

CAPMAN GROUP'S  
FINANCIAL STATEMENTS  
BULLETIN  
1 JANUARY – 31 DECEMBER 2014

*CapMan*



## CAPMAN GROUP'S FINANCIAL STATEMENTS BULLETIN FOR 1 JANUARY–31 DECEMBER 2014

### Performance and main events for the financial year 2014:

- Group turnover totalled MEUR 39.5 (January–December 2013: MEUR 29.8).
- Operating profit was MEUR 6.4 (MEUR 3.3).
- Profit before taxes was MEUR 4.9 (MEUR 2.0) and profit after taxes was MEUR 4.0 (MEUR 1.5).
- Earnings per share for the financial year were 3.4 cents (-1.2 cents).
- CapMan's service business to external customers is estimated to increase the company's fee income significantly in the long-term.
- Net debt decreased to MEUR 3.3 (MEUR 14.5) and the cash in hand amounted to MEUR 29.0 (MEUR 17.4) during the financial year.
- The Board of Directors of CapMan Plc will propose a dividend of EUR 0.06 per share.

### Outlook estimate for 2015:

We estimate our earnings per share to improve from the level achieved in 2014.

### Basis for outlook:

CapMan receives carried interest income from funds as a result of a completed exit in the event that the fund already is in carry or will enter carry due to the exit. Our current portfolio holds several investments, which we expect to exit during 2015. The most significant exits are expected to be completed during the second half of 2015.

The fair value development of our own fund investments will have a substantial impact on our overall result in 2015. We expect disparity in the development of individual portfolio companies and real estate also during 2015 depending on their industry and geographical location. In addition, our portfolio companies and real estate are also influenced by various other factors, among others the general development of industries and local economies, inflation development, valuation multiples of peer companies, and exchange rates.

We estimate other fees to increase clearly alongside the management fees. Our fees as a whole will exceed our expenses before possible non-recurring expenses related to acquisitions or larger development projects.

### Heikki Westerlund, CEO:

” We returned to growth path in 2014, improving both our turnover and profit. Concurrently, we further strengthened our financing position and launched strategic initiatives that will create a good foundation for profitable growth in the future.

We succeeded to raise over EUR 600 million in our three latest funds. Out of these, the size of our Nordic Real Estate fund grew to MEUR 266 at the end of the year and the fund has made several new investments in the Stockholm and Copenhagen regions. CapMan Collection, a non-UCITS fund launched by our collaboration partner Elite Asset Management is an example of how private equity is further opening up to smaller investors.

Our goal is to develop a service business alongside our Management Company business. The service business will enable us to more effectively utilise our expertise in fundraising and fund management, for example. Growing fee income will create a stronger foundation for our profit.

Our funds completed 12 exits during the year, generating a significant amount of carried interest income and several funds transferred to carry. The fair value development, on the other hand, was negative. This was impacted by the weaker than anticipated financial development of certain portfolio companies and towards the end of the year, by the weakening of rouble. Value creation in our portfolio companies and real estate will continue to be one of our top priorities in 2015.

Our strong cash position gives us an opportunity to implement selective strategic actions and, for example, repay the hybrid bond at the end of the year.

## Business operations

CapMan Group is a private equity fund manager operating in the Nordic countries and Russia. The Group also makes investments in its own funds. The Group operates through two segments: a Management Company business and a Fund Investment business.

In its Management Company business, CapMan raises capital from Nordic and international institutions for the funds that it manages. The investment teams invest this capital in Nordic and Russian companies and Nordic real estate. The Management Company business has two main sources of income: fees and carried interest from funds. The fees include management fees related to CapMan's position as a fund management company and fees from CapMan's service business comprising purchasing scheme (CaPS), fundraising advisory services and other services related to fund management, among others.

Through its Fund Investment business, CapMan makes investments from its own balance sheet in the funds that it manages. Income in this business is generated by increases in the fair value of investments and realised returns.

Please see Appendix 3 for additional details about CapMan's business model.

## Group turnover and result in 2014

The Group's turnover grew by 32.6% from 2013 and totalled MEUR 39.5 (2013: MEUR 29.8). The increase in turnover for the year was due to higher fees and carried interest income compared to 2013. Operating expenses totalled MEUR 30.2 (MEUR 27.9). Expenses for the year included approx. MEUR 3 of bonus provisions (2013: MEUR 1.8) for the investment teams based on CapMan's compensation scheme. Expenses also included MEUR 0.8 of non-recurring expenses related to the closing of CapMan's Oslo office. Expenses for 2013 included MEUR 1.5 of non-recurring expenses related to CapMan's CEO change and the establishment of the CapMan Nordic Real Estate fund.

The Group recorded an operating profit of MEUR 6.4 (MEUR 3.3), which represented an increase of 91.2% from last year as a result of higher fees and carried interest income.

Financial income and expenses amounted to MEUR -1.4 (MEUR -0.7). The 2013 figure included returns from the partial sale of Maneq receivables in June 2013. The return profile of Maneq investments is largely consistent with that of our own fund investments. CapMan's share of the income of investments accounted for using the equity method was MEUR 0.0 (MEUR -0.6).

Profit before taxes was MEUR 4.9 (MEUR 2.0) and profit after taxes was MEUR 4.0 (MEUR 1.5). Earnings per share were 3.4 cents (-1.2 cents) after deducting the (net of tax) interest on the hybrid bond for the financial year.

A quarterly breakdown of turnover and profit, together with turnover, operating profit/loss, and profit/loss by segment for the financial year, can be found in the Tables section of this report.

## Management Company business

Turnover generated by the Management Company business during the financial year totalled MEUR 39.5 (MEUR 29.8). Fees increased 6.7% from last year and totalled MEUR 28.7 (MEUR 26.9). The growth in fees resulted, among others, from management fees accrued from new CapMan Buyout X and CapMan Nordic Real Estate fund commitments, as well as from management fees for new commitments received during the financial year that were recorded retroactively from the time the funds were established. The amount also includes fees generated by CapMan's purchasing scheme (CaPS) and other services related to fund management.



Carried interest income for the financial year totalled MEUR 10.8 (MEUR 2.9) and was received from CapMan Equity VII B, Fenno Program and Finnmezzanine II B, III A and III B funds following the exit from Ljunghäll AB, LUMENE Oy and Finlayson & Co Oy. In addition, CapMan received carried interest income from the sale of the Yrjönkatu 17 property. Carried interest income for the year included MEUR 1.2 of recognised revenue from the RE I fund excluding the minority owners' share (reserve in balance sheet), based on the fund's revised outlook. The remaining MEUR 5.2 accrual of unrecognised revenue including the minority owners' share is estimated to cover the possible return of carried interest income to investors.

The operating profit of the Management Company business improved significantly and was MEUR 10.4 (MEUR 2.8) due to higher fees and carried interest income compared to the previous year. Expenses do not include bonus provisions based on CapMan's short-term compensation scheme as the minimum level of earnings per share was not met in 2014. The profit for the year was MEUR 8.4 (MEUR 1.5). The status of the funds managed by CapMan is presented in more detail in Appendix 1.

### **Fund Investment business**

Fair value changes of fund investments in 2014 were MEUR -3.1 (MEUR 1.2) representing a 4.3% decrease in value (1.6% increase in value during 2013). The decline in fair values was impacted by the weaker than anticipated financial development of certain portfolio companies. Furthermore, the weakening of rouble had a negative impact on the fair value development of CapMan's investments in Russia. The aggregate fair value of fund investments as of 31 December 2014 was MEUR 55.3 (31 December 2013: MEUR 64.1).

Operating loss for the Fund Investment business was MEUR 4.0 (profit of MEUR 0.5) and loss for the financial year was MEUR 4.4 (loss of MEUR 0.1). The Fund Investment business includes the results of Maneq companies remaining in the CapMan portfolio.

CapMan invested a total of MEUR 9.7 (MEUR 5.5) in its funds during 2014. The majority of this was allocated to the CapMan Buyout X and CapMan Nordic Real Estate funds. CapMan received distributions from funds totalling MEUR 12.1 (MEUR 14.1). The majority of the distributions came from the CapMan Buyout VIII fund as a result of exit from Espira Gruppen AS and from CapMan Public Market fund as a result of exit from Intrum Justitia AB and partial exits from B&B Tools AB and ÅF AB. In 2014, CapMan made new commitments totalling MEUR 4.9 into the CapMan Buyout X, CapMan Nordic Real Estate and CapMan Russia II funds.

The amount of remaining commitments that have not yet been called totalled MEUR 30.3 as of 31 December 2014 (31 December 2013: MEUR 30.3). CapMan estimates that only MEUR 15-20 of the remaining commitments will be called in the next 3-4 years, particularly due to unused investment capacity of the older funds. The aggregate fair value of existing investments and remaining commitments was MEUR 85.5 (MEUR 94.4). CapMan invests 1-5% of the original capital in the new funds that it manages, depending on fund size.

