<i>Purchase of materials and supplies</i>		
- other related party	0	0
<i>Other operating expenses</i>		
- parent association	-34	-22
<i>Financial income</i>		
- other related party	195	49
<i>Financial expenses</i>		
- parent association	0	-1
- other related party	0	-1
<i>Related party receivables</i>		
- parent association	14	0
- other related party	3 458	1 169
<i>Related party liabilities</i>		
- parent association	-83	-376
- other related party	-1	-1 007
<b>Management compensation</b>		
Remuneration and other short-term employee benefits	<b>1 890</b>	1405

Management consists of the Board of Directors, the Managing Director, the Managing Director's Deputy and the rest of the group's Management Group.

Vantaa, 26 January 2021

Board of Directors