

CAPMAN GROUP'S  
INTERIM REPORT  
1 JANUARY – 30 SEPTEMBER  
2014

*CapMan*



## CAPMAN GROUP'S INTERIM REPORT FOR 1 JANUARY–30 SEPTEMBER 2014

### Performance and main events during the review period:

- Group turnover totalled MEUR 23.1 (January–September 2013: MEUR 23.2).
- Operating profit was MEUR 2.2 (MEUR 4.2).
- Profit before taxes was MEUR 1.1 (MEUR 3.8) and profit after taxes was MEUR 0.7 (MEUR 3.9).
- Earnings per share for the review period were 0.0 cents (2.4 cents).
- The Management Company business recorded an operating profit of MEUR 3.6 (profit of MEUR 0.7).
- The Fund Investment business recorded an operating loss of MEUR 1.4 (profit of MEUR 3.5).
- Capital under management as of 30 September 2014 totalled MEUR 3,161.9 (30 September 2013: MEUR 3,172.6).
- 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.
- Markus Sjöholm was nominated as Head of CapMan Buyout and member of CapMan Plc's Management Group.
- After the review period the size of the CapMan Nordic Real Estate fund increased by MEUR 24.6 after the review period, bringing the total fund size to MEUR 190.6.

### CapMan maintains its outlook estimate for 2014:

We estimate our earnings per share to improve significantly from the level achieved in 2013 primarily due to increasing operating profit.

### Basis for outlook specified:

Our fees will cover our expenses before possible non-recurring expenses related to acquisitions or larger development projects.

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 that are far in their exit process and we expect to finalise them during 2014. In case the exits will be completed at the end of the year, the carried interest income can be entered either in 2014 or 2015, which could impact our operating profit and outlook estimate for 2014.

The fair value development of our own fund investments will have a substantial impact on our overall result in 2014. We expect disparity in the development of individual portfolio companies and real estate also during 2014 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, valuation multiples of peer companies, and exchange rates.

### Heikki Westerlund, CEO:

” We continued to advance our strategic projects. Our collaboration with Elite Asset Management will open up private equity to a wider customer base. Our long-term investment in international fundraising is also beginning to bear fruit. For example, our Nordic real estate fund has already secured a significant number of investments from investors outside of the Nordics.

The fundraising rounds of our Buyout and Russia funds have been finalised. Buyout focused their resources in Stockholm and Helsinki, and in the near future its operational focus will be on increasing the value of the portfolio. Despite the negative development of the Russian economy, the development of our Russian portfolio companies has remained at a good level on average.

Our fee income and expenses are in balance, and the total carried interest income can still reach a good level this year. The fair value development of our own fund investments has not met our expectations in 2014. During the third quarter, the change is in line with the general stock market development, but some of the portfolio companies are also falling short of their original goals for 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.

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 for January–September 2014

The Group's turnover totalled MEUR 23.1 (January–September 2013: MEUR 23.2). Operating expenses decreased and totalled MEUR 20.0 (MEUR 22.9). Expenses for the review period included MEUR 0.8 of non-recurring expenses related to the closing of CapMan's Oslo office. Expenses during the comparable period 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 2.2 (MEUR 4.2), which decreased from the comparable period last year as a result of negative fair value changes in CapMan's own fund investments.

Financial income and expenses amounted to MEUR -1.1 (MEUR -0.2). The comparison 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 profit of its associated companies was MEUR 0.0 (MEUR -0.2).

Profit before taxes was MEUR 1.1 (MEUR 3.8) and profit after taxes was MEUR 0.7 (MEUR 3.9). Earnings per share were 0.0 cents (2.4 cents) after deducting the (net of tax) interest on the hybrid bond for the review period.

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

## Management Company business

Turnover generated by the Management Company business during the review period totalled MEUR 23.1 (MEUR 23.2). Fees increased slightly from the comparable period last year and totalled MEUR 21.5 (MEUR 20.3). 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 review period that were recorded retroactively from the time the funds were established. The amount also includes fees generated by CapMan's purchasing scheme (CaPS) and accounting services.

Carried interest generated during the review period totalled MEUR 1.6 and was received from CapMan Equity VII B, Fenno Program and Finnmezzanine II and III B funds following the exit from LUMENE Oy and Finlayson & Co Oy. In addition, CapMan received carried interest income from the sale of Yrjönkatu 17 property. Carried interest during the comparable period in 2013 totalled MEUR 2.9.

The operating profit of the Management Company business improved and was MEUR 3.6 (MEUR 0.7) due to lower expenses compared to the same period last year, and due to management fees accrued from new funds



established. Expenses do not include bonus provisions based on the CapMan compensation scheme as the minimum level of earnings per share was not met during the review period. The profit for the review period was MEUR 2.9 (MEUR 0.9). 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 January–September 2014 were MEUR -1.1 (MEUR 3.8) and represented a 1.5% decrease during the review period (4.8% increase in value during the first nine months of 2013). The negative development during the review period was attributable to the general market situation and its impact on market values of portfolio companies' listed peers used in company valuations. The fair values were also impacted by weaker than anticipated financial development of certain portfolio companies. Funds' portfolios also saw positive value adjustments for individual companies. The aggregate fair value of fund investments as of 30 September 2014 was MEUR 60.7 (30 September 2013: MEUR 74.0).

Operating profit for the Fund Investment business was MEUR -1.4 (MEUR 3.5) and profit for the review period was MEUR -2.2 (MEUR 3.0). The Fund Investment business includes the results of Maneq companies remaining in the CapMan portfolio.