Investments in portfolio companies are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (IPEVG), where fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Real estate assets are valued in accordance with the value appraisals of external experts, as detailed in Appendix 1.

Investments at fair value and remaining investment capacity by investment area are presented in the Tables section of this report.



## Balance sheet and financial position as of 31 December 2014

CapMan's balance sheet totalled MEUR 113.9 as of 31 December 2014 (31 December 2013: MEUR 110.4). Non-current assets amounted to MEUR 79.0 (MEUR 87.9), of which goodwill totalled MEUR 6.2 (MEUR 6.2).

Fund investments booked at fair value totalled MEUR 55.3 (MEUR 64.1). Long-term receivables amounted to MEUR 3.3 (MEUR 2.4). As of 31 December 2014, investments accounted for using the equity method were MEUR 9.1 at fair value (31 December 2013: MEUR 9.6).

Current assets amounted to MEUR 34.9 (MEUR 22.6). Liquid assets (cash in hand and at banks, plus other financial assets at fair value through profit and loss) amounted to MEUR 29.0 (MEUR 17.4). The increase in liquid assets was due to completed exits during 2014.

In June, CapMan Plc participated in a multi-issuer bond totalling MEUR 70 and guaranteed by Garantia Insurance Company Ltd. CapMan Plc's allocated amount of the bond was with MEUR 10 share. The issuance diversified the company's financing package and increased the maturity of its loan portfolio.

Furthermore, CapMan Plc's MEUR 30 debt securities consist of a MEUR 15 senior bond and a MEUR 15 hybrid bond. The bonds were issued in December 2013. The senior bond has an annual coupon rate of 5.5% and it matures in December 2017. The annual coupon rate of the hybrid bond is 8.0%. The interest on the hybrid bond is deducted from equity as interest is paid, which is annually. The hybrid bond has no maturity, but CapMan has the right to redeem it four years after the issue date and the option to redeem it earlier, under certain terms and conditions, two years after the issue date.

As of 31 December 2014, CapMan Plc had access to MEUR 7.3 (MEUR 16.9) of bank financing, and in addition had a MEUR 15.0 unused long-term credit facility available. Trade and other payables totalled MEUR 13.7 (MEUR 11.3). The Group's interest-bearing net debt amounted to MEUR 3.3 (MEUR 14.5). CapMan Plc's bank loans include financing covenants, which are conditional on the company's equity ratio and the ratio of interest-bearing bank loans to fund investments on the balance sheet. CapMan honoured all covenants as of 31 December 2014.

The Group's cash flow from operations totalled MEUR 11.7 for the financial year (MEUR -3.0). Income from fund management fees is paid semi-annually, in January and July, and is shown under working capital in the cash flow statement. Cash flow from investments totalled MEUR 2.1 (MEUR 26.8) and includes, *inter alia*, fund investments and repaid capital received by the Group. The comparison figure includes returns from to the partial sale of shares in the Maneq investments in June 2013. In June 2013, CapMan transferred its ownership in 2005-2011 Maneq funds and long-term receivables from the funds to a Luxembourg company founded by CapMan, Maneq Investments Luxembourg, and sold part of that company to an external investor for a cash consideration of MEUR 14. CapMan's share of Maneq Investments Luxembourg and the company's loan are shown as investments accounted for using the equity method. Cash flow before financing totalled MEUR 13.8 (MEUR 23.8), while cash flow from financing was MEUR -2.1 (MEUR -13.4).



## Key figures 31 December 2014

CapMan's equity ratio was 57.8% as of 31 December 2014 (31 December 2013: 58.9%), its return on equity 6.1% (2.0%), and its return on investment 7.0% (3.5%). The target levels for the company's equity ratio and return on equity are at least 60% and over 20%, respectively.

	31.12.14	31.12.13
Earnings per share, cents	3.4	-1.2
Diluted, cents	3.4	-1.2
Shareholders' equity / share, cents *	76.1	77.0
Share issue adjusted number of shares	86,163,919	84,268,963
Number of shares at the end of period	86,316,766	85,266,991
Number of shares outstanding	86,290,467	85,240,692
Company's possession of its own shares, end of period	26,299	26,299
Return on equity, %	6.1	2.0
Return on investment, %	7.0	3.5
Equity ratio, %	57.8	58.9
Net gearing, %	5.0	22.3

\*In line with IFRS standards, the MEUR 15 (31 December 2013: MEUR 15) hybrid bond has been included in equity, also when calculating equity per share. The interest on the hybrid bond (net of tax) for the financial year has been deducted when calculating earnings per share.

### Board's proposal for distribution of profit

CapMan Plc's goal is to distribute at least 50% of net profit as dividends. CapMan Plc's Board of Directors will propose to the Annual General Meeting to be held on 18 March 2015 that a dividend of EUR 0.06 per share will be paid to shareholders, equivalent to a total of approx. MEUR 5.2. A dividend of EUR 0.04 per share, totalling MEUR 3.5, was paid for 2013. CapMan Plc's distributable assets amounted to MEUR 34.2 on 31 December 2014 (MEUR 23.5 on 31 December 2013).

### Fundraising during the financial year and capital under management as of 31 December 2014

Capital under management refers to the remaining investment capacity of funds and capital already invested at acquisition cost. Capital increases as fundraising for new funds progresses and declines as exits are made.

Fundraising for the CapMan Buyout X and the CapMan Russia II funds was finalised and the funds reached final sizes of MEUR 245.0 and MEUR 99.1 respectively. The size of the CapMan Nordic Real Estate fund grew to MEUR 266. Fundraising for the CapMan Nordic Real Estate fund continues and the fund's final size will be determined at its final closing on 31 March 2015. CapMan exploits its geographically extended network and aims to gain new fund commitments from investor groups that have not previously invested in private equity funds. The low interest rate environment has increased investors interest in private equity investments.

CapMan's collaboration with Elite Asset Management initiated in 2014 provides an opportunity for a wider customer base to invest in private equity. In December 2014, Elite Asset Management introduced CapMan Collection, a non-UCITS fund mainly investing in private equity funds managed by CapMan. The fund enables private and institutional investors to invest in private equity with a structure providing liquidity and a possibility to join with a lower minimum investment. The fund brings a new customer to CapMan and thereby increases CapMan's capital under management.



In the end of 2014 CapMan started offering fundraising advisory services as part of its service business. CapMan believes the fundraising advisory services have significant growth potential. The services are expected to increase CapMan's fee income in the long-term.

Capital under management was MEUR 2,955.7 as of 31 December 2014 (31 December 2013: MEUR 3,098.2). The amount decreased slightly due to completed exits during the financial year. Of the total capital under management, MEUR 1,466.3 (MEUR 1,608.2) was held in funds making investments in portfolio companies and MEUR 1,489.4 (MEUR 1,490.0) in real estate funds.

Funds under management, together with their investment activities, are presented in more detail in Appendices 1 and 2.

### **Authorisations given to the Board by the AGM**

The Annual General Meeting authorised the Board of Directors to decide on the repurchase and/or on the acceptance as pledges of the company's B shares. The number of B shares concerned shall not exceed 8,000,000, and the authorisation shall remain in force until the end of the following AGM and 30 June 2015 at the latest. The AGM also authorised the Board to decide on the issuance of shares and other special rights entitling to shares. The number of shares to be issued shall not exceed 15,000,000 B shares and the authorization shall remain in force until the end of the following AGM and 30 June 2015 at the latest.

Further details on these authorisations can be found in the stock exchange release on the decisions taken by the AGM issued on 19 March 2014.

### **Personnel**

CapMan employed a total of 106 people as of 31 December 2014 (31 December 2013: 103), of whom 68 (65) worked in Finland and the remainder in the other Nordic countries, Russia, Luxembourg and the United Kingdom. A breakdown of personnel by country is presented in the Tables section of this report.

### **Shares and share capital**

There were no changes in CapMan Plc's share capital during 2014. Share capital totalled EUR 771,586.98 as of 31 December 2014. The number of B shares was 80,566,766 and that of A shares 5,750,000 as of 31 December 2014.

B shares entitle holders to one vote per share and A shares to 10 votes per share.

### **Shareholders**

The number of CapMan Plc shareholders increased by 3.8% during 2014 and totalled 6,816 as of 31 December 2014 (31 December 2013: 6,567).

### **Company shares**

As of 31 December 2014, CapMan Plc held a total of 26,299 CapMan Plc B shares, representing 0.03% of both classes of shares and 0.02% of voting rights. The market value of own shares held by CapMan was EUR 21,828 as of



31 December 2014 (31 December 2013: EUR 29,981). No changes occurred in the number of own shares held by CapMan Plc during the financial year.

## Compensation schemes

CapMan's compensation scheme consists of short-term and long-term compensation schemes.

The short-term scheme covers all CapMan employees and its central objective is earnings per share, for which the Board of Directors has set a minimum target. Short-term bonuses for investment teams are based on the result of the Management Company business for their respective investment partnership, and the minimum level of earnings per share provides the basis for receiving bonuses.

The long-term scheme consists of carried interest payable to investment teams and stock option programmes for CapMan's Executive Management Group. The carried interest payable to investment teams is based on the success of investments made in the corresponding funds. This arrangement is in line with international industry practice. At the end of the reporting period, CapMan Plc had one stock option programme – Option Programme 2013 – in place as part of its incentive and commitment arrangements for key personnel. The Board of Directors decides annually on the distribution of stock options to the key personnel employed or recruited by the Group.

The maximum number of stock options issued under Option Programme 2013 will be 4,230,000, which will carry an entitlement to subscribe to a maximum of 4,230,000 new B shares. The programme is divided into A, B, and C series, each of which covers a maximum of 1,410,000 option entitlements. The share subscription price of the 2013A options is EUR 0.88 (the trade volume-weighted average quotation of the share during 1 April–31 May 2013 with an addition of 10%), that of the 2013B options is EUR 1.16 (the trade volume-weighted average quotation of the share during 1 April–31 May 2014 with an addition of 10%), and that of the 2013C options the trade volume-weighted average quotation of the share during 1 April–31 May 2015 with an addition of 10%. The subscription period for 2013A options will begin on 1 May 2016, that for 2013B options on 1 May 2017, and that for 2013C options on 1 May 2018. Receivables from shares subscribed to under these options will be entered in the company's unrestricted shareholders' equity. A total of 1,175,000 stock option entitlements under the Option Programme 2013A and a total of 1,141,667 stock option entitlements under the Option Programme 2013B had been allocated by the end of 2014.

The terms of the option programmes can be found on CapMan's website.

## Trading and market capitalisation

CapMan Plc's B shares closed at EUR 0.83 on 31 December 2014 (31 December 2013: EUR 1.14). The trade-weighted average price during the financial year was EUR 1.04 (EUR 0.93). The highest price paid was EUR 1.23 (EUR 1.19) and the lowest EUR 0.80 (EUR 0.78). The number of CapMan Plc B shares traded totalled 19.6 million (20.2 million), valued at MEUR 20.4 (MEUR 18.9).

The market capitalisation of CapMan Plc B shares as of 31 December 2014 was MEUR 66.5 (31 December 2013: MEUR 90.7). The market capitalisation of all company shares, including A shares valued at the closing price of B shares, was MEUR 71.2 (MEUR 97.2).

## Decisions taken by the Annual General Meeting for 2014 and organising meeting held by the Board of Directors

The decisions have been described in detail in two stock exchange releases published on 19 March 2014.





## **Publication of the Financial Statements and the Report of the Board of Directors, and the Annual General Meeting for 2015**

CapMan Group's Financial Statements and the Report of the Board of Directors for 2014 will be published as part of the company's Annual Report for 2014 in February 2015 during week 9. CapMan Plc's 2015 Annual General Meeting will be held on Wednesday 18 March 2015 at 10:00 am in Helsinki. Complete financial statements, as required under the terms of the Finnish Companies Act, will be available on CapMan's website by 25 February 2015 at the latest.

## **Corporate Governance Statement**

CapMan Plc's Corporate Governance Statement will be published separately from the Report of the Board of Directors as part of the company's Annual Report for 2014 during week 9 and will be available on the company's website by 25 February 2015 at the latest.

## **Other events during the financial year**

Funds managed by CapMan completed exit from Espira Gruppen AS in May 2014. The transaction contributed some MEUR 5 in cash flow to the CapMan Group.

Funds managed by CapMan sold Metallfabriken Ljunghäll AB in December 2014. As a result of the transaction, CapMan Group received over EUR 6 million of carried interest income from the exiting funds. The transaction contributed over EUR 7 million in cash flow to CapMan Group including returns from CapMan's own fund investments. During 2014, CapMan received carried interest income also as a result of exits from LUMENE Oy, Finlayson & Co Oy and the Yrjönkatu 17 property.

Markus Sjöholm was nominated as Head of CapMan Buyout and member of CapMan Plc's Management Group. Markus Sjöholm took over from Kai Jordahl, who resigned from his position at CapMan. Dan Johnson was nominated as Deputy Head of CapMan Buyout. At the same time CapMan Buyout strengthened its position and focused its resources in Stockholm and Helsinki. As a result, CapMan's office in Oslo was closed. Furthermore, CapMan opened a new office in London to further strengthen the company's international fundraising.

In October CapMan Russia II fund made its second investment in Kidburg, a company providing children's educational entertainment services in Russia. Furthermore, CapMan Nordic Real Estate fund acquired MREC Plaza Presto, an office building in Vantaa Aviapolis business centre near Helsinki Airport and Solna Strand (Apelsinen 4), an office building located in Northern Stockholm. In October, CapMan Real Estate II fund exited MREC Mäntsälä logistics centre in Finland. Further information on investments and exits during the financial year can be found in Appendix 2: Operations of CapMan's funds under management in 2014.

## **Events after the close of the financial year**

In January 2015, funds managed by CapMan agreed to sell their ownership in Cederroth Intressenter AB. The transaction contributes some EUR 8 million to CapMan Group's 2015 cash flow at the closing of the transaction. The closing is subject to the approval of the relevant competition authorities and it is expected to be completed no later than within Q3 2015.

In January 2015, funds managed by CapMan sold their holding in Symbio S.A., a provider of outsourced product development services. The transaction has a positive impact on CapMan Group's result for 2015 through approx.



EUR 1 million of carried interest income from the exiting funds. The transaction contributes some EUR 1.2 million to CapMan Group's 2015 cash flow. The result impact is expected to materialise during the first half of 2015.

### Significant risks and short-term uncertainties

Economic development in CapMan's key markets and structural changes in industries central to CapMan's portfolio companies may affect CapMan's operations by delaying exits and reducing the fair value of the Group's fund investments. Fluctuations in exchange rates could also affect the valuation of CapMan's portfolio companies.

The market situation may also impact fundraising conditions by reducing fund investors' willingness and ability to make new commitments to CapMan's funds. Fundraising markets are expected to remain crowded over the short term. A successful fundraising effort will impact the total amount of capital under management, hence resulting in new management fees.

The projections related to the profitability of the Management Company business involve uncertainty especially related to timing of exits. Due to limitations in forecasting the timing of carried interest and the change in fair value developments, providing financial guidance remains challenging over the short term.

The CapMan Real Estate I fund transferred into carry in 2007. Of the MEUR 27.4 carried interest paid in 2007, some MEUR 6.4 was not entered in CapMan's profit in 2007 but instead left in reserve in case that some of the carried interest would have to be returned to investors in future. CapMan's share of the entered carried interest was approx. MEUR 13.5 and the share of minority owners was approx. MEUR 7.5. However, in light of the current market situation, it is considered unlikely that any further carried interest would be paid from the CapMan Real Estate I fund. Based on the fund's revised outlook, MEUR 1.2 of the reserved MEUR 6.4 was recognised as revenue in the end of 2014. The MEUR 1.2 did not include the minority owners' share. The remaining accrual of MEUR 5.2 in CapMan's balance sheet, including the minority owners' share, is estimated to be adequate to cover the possible return of carried interest.

The company's financing agreements include financing covenants, which, if breached, may result in increased financing costs for the company or stipulate partial or full repayment of outstanding bank loans.

The EU's Basel III and Solvency II regulatory initiatives limit the ability of European banks and insurance companies to invest in private equity funds, and could therefore impact CapMan's fundraising activity. The entering into force of the Alternative Investment Fund Managers' Directive (AIFMD) may have an impact on the operations and marketing of the funds.

### Business environment

Due to the prolonged slow and negative economic growth in the Eurozone, also the growth forecasts for the Nordic countries have been decreased.<sup>1</sup> The Nordic market, however, is considered one of the strongest private equity markets in Europe, due to its favourable macro environment, open markets, access to financing and strong operational expertise in the private equity industry.<sup>2</sup>

In 2014 the total value of real estate transactions in Finland reached the highest transaction value recorded since 2008, totalling BEUR 3.8. Much of the increased activity was driven by an influx of new capital introduced by foreign investors and one large ownership arrangement.<sup>3</sup> In Sweden the transaction value increased strongly from

<sup>1</sup> OEDC, Economic Outlook November 2014

<sup>2</sup> UnQuote Analysis: Nordic Survey 2014, 1 July 2014 and Nordic UnQuote, 17 July 2014

<sup>3</sup> KTI Transactions Information Service, January 2015



the previous year, growing by 71% to BSEK 151.<sup>4</sup> Investors in Finland continued to focus primarily on prime assets with stable rents while in Sweden interest towards better secondary properties increased substantially towards the end of year 2014, pushing yields down. The yield gap between prime and secondary assets continued to be historically high. In the occupancy market prime rents increased both in Finland and Sweden, while both rents and occupancy rates have been under increasing downward pressure in secondary cities and locations, particularly in Finland. The availability and terms of credit in the Nordic real estate market continued to improve during 2014.

There is a growing demand for alternative debt financing in Europe, as European SMEs in particular have a limited access to bank financing due to new regulations and increased liquidity requirements for banks. Use of alternative financing in European buyouts has increased significantly and the role of non-bank lenders in supporting businesses has become more important.<sup>5</sup> According to survey by Collier Capital, third of investors plan to invest in Credit funds during the following 12 months.<sup>6</sup>

2014 was a significant year for both Buyout deals and exit activity. The aggregate value of European buyout deals increased from 2013. Furthermore, the global aggregate exit value reached its highest level in history, with a 30% increase from 2013. As a result, a significant amount of capital was returned to fund investors, enabling them to re-allocate this capital to new private equity funds.<sup>7</sup>

The fundraising market continued its growth trend. The amount of capital raised in European Private equity funds saw a slight increase compared to 2013. The fundraising market remains polarised. The largest and the most experienced managers received the majority of investors' commitments, while smaller funds had more difficulties to raise capital<sup>8</sup>. Yet investors favoured smaller fund managers with a specific investment focus. Moreover, investors are expected to invest increasingly in funds with a specific geographical or sector focus. Investor sentiment towards private equity remains very positive, and almost half of investors surveyed by Preqin in December are planning to make their next private equity fund commitment in the first half of 2015.<sup>9</sup>

The growth forecast for the Russian economy has declined further. The rouble has weakened significantly as a result of plummeting oil prices and sanctions imposed on Russia. Inflation is on the rise, negatively affecting the purchasing power of Russian households.<sup>10</sup> Although the weakening of rouble had a negative impact on the fair value development of CapMan's Russian investments in euros, the crisis has not yet had a material impact on CapMan Russia's portfolio companies and the team is actively exploring attractive investment opportunities by taking advantage of the decreased competition in the market, among others. Non-strategic sectors serving Russia's expanding middle class such as IT, B2B services, and healthcare that are the investment focus of CapMan Russia are still expected to continue their growth.

### **Outlook estimate for 2015:**

We estimate our earnings per share to improve from the level achieved in 2014.

### **Basis for outlook:**

CapMan receives carried interest income from funds as a result of a completed exit in the event that the fund already is in carry or will enter carry due to the exit. Our current portfolio holds several investments, which we expect to exit during 2015. The most significant exits are expected to be completed during the second half of 2015.

<sup>4</sup> Pangea Monthly Update, January 2015

<sup>5</sup> Preqin Private Debt 2015, November 2014

<sup>6</sup> Collier Capital, Global Private Equity Barometer 2014-15

<sup>7</sup> Preqin Buyout Deals and Exits Q4 2014

<sup>8</sup> Preqin Private Equity Fundraising Jan 2015

<sup>9</sup> Preqin December 2014

<sup>10</sup> BBC, 7 Jan 2015



The fair value development of our own fund investments will have a substantial impact on our overall result in 2015. We expect disparity in the development of individual portfolio companies and real estate also during 2015 depending on their industry and geographical location. In addition, our portfolio companies and real estate are also influenced by various other factors, among others the general development of industries and local economies, inflation development, valuation multiples of peer companies, and exchange rates.

We estimate other fees to increase clearly alongside the management fees. Our fees as a whole will exceed our expenses before possible non-recurring expenses related to acquisitions or larger development projects.



**The CapMan Group will publish its Interim Report for 1 January – 31 March 2014 on Thursday, 7 May 2015.**

Helsinki, 5 February 2014

CAPMAN PLC  
Board of Directors

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**Appendices (after the Tables section):**

Appendix 1: The CapMan Group's funds under management as of 31 December 2014, MEUR

Appendix 2: Operations of CapMan's funds under management in 2014

Appendix 3: Description of CapMan's business operations



## Accounting principles

The Financial Statements Bulletin has been prepared in accordance with the International Financial Reporting Standards (IFRS). The information presented in the Financial Bulletin is based on the audited CapMan 2014 financial statements.

## GROUP STATEMENT OF COMPREHENSIVE INCOME (IFRS)

€ ('000)	10-12/14	10-12/13	1-12/14	1-12/13
<b>Turnover</b>	<b>16,347</b>	6,537	<b>39,475</b>	29,774
Other operating income	56	168	226	187
Personnel expenses	-6,541	-1,771	-17,804	-15,560
Depreciation and amortisation	-90	-142	-394	-664
Other operating expenses	-3,505	-3,071	-11,975	-11,630
Fair value changes of investments	-2,082	-2,563	-3,127	1,240
<b>Operating profit / loss</b>	<b>4,185</b>	-842	<b>6,401</b>	3,347
Financial income and expenses	-313	-588	-1,412	-747
Share of the income of investments accounted for using the equity method	-35	-424	-44	-610
<b>Profit / loss before taxes</b>	<b>3,837</b>	-1,854	<b>4,945</b>	1,990
Income taxes	-554	-558	-980	-531
<b>Profit / loss for the period</b>	<b>3,283</b>	-2,412	<b>3,965</b>	1,459
<b>Other comprehensive income:</b>				
Translation differences	14	154	11	83
Remeasurements of post-employment benefit obligations	0	-103	0	-103
<b>Total comprehensive income</b>	<b>3,297</b>	-2,361	<b>3,976</b>	1,439
<b>Profit attributable to:</b>				
Equity holders of the company	<b>3,283</b>	-2,412	<b>3,965</b>	1,459
<b>Total comprehensive income attributable to:</b>				
Equity holders of the company	<b>3,297</b>	-2,361	<b>3,976</b>	1,439
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>				
Earnings per share, cents	<b>3.4</b>	-3.6	<b>3.4</b>	-1.2
Diluted, cents	<b>3.4</b>	-3.6	<b>3.4</b>	-1.2

Accrued interest payable on the hybrid bond has been taken into consideration for the review period when calculating earnings per share.



## GROUP BALANCE SHEET (IFRS)

€ ('000)	31.12.14	31.12.13
<b>ASSETS</b>		
<b>Non-current assets</b>		
Tangible assets	236	282
Goodwill	6,204	6,204
Other intangible assets	756	1,047
investments accounted for using the equity method	9,056	9,583
Investments at fair value through profit and loss		
Investments in funds	55,258	64,122
Other financial assets	121	94
Receivables	3,250	2,432
Deferred income tax assets	4,097	4,111
	<b>78,978</b>	<b>87,875</b>
<b>Current assets</b>		
Trade and other receivables	5,959	5,199
Other financial assets at fair value through profit and loss	319	361
Cash and bank	28,650	17,004
	<b>34,928</b>	<b>22,564</b>
<b>Total assets</b>	<b>113,906</b>	<b>110,439</b>

€ ('000)	31.12.14	31.12.13
<b>EQUITY AND LIABILITIES</b>		
<b>Capital attributable the Company's equity holders</b>		
Share capital	772	772
Share premium account	38,968	38,968
Other reserves	27,175	26,107
Translation difference	137	126
Retained earnings	-1,485	-1,112
<b>Total equity</b>	<b>65,567</b>	<b>64,861</b>
<b>Non-current liabilities</b>		



Deferred income tax liabilities	<b>1,976</b>	1,820
Interest-bearing loans and borrowings	<b>27,247</b>	25,854
Post-employment benefits	<b>0</b>	299
	<b>29,223</b>	27,973
<b>Current liabilities</b>		
Trade and other payables	<b>13,734</b>	11,344
Interest-bearing loans and borrowings	<b>5,000</b>	6,000
Current income tax liabilities	<b>382</b>	261
	<b>19,116</b>	17,605
<b>Total liabilities</b>	<b>48,339</b>	45,578
<b>Total equity and liabilities</b>	<b>113,906</b>	110,439





## GROUP STATEMENT OF CHANGES IN EQUITY

€ ('000)	Attributable to the equity holders of the Company					
	Share capital	Share premium account	Other reserves	Translation differences	Retained earnings	Total
Equity on 1 January 2013	772	38,968	38,814	43	553	79,150
Profit for the year					1,459	1,459
Other comprehensive income for the year						
Defined pension benefits					-103	-103
Currency translation differences				83		83
Total comprehensive income for the year				83	1,356	1,439
Share issue			877			877
Options			416		-388	28
Hybrid bond, interest (net of tax)					-2,508	-2,508
Redemption of hybrid bond			-29,000			-29,000
Issue of hybrid bond			15,000			15,000
Other changes					-125	-125
Equity on 31 December 2013	772	38,968	26,107	126	-1,112	64,861
Equity on 1 January 2014	772	38,968	26,107	126	-1,112	64,861
Profit / loss for the year					3,965	3,965
Other comprehensive income for the year						
Currency translation differences				11		11
Total comprehensive income for the year				11	3,965	3,976
Share issue			934			934
Options			134		44	178
Dividends					-3,452	-3,452
Hybrid bond, interest (net of tax)					-960	-960
Other changes					30	30
<b>Equity on 31 December 2014</b>	<b>772</b>	<b>38,968</b>	<b>27,175</b>	<b>137</b>	<b>-1,485</b>	<b>65,567</b>



## STATEMENT OF CASH FLOW (IFRS)

€ ('000)	1-12/14	1-12/13
<b>Cash flow from operations</b>		
Profit / loss for the financial year	3,965	1,459
Adjustments	9,439	363
<b>Cash flow before change in working capital</b>	<b>13,404</b>	1,822
Change in working capital	1,729	921
Financing items and taxes	-3,451	-5,708
<b>Cash flow from operations</b>	<b>11,682</b>	-2,965
<b>Cash flow from investments</b>	<b>2,089</b>	26,792
<b>Cash flow before financing</b>	<b>13,771</b>	23,827
Dividends paid	-3,452	0
Other net cash flow	1,327	-13,448
<b>Financial cash flow</b>	<b>-2,125</b>	-13,448
<b>Change in cash funds</b>	<b>11,646</b>	10,379
Cash funds at start of the period	17,004	6,625
<b>Cash funds at end of the period</b>	<b>28,650</b>	17,004



## SEGMENT INFORMATION

The Group reports two segments: Management company business and Fund investments

10-12/2014	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	11,557	4,790	16,347	0	16,347
Operating profit/loss	5,418	1,376	6,794	-2,609	4,185
Profit/loss for the financial year	4,340	1,097	5,437	-2,154	3,283

10-12/2013	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	4,694	1,843	6,537	0	6,537
Operating profit/loss	2,113	-23	2,090	-2,932	-842
Profit/loss for the financial year	658	-23	635	-3,047	-2,412

1-12/2014	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	28,104	11,371	39,475	0	39,475
Operating profit/loss	7,230	3,209	10,439	-4,038	6,401
Profit/loss for the financial year	5,792	2,569	8,361	-4,396	3,965
Assets	6,551	766	7,317	71,661	78,978
Total assets includes: investments accounted for using the equity method	0	0	0	9,056	9,056



1-12/2013	Management Company business			Fund Investment business	Total
	CapMan Private Equity	CapMan Real Estate	Total		
€ ('000)					
Turnover	22,628	7,146	29,774	0	29,774
Operating profit/loss	2,951	-150	2,801	546	3,347
Profit/loss for the financial year	1,673	-150	1,523	-64	1,459
Assets	7,326	301	7,627	80,248	87,875
Total assets includes: investments accounted for using the equity method	0	0	0	9,583	9,583

### Income taxes

The Group's income taxes in the Income Statements are calculated on the basis of current taxes on taxable income and deferred taxes. Deferred taxes are calculated on the basis of all temporary differences between book value and fiscal value.

### Dividends

The Board of Directors of CapMan Plc will propose a dividend of EUR 0.06 per share to be paid to shareholders, equivalent to a total of approx. MEUR 5.2 . A dividend of EUR 0.04 per share, totalling MEUR 3.5 million in all, was paid for 2013.



## NON-CURRENT ASSETS

€ ('000)	31.12.14	31.12.13
Investments in funds at fair value through profit and loss at Jan 1	64,122	74,465
Additions	9,689	5,496
Distributions	-12,149	-14,098
Fair value gains/losses on investments	-6,404	-1,741
Investments in funds at fair value through profit and loss at end of the period	55,258	64,122
Investments in funds at fair value through profit and loss at the end of period	31.12.14	31.12.13
Buyout	30,584	33,897
Credit	2,344	2,660
Russia	3,955	4,036
Public Market	2,993	5,296
Real Estate	8,000	7,345
Other	5,322	8,153
Access	2,060	2,735
In total	55,258	64,122

## THE GROUP'S ASSETS MEASURED AT FAIR VALUE AT 31 DECEMBER 2014.

The different levels have been defined as follows:

Level 1 Quoted prices (unjusted) in active markets for identical assets

Level 2 Other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as price) or indirectly (that is, derived from prices)

Level 3 The asset that is not based on observable market data

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit and loss				
Investments in funds				
at Jan 1		5,296	58,826	64,122
Additions		51	9,638	9,689
Distributions		-2,579	-9,570	-12,149
Fair value gains/losses on investments		225	-6,629	-6,404
at the end of period		2,993	52,265	55,258

Fund investments in Level 2 are investments in CapMan Public Market fund.

All other fund investments are in Level 3.

There were no transfers from one level to another during the financial year.

### Käyvän arvon hierarkia käypään arvoon arvostetuista rahoitusvaroista 31.12.2013

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit and loss				
investments in funds				
at Jan 1		4,009	70,456	74,465
Additions		61	5,435	5,496
Distributions		-838	-13,260	-14,098
Fair value gains/losses on investments		2,064	-3,805	-1,741
at the end of period		5,296	58,826	64,122

Fund investments in Level 2 are investments in CapMan Public Market fund.

All other fund investments are in Level 3.

There were no transfers from one level to another during the financial year.



## Level 3 sensitivity analysis

Investment area	Fair value MEUR 31.12.2014	Valuation methodology	Unobservable inputs	Used input value (weighted average)	Fair value sensitivity to a +/- 10% change in input value
Buyout	29.8	Peer group	Peer group earnings multiples	EV/EBITDA2014 8.3x	+3.4 MEUR / - 3.5 MEUR
			Discount to peer group multiples	22%	-0.9 MEUR / +1.0 MEUR
		Discounted cash flows	Discount rate; WACC	11%	-/+ 0.6 MEUR
Russia	4.0	Peer group	Peer group earnings multiples	EV/EBITDA2014 10.3x	+/- 0.3 MEUR
			Discount to peer group multiples	33%	-/+ 0.2 MEUR
Real Estate	8.0	Valuation by an independent valuer, using discounted cash flows methodology	Discount rate for cash flows	8%	NA*
			Discount rate for terminal value	8%	
Credit	2.3	Discounted cash flows	Discount rate; market rate and risk premium	13%	- 0.1 MEUR / value increase based on a change in the discount rate is not booked
Other investment areas	6.1	Peer group	Peer group earnings multiples	EV/EBITDA2014 10.2x	+0.6 MEUR / -0.5 MEUR
			Discount to peer group multiples	29%	-0.3 MEUR / +0.2 MEUR



The changes in the peer group earnings multiples and the peer group discounts are typically opposite to each other. Therefore, if the peer group multiples increase, a higher discount is typically applied. Because of this, a change in the peer group multiples may not in full be reflected in the fair values of the fund investments.

The foreign exchange rates at the time of valuation have been applied in determining the fair values. Changes in the rates of Norwegian krone or Swedish krona would, in CapMan's estimate, have no significant direct impact on the fair values calculated by peer group multiples. A change in the exchange rate for the Russian rouble have had an impact and they have been taken into account in the valuation of the Russia funds.

The valuation of CapMan funds' investment is based on international valuation guidelines that are widely used and accepted within the industry and among investors. CapMan always aims at valuing funds' investments at their actual value. Fair value is the best estimate of the price that would be received by selling an asset in an orderly transaction between market participants on the measurement date.

Determining the fair value of fund investments for funds investing in portfolio companies is carried out using International Private Equity and Venture Capital Valuation Guidelines (IPEVG). In estimating fair value for an investment, CapMan applies a technique or techniques that is/are appropriate in light of the nature, facts, and circumstances of the investment in the context of the total investment portfolio. In doing this, current market data and several inputs, including the price at which an investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment, are evaluated and combined with market participant assumptions. In selecting the appropriate valuation technique for each particular investment, consideration of those specific terms of the investment that may impact its fair value is required.

Different methodologies may be considered. The most applied methodologies at CapMan include the price of recent investments, which is typically applied in the case of new investments, and the earnings multiple valuation technique, whereby public peer group multiples are used to estimate the value of a particular investment. CapMan always applies a discount to peer group multiples, due to e.g. limited liquidity of the investments. Due to qualitative nature of the valuation methodologies, they are mainly based on CapMan's judgment.

The Group has a Monitoring team, which monitors the performance and the price risk of the investment portfolio (financial assets entered at fair value through profit and loss) independently and objectively of the investment teams. The Monitoring team is responsible for reviewing the monthly reporting and forecasts for portfolio companies. Valuation proposals made by the case investment professionals are examined by the Monitoring team and subsequently approved by the Valuation Committee, which comprises the Chairman of the Investee Committee, the Group CFO and Heads of investment teams. The portfolio company valuations are reviewed in the Valuation Committee quarterly. The valuations are back tested against realised exit valuations, and the results of such back testing are reported to the Audit Committee annually.

The loan instruments held by the Credit funds are valued applying the discounted cash flows-method. However, any increase in valuation is not booked until it is realized. There is no functional secondary market for these types of investments, where such a value increase driven by a change in the discount rate could be realized. The funds' investment strategy is to hold the loans until they are repaid.

Investments in real estate are valued at fair value based on appraisals made by independent external experts, who follow International Valuation Standards (IVS). The method most appropriate to the use of the property is always applied, or a combination of such methods. For the most part, the valuation methodology applied is the discounted cash flow method, which is based on significant unobservable inputs. These inputs include the following:

- |                                   |  |
|-----------------------------------|--|
| <b>Future rental cash inflows</b> | Based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties; |
| <b>Discount rates</b>             | Reflecting current market assessments of the uncertainty in the amount and timing of cash flows;   |





<b>Estimated vacancy rates</b>	Based on current and expected future market conditions after expiry of any current lease;
<b>Property operating expenses</b>	Including necessary investments to maintain functionality of the property for its expected useful life;
<b>Capitalisation rates</b>	Based on actual location size and quality of the properties and taking into account market data at the valuation date;
<b>Terminal value</b>	Taking into account assumptions regarding maintenance costs , vacancy rates and market rents.

\*) Because the real estate properties are valued using third party valuation information, CapMan prepares no sensitivity analysis for the inputs used therein, as the quantitative unobservable inputs are not reasonably available to CapMan.

## TRANSACTIONS WITH RELATED PARTIES (ASSOCIATED COMPANIES)

€ ('000)	31.12.14	31.12.13
Receivables - current at end of review period	0	51

## NON-CURRENT LIABILITIES

€ ('000)	31.12.14	31.12.13
Interest bearing loans at end of review period	27,247	25,854

### Seasonal nature of business

Carried interest income is accrued on an irregular schedule depending on the timing of exits. An exit may have an appreciable impact on the Group's result for the full financial year.

## PERSONNEL

By country	31.12.14	31.12.13
Finland	68	65
Sweden	23	18
Norway	1	8
Russia	10	11
Luxembourg	1	1
United Kingdom	3	0
In total	106	103



## CONTINGENT LIABILITIES

€ ('000)	31.12.14	31.12.13
Leasing agreements	<b>3,523</b>	5,131
Securities and other contingent liabilities	<b>64,091</b>	64,326
Remaining commitments to funds	<b>30,250</b>	30,305
Remaining commitments by investment area		
Buyout	<b>14,632</b>	14,929
Credit	<b>3,716</b>	4,257
Russia	<b>2,288</b>	2,500
Public Market	<b>1,387</b>	1,349
Real Estate	<b>3,723</b>	2,664
Other	<b>3,338</b>	3,410
Access	<b>1,166</b>	1,196
In total	<b>30,250</b>	30,305

CapMan estimates that only MEUR 15-20 of the remaining commitments will be called in the next 3-4 years, particularly due to unused investment capacity of the older funds.



## TURNOVER AND PROFIT QUARTERLY

### 2014

MEUR	1-3/14	4-6/14	7-9/14	10-12/14	1-12/14
Turnover	7.0	8.0	8.1	16.4	39.5
Fees	7.0	6.6	7.9	7.2	28.7
Carried interest	0.0	1.4	0.2	9.2	10.8
Other operating income	0.0	0.1	0.1	0.0	0.2
Operating expenses	-6.7	-6.8	-6.5	-10.2	-30.2
Fair value changes of investments	1.5	-0.4	-2.2	-2.0	-3.1
Operating profit / loss	1.7	1.0	-0.5	4.2	6.4
Financial income and expenses	-0.3	-0.5	-0.3	-0.3	-1.4
Share of the income of investments accounted for using the equity method	-0.2	0.4	-0.2	0.0	0.0
Profit / loss before taxes	1.2	0.9	-1.0	3.8	4.9
Profit / loss for the period	1.2	0.7	-1.2	3.3	4.0

### 2013

MEUR	1-3/13	4-6/13	7-9/13	10-12/13	1-12/13
Turnover	6.8	9.7	6.7	6.6	29.8
Fees	6.4	7.3	6.6	6.6	26.9
Carried interest	0.4	2.4	0.1	0.0	2.9
Other operating income	0.0	0.0	0.0	0.2	0.2
Operating expenses	-8.4	-8.0	-6.5	-5.0	-27.9
Fair value changes of investments	3.6	0.3	-0.1	-2.6	1.2
Operating profit / loss	2.0	2.0	0.2	-0.9	3.3
Financial income and expenses	0.2	-0.1	-0.2	-0.6	-0.7
Share of the income of investments accounted for using the equity method	0.5	-0.3	-0.4	-0.4	-0.6
Profit / loss before taxes	2.7	1.6	-0.5	-1.8	2.0
Profit / loss for the period	2.6	1.7	-0.4	-2.4	1.5



## APPENDIX 1: THE CAPMAN GROUP'S FUNDS UNDER MANAGEMENT AS OF 31 DECEMBER 2014, MEUR

The tables below show the status of the funds managed by CapMan as of 31 December 2014. CapMan groups its funds into four categories in terms of their life cycle as follows: 1) Funds generating carried interest; 2) Funds in the exit and value creation phase; 3) Funds in the active investment phase; and 4) Funds with no carried interest potential for CapMan.

Exits made by funds generating carried interest provide CapMan with immediate carry income, while those in the exit and value creation phase can be expected to start generating carried interest within the next 1-5 years. The carry potential of funds in the active investment phase is likely to be realised over the next 5-10 years. The final category comprises funds that do not offer any carried interest potential for CapMan, either because CapMan's share of carry in the funds concerned is small or because the funds are not expected to transfer to carry.

When analysing the projected timetable within which a fund could transfer to carry, the cumulative cash flow that investors have already received should be compared to the fund's paid-in capital. In order for a fund to enter carry, it must first return its paid-in capital and pay an annual preferential return to investors. In the case of funds in the exit or value creation phase, the table shows the cash flow that must be returned to investors to enable a fund to transfer to carry. The carry potential of each fund can be evaluated by comparing this figure to the fair value of the fund's portfolio. A portfolio's fair value, including its possible net cash flows, provides an indication of the distributable capital available as of the end of the reporting period. Any uncalled capital in a fund (particularly relevant for funds in the active investment phase) should be taken into account when evaluating the cash flow that will be needed to enable a fund to transfer to carry.

The percentage shown in the last column indicates the share of each fund's cash flow due to CapMan as and when the fund transfers to carry. Following a previous distribution of carried interest, any new paid-in capital, together with the annual preferential return payable on it, must be returned to investors before any further distribution of carried interest can take place.

Definitions of the column headings are shown below the table.



## FUNDS INVESTING IN PORTFOLIO COMPANIES

	Size	Paid-in capital	Fund's current portfolio		Net cash assets	Distributed cash flow		Amount of cash flow needed to transfer the fund to carry as of 31.12.2014	CapMan's share of cash flow if the fund generates carried interest (investment team share deducted)
			At cost	At fair value		To investors	To mgmt company		
<b>Funds generating carried interest</b>									
Fenno Program <sup>1)</sup> , FM II B, FV V, FM IIIB, CME VII B <sup>6)</sup> , FM III A, CME VII A <sup>6)</sup> , CME Sweden <sup>6)</sup>									
Total	639.6	633.1	45.0	23.6	12.0	978.9	30.7		10-20%
<b>Funds in exit and value creation phase</b>									
CMB VIII <sup>2) 6)</sup>	440,0	400,1	160,1	161,8	0,1	292,5		314,6	12 %
CMPM	138,0	133,9	60,9	86,7	0,1	151,5		58,2	10 %
CMR	118,1	111,1	66,5	76,6	0,1	21,9		128,1	3.4 %
CMB IX	294,6	280,8	208,8	234,4	0,9	44,8		318,8	10 %
Total	990,7	925,9	496,3	559,5	1,2	510,7			
<b>Funds in active investment phase</b>									
CMM V	95,0	60,8	39,8	44,2	0,5	28,9			10 %
CMB X <sup>2)</sup>	244,5	165,4	142,5	152,1	5,5	5,2			8 %
CMR II	99,1	20,5	14,6	12,4	1,3	0,6			8 %
Total	438,6	246,7	196,9	208,7	7,3	34,7			
<b>Fund with no carried interest potential for CapMan</b>									
FV IV, SWE LS <sup>3)</sup> , SWE Tech <sup>2), 3)</sup> , CME VII C <sup>6)</sup> , FM II A, C, D <sup>2)</sup> , FM III C, CMM IV <sup>4)</sup> , CMLS IV, CMT 2007 <sup>2)</sup>									
Total	682.2	654.0	114.7	110.1	2.8	551.6			
<b>Total private equity funds</b>	<b>2,751.1</b>	<b>2,459.7</b>	<b>852.9</b>	<b>901.9</b>	<b>23.3</b>	<b>2,075.9</b>	<b>30.7</b>		



## REAL ESTATE FUNDS

	Investment capacity	Paid-in capital	Fund's current portfolio		Net cash assets	Distributed cash flow		Amount of cash flow needed to transfer the fund to carry as of 31.12.2014	CapMan's share of cash flow if the fund generates carried interest (investment team share deducted)
			At cost	At fair value		To investors	To mgmt-company		
<b>Funds in exit and value creation phase</b>									
CMRE II									
Equity and bonds	150.0	128,8	121,8	128,8		50.9		162.0	12%
Debt financing	450.0	301,7	175,2	175,2					
<b>Total</b>	<b>600.0</b>	<b>430,5</b>	<b>297,0</b>	<b>304,0</b>	<b>-1.6</b>	<b>50.9</b>			
CMRHE									
Equity and bonds	332.5	324,9	424,6	347,0		57.2		449.5	12%
Debt financing	617.5	542,6	459,5	459,5					
<b>Total</b>	<b>950.0</b>	<b>867,5</b>	<b>884,1</b>	<b>806,5</b>	<b>-1.5</b>	<b>57.2</b>			
<b>Total</b>	<b>1,550.0</b>	<b>1,298.0</b>	<b>1 181,1</b>	<b>1,110.5</b>	<b>-3.1</b>	<b>108.1</b>	<b>0.0</b>		
<b>Funds in active investment phase</b>									
CMNRE									
Equity and bonds	266.2	79,5	66,3	68,9		8.3			
Debt financing	0.0	0,0	0,0	0,0					
<b>Total</b>	<b>266.2</b>	<b>79,5</b>	<b>66,3</b>	<b>68,9</b>	<b>-4.5</b>	<b>8.3</b>			
<b>Funds with no carried interest potential to CapMan</b>									
CMRE I <sup>5)</sup>									
Equity and bonds	200.0	188,5	66,5	38,0		207,8	27.4		
Debt financing	300.0	276,6	70,5	70,5					
<b>Total</b>	<b>500.0</b>	<b>465,1</b>	<b>137,0</b>	<b>108,5</b>	<b>0.0</b>	<b>207,8</b>	<b>27.4</b>		
<b>Real Estate funds total</b>	<b>2,316.2</b>	<b>1,842.6</b>	<b>1,384.4</b>	<b>1,287.9</b>	<b>-7.6</b>	<b>324.2</b>	<b>27.4</b>		



### Abbreviations used to refer to funds:

CMB	= CapMan Buyout	CMRE	= CapMan Real Estate
CME	= CapMan Equity	CMT 2007	= CapMan Technology 2007
CMLS	= CapMan Life Science	FM	= Finnmezzanine Fund
CMM	= CapMan Mezzanine	FV	= Finnventure Fund
CMHRE	= CapMan Hotels RE	PSH Fund	= Project Specific Hotel Fund
CMNRE	= CapMan Nordic Real Estate	SWE LS	= Swedestart Life Science
CMPM	= CapMan Public Market Fund	SWE Tech	= Swedestart Tech
CMR	= CapMan Russia Fund		

### Explanation of the terminology used in the fund tables

#### Size/Original investment capacity:

Total capital committed to a fund by investors, i.e. the original size of a fund. For real estate funds, investment capacity also includes the share of debt financing used by a fund.

#### Paid-in capital:

Total capital paid into a fund by investors as of the end of the review period.

#### Fund's current portfolio at fair value:

The determination of the fair value of fund investments for funds investing in portfolio companies is carried out using the International Private Equity and Venture Capital Valuation Guidelines (IPEVG, [www.privateequityvaluation.com](http://www.privateequityvaluation.com)).

In estimating fair value for an investment, CapMan applies a technique or techniques that is/are appropriate in light of the nature, facts, and circumstances of the investment in the context of the total investment portfolio. In doing this, current market data and several inputs, including the price at which an investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment, are evaluated and combined with market participant assumptions. In selecting the appropriate valuation technique for each particular investment, consideration of those specific terms of the investment that may impact its fair value is required.

Different methodologies may be considered. The most applied methodologies at CapMan include the price of recent investments, which is typically applied in the case of new investments, and the earnings multiple valuation technique, whereby public peer group multiples are used to estimate the value of a particular investment. Due to qualitative nature of the valuation methodologies, they are mainly based on CapMan's judgment.

Investments in real estate are valued at fair value based on appraisals made by independent external experts, who follow International Valuation Standards (IVS). The method most appropriate to the use of the property is always applied, or a combination of such methods.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Due to the nature of private equity investment activities, fund portfolios contain investments with a fair value that exceeds their acquisition cost, as well as investments with a fair value less than the acquisition cost.

#### Net cash assets:

When calculating the investors' share, a fund's net cash assets must be taken into account in addition to the portfolio at fair value. The proportion of debt financing in real estate funds is presented separately in the table.



**Amount of cash flow needed to transfer the fund to carry**

This cash flow refers to the profit distributed by funds and the capital they pay back to investors. The figure indicates the size of the cash flow that must be returned to investors as of the end of the reporting period to enable a fund to transfer to carry. A fund's carry potential can be evaluated by comparing this figure to the fair value of its portfolio.

**CapMan's share of cash flow if a fund generates carried interest:**

When a fund has generated the cumulative preferential return for investors specified in the fund agreements, the management company is entitled to an agreed share of future cash flows from the fund, known as carried interest.

After the previous distribution of profits, any new capital called in, as well as any annual preferential returns on it, must be returned to investors before any new distribution of profits can be paid.

**Footnotes to the tables**

- 1) Fenno Fund and Skandia I together form the Fenno Program, which is jointly managed with Fenno Management Oy.
- 2) The fund is comprised of two or more legal entities (parallel funds are presented separately only if their investment focuses or portfolios differ significantly).
- 3) Currency items are valued at the average exchange rates quoted at 31 December 2014.
- 4) CapMan Mezzanine IV: The paid-in capital includes a MEUR 192 bond issued by Leverator Plc Distributed cash flow includes payments to both bond subscribers and to the fund's partners.
- 5) CapMan Real Estate I: Distributed cash flow includes repayment of the bonds and cash flow to the fund's partners. Following the previous payment of carried interest, a total of MEUR 42.3 in paid-in capital had not yet been returned to investors. This capital, together with the annual income entitlement payable on it, must be paid to investors before further carried interest can be distributed.

CapMan's management considers it unlikely, in the light of the market situation, that further carried interest will be provided by the CapMan Real Estate I fund. As a result, the fund has been transferred from those funds in carry. A total of some MEUR 6 of carried interest was not entered in CapMan's profit in 2007 but instead left in reserve in case that some of the carried interest would have to be returned to investors in future.

- 6) CapMan Group's Board of Directors made a decision in early 2012 to increase the Buyout investment teams' share of carried interest to better reflect prevailing industry practices. In CapMan Buyout VIII fund the investment team's share is approximately 40%, and in CapMan Equity VII funds the investment team's share is approximately 25%.





## APPENDIX 2: OPERATIONS OF CAPMAN'S FUNDS UNDER MANAGEMENT IN 2014

The operations of the private equity funds managed by CapMan during the review period comprised direct investments in portfolio companies in the Nordic countries and Russia (CapMan Private Equity), as well as real estate investments (CapMan Real Estate). Investments by CapMan funds investing in portfolio companies focus on three key investment areas in the Nordic countries and one in Russia. These take the form of mid-size buyouts (CapMan Buyout), investments in mid-sized companies operating in Russia (CapMan Russia), mezzanine investments (CapMan Credit), and significant minority shareholdings in listed small and mid-cap companies (CapMan Public Market<sup>11</sup>). The investment focus of CapMan's real estate funds is on properties in Finland and the other Nordic countries. CapMan also has two other investment areas (CapMan Technology and CapMan Life Science), which do not make new investments, but concentrate instead on developing the value of their existing portfolio companies. These two latter investment areas are reported under "Other" in Private Equity.

CapMan separated its mezzanine investments from CapMan Buyout during the review period and the investments are reported under "Credit." Due to the change in classification, fund investment activities for the quarter are not comparable with previous quarters where the reclassification has not been made.

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<sup>11</sup>The Public Market Fund is continuing exit and value creation activities in line with its strategy. CapMan participates in the fundraising of a new fund focusing on publicly listed companies, and the fund will pay management fees and carried interests to CapMan based on the commitments to the fund made through CapMan. As a result of the arrangement, Public Market will be reported together with investment areas categorised as "Others" going forward.



## CAPMAN PRIVATE EQUITY

### Investments in portfolio companies in 2014

During the financial year, funds managed by CapMan invested in nine new companies and made a number of add-on investments in existing portfolio companies, totalling MEUR 201.3. The new investments were made by the CapMan Buyout X fund in The North Alliance, Suomen Lämpöikkuna Oy (LämpöLux), the Kämp Group, Harvia Oy, Malte Månson, YrkesAcademin and Oral Hammaslääkärit Plc. The CapMan Mezzanine V fund also invested in Suomen Lämpöikkuna Oy and the Kämp Group and made a new investment in Gram Equipment A/S. In addition, CapMan Russia II fund invested in Kidburg. Add-on investments were largely concentrated in portfolio companies held by CapMan's Buyout and Russia funds. In 2013, funds made two new investments and several add-on investments valued at a total of MEUR 66.0.

### Exits from portfolio companies in 2014

During the financial year, funds exited completely from Intrum Justitia AB, Espira AS, LUMENE Oy, Bank Evropeisky, Finlayson & Co Oy, Global Intelligence Alliance Group Oy, Profit Software Oy, SHV Holding AB (Sensia), Metallfabriken Ljunghäll AB and ScanJour AS and made partial exits from Cederroth Intressenter AB, B&B Tools AB, ÅF AB and Symbio AB, among others. These exits had a combined acquisition cost of MEUR 178.5. During 2013, funds made 11 complete exits and three partial exits from portfolio companies, with a combined acquisition cost of MEUR 229.0.

### Events after the close of the accounting period

Funds Managed by CapMan agreed to sell their ownership in Cederroth Intressenter AB and sold their holding in Symbio S.A in January 2015.

## CAPMAN REAL ESTATE

### Investments in and commitments to real estate acquisitions and projects in 2014

In 2014, CapMan's real estate funds made four new investments and a number of add-on investments in the existing developments, totalling MEUR 85.6. CapMan's real estate funds' new investments were Bergshamra Bro (Bladet 3) office building in Northern Stockholm, Prime Residential Portfolio consisting of residential properties in central Copenhagen, Plaza Presto, an office building in Vantaa Aviapolis office area in Finland and Solna Strand office building in Northern Stockholm. Add-on investments included, among others, two new residential properties in the Amagerbrogade portfolio in Copenhagen. In addition, real estate funds were committed to provide financing for real estate acquisitions and projects totalling MEUR 25.4 as of 31 December 2014. During 2013, CapMan's real estate funds made two new investments and a number of add-on investments totalling MEUR 17.0, while commitments to finance new projects totalled MEUR 12.0 as of 31 December 2013.

### Exits from real estate investments in 2014

Real Estate funds exited from Yrjönkatu 17 Koy and MREC Mäntsälä logistics centre in the financial year. The exit had a combined acquisition cost of MEUR 71.4. During 2013, real estate funds made one exit with an acquisition cost of MEUR 0.3.



## FUND INVESTMENT ACTIVITIES IN FIGURES

### Investments and exits made by funds at acquisition cost, MEUR

	1-12/2014	1-12/2013
<b>New and add-on investments</b>		
Funds investing in portfolio companies	201.3	66.0
Buyout	155.7	39.2
Credit	31.0	2.5
Russia	11.3	15.0
Public Market	0.0	0.0
+ Other	3.3	9.3
Real Estate funds	85.6	16.9
<b>Total</b>	<b>286.9</b>	<b>82.9</b>
<b>Exits*</b>		
Funds investing in portfolio companies	178.5	229.0
Buyout	97.4	169.4
Credit	9.0	9.0
Russia	4.0	10.6
Public Market	30.7	8.9
Other	37.4	31.1
Real Estate funds	71.4	0.3
<b>Total</b>	<b>249.9</b>	<b>229.3</b>

\* including partial exits and repayments of mezzanine loans.

In addition, real estate funds had made commitments to finance real estate acquisitions and projects valued at MEUR 25.4 as of 31 December 2014.



**Funds' combined portfolio\* as of 31 December 2014, MEUR**

	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio (fair value) %
Funds investing in portfolio companies	860.9	884.8	40.7
Real Estate funds	1,384.3	1,287.9	59.3
<b>Total</b>	<b>2,245.2</b>	<b>2,172.7</b>	<b>100.0</b>

Funds investing in portfolio companies			
Buyout	575.9	620.5	70.1
Credit	48.8	44.2	5.0
Russia	81.0	89.0	10.1
Public Market	60.9	69.7	7.9
Other	94.3	61.4	6.9
<b>Total</b>	<b>860.9</b>	<b>884.8</b>	<b>100.0</b>

\* Total of all investments of funds under management.

**Remaining investment capacity**

After deducting actual and estimated expenses, funds investing in portfolio companies had a remaining investment capacity amounting to some MEUR 576 for new and add-on investments as of 31 December 2014. Of their remaining capital, approx. MEUR 326 was earmarked for buyout investments (incl. mezzanine investments), approx. MEUR 37 for investments by the Credit team, approx. MEUR 62 for technology investments, approx. MEUR 2 for life science investments, approx. MEUR 111 for investments by the CapMan Russia team, and approx. MEUR 38 for investments by the CapMan Public Market team. Real estate funds had a remaining investment capacity of approx. MEUR 227,6 which has been reserved for new investments and for the development of funds' existing investments.



## APPENDIX 3: DESCRIPTION OF BUSINESS OPERATIONS

CapMan Group is a private equity fund manager operating in the Nordic countries and Russia. The Group also makes investments in its own funds.

Private equity investment means making direct equity investments in companies and real estate. Investments are made through funds, which raise their capital primarily from institutional investors such as pension funds and foundations. Private equity investors actively develop their portfolio companies and real estate by working closely with management and tenants. Value creation is based on promoting companies' sustainable growth and strengthening their strategic position. Private equity investment is of a long-term nature – investments are held for an average of four to six years and the entire life cycle of a fund is typically around 10 years. Over the long term, private equity funds have generated significantly higher levels of returns compared to other investment classes<sup>12</sup>, and the industry's long-term prospects are favourable. By investing in CapMan, institutional and private investors can benefit from the profit potential of the private equity industry while diversifying their exposure.

The Group has two operating segments: 1) a Management Company business and 2) a Fund Investment business.

### 1) Management Company business

In its Management Company business, CapMan raises capital from Nordic and international institutions for the funds that it manages. The investment teams invest this capital in Nordic and Russian companies and Nordic real estate.

The Management Company business has two main sources of income, fee income and carried interest income. Fund investors pay a management fee to CapMan (typically 0.5-2.0% p.a.) during the life cycle of each fund. The management fee is based on fund size less realised exits during the fund's investment period (typically 5 years), after which the management fee is based on the remaining invested portfolio valued at cost. Fees are also generated from CapMan's service business comprising of CapMan Purchasing Scheme (CaPS), fundraising advisory services and services related to fund management. Fees normally cover CapMan's operating costs and generally represent a steady and highly predictable source of income.

The second source of income of the Management Company business is carried interest received from funds. Carried interest denotes the Management Company's share of each fund's cash flow after paid-in capital has been distributed to fund investors and the latter have received their annual preferential return (so-called hurdle rate (IRR), typically 8% p.a.). The amount of carried interest generated depends on the timing of exits and the stage at which funds are in their life cycle, which makes advance prediction difficult.

### 2) Fund Investment business

Through its Fund Investment business, CapMan makes investments from its own balance sheet in the funds that it manages. Income in this business is generated by increases in the fair value of investments and realised returns. Fair value is determined by the development of portfolio companies and real estate held by the funds, in addition to general market developments. Revenue from CapMan's fund investments can sometimes be negative.

As there may be considerable quarterly fluctuations in carried interest and the fair value of fund investments, the Group's financial performance should be analysed over a longer time span than the quarterly cycle.

<sup>12</sup> Bain & Company, Global Private Equity Report 2014