CapMan invested a total of MEUR 8.7 (MEUR 5.1) in its funds during the first nine months of 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 10.1 (MEUR 6.4). The majority of the distributions came from the CapMan Buyout VIII fund as a result of exit from Espira Gruppen AS. CapMan made new commitments totalling MEUR 4.3 into the CapMan Buyout X and CapMan Nordic Real Estate funds during the review period.

The amount of remaining commitments that have not yet been called totalled MEUR 28.4 as of 30 September 2014 (30 September 2013: MEUR 25.1). The aggregate fair value of existing investments and remaining commitments was MEUR 89.0 (MEUR 99.0). 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 30 September 2014**

CapMan's balance sheet totalled MEUR 115.9 as of 30 September 2014 (30 September 2013: MEUR 122.7). Non-current assets amounted to MEUR 86.0 (MEUR 99.1), of which goodwill totalled MEUR 6.2 (MEUR 6.2).

Fund investments booked at fair value totalled MEUR 60.7 (MEUR 74.0). Long-term receivables amounted to MEUR 4.8 (MEUR 2.3). As of 30 September 2014, investments in associated companies were MEUR 9.1 at fair value (30 September 2013: MEUR 10.1).

Current assets amounted to MEUR 29.9 (MEUR 23.6). Liquid assets (cash in hand and at banks, plus other financial assets at fair value through profit and loss) amounted to MEUR 23.1 (MEUR 17.3).



In June, CapMan Plc participated in a multi-issuer bond totalling MEUR 70 and guaranteed by Garantia Insurance Company Ltd with MEUR 10 share. The issuance diversifies the company's financing package and increases 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 30 September 2014, CapMan Plc had access to MEUR 9.3 (MEUR 19.4) of bank financing, and in addition had a MEUR 15.0 unused long-term credit facility available. Trade and other payables totalled MEUR 16.4 (MEUR 18.8). The Group's interest-bearing net debt amounted to MEUR 11.1 (MEUR 2.0). 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 30 September 2014.

The Group's cash flow from operations totalled MEUR 5.6 for the review period (MEUR 6.9). 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 0.3 (MEUR 16.2) and includes, *inter alia*, fund investments and repaid capital received by the Group. The comparison figure includes returns from the partial sale of shares in 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 in associated companies. Cash flow before financing totalled MEUR 5.9 (MEUR 23.2), while cash flow from financing was MEUR -0.1 (MEUR -12.8).

### Key figures 30 September 2014

CapMan's equity ratio was 56.7% as of 30 September 2014 (30 September 2013: 70.3%), its return on equity 1.4% (6.3%), and its return on investment 3.5% (5.9%). The target levels for the company's equity ratio and return on equity are at least 60% and over 20%, respectively.

	30.9.14	30.9.13	31.12.13
Earnings per share, cents	0.0	2.4	-1.2
Diluted, cents	0.0	2.4	-1.2
Shareholders' equity / share, cents *	73.3	96.9	77.0
Share issue adjusted number of shares	86,121,272	84,255,467	84,268,963
Number of shares at the end of period	86,316,766	84,281,766	85,266,991
Number of shares outstanding	86,290,467	84,255,467	85,240,692
Company's possession of its own shares, end of period	26,299	26,299	26,299
Return on equity, %	1.4	6.3	2.0
Return on investment,%	3.5	5.9	3.5
Equity ratio,%	56.7	70.3	58.9
Net gearing,%	17.6	2.5	22.3



\* In line with IFRS standards, the MEUR 15 (30 September 2013: MEUR 29) 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.

### **Fundraising during the review period and capital under management as of 30 September 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 in September and the funds reached final sizes of MEUR 245.0 and MEUR 99.1 respectively. After the review period in October, the size of the CapMan Nordic Real Estate fund increased to MEUR 190.6. Fundraising for the fund continues. 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 provides wider customer base an opportunity to invest in private equity. Elite Asset Management will launch a new product, which will be investing in private equity funds managed by CapMan enabling private and institutional investors to invest in private equity more flexibly.

Capital under management was MEUR 3,161.9 as of 30 September 2014 (30 September 2013: MEUR 3,172.6). Of the total capital under management, MEUR 1,552.7 (MEUR 1,682.6) was held in funds making investments in portfolio companies and MEUR 1,609.2 (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 100 people as of 30 September 2014 (30 September 2013: 103), of whom 70 (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 the review period. Share capital totalled EUR 771,586.98 as of 30 September 2014. The number of B shares was 80,566,766 and that of A shares 5,750,000 as of 30 September 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 7.1% during the first nine months of 2014 and totalled 7,044 as of 30 September 2014 (30 September 2013: 5,780).

## Company shares

As of 30 September 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 26,036 as of 30 September 2014 (30 September 2013: EUR 24,195). No changes occurred in the number of own shares held by CapMan Plc during the review period.

## 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 0.92 (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 1,125,000 stock option entitlements under the Option Programme 2013A had been allocated by the end of September 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 0.99 on 30 September 2014 (30 September 2013: EUR 0.92). The trade-weighted average price during the nine month period was EUR 1.09 (EUR 0.86). The highest price paid was EUR 1.23 (EUR 0.95) and the lowest EUR 0.90 (EUR 0.78). The number of CapMan Plc B shares traded totalled 15.0 million (9.4 million), valued at MEUR 16.3 (MEUR 8.0).

The market capitalisation of CapMan Plc B shares as of 30 September 2014 was MEUR 79.4 (30 September 2013: MEUR 72.2). The market capitalisation of all company shares, including A shares valued at the closing price of B shares, was MEUR 85.0 (MEUR 77.5).

## Other events during the review period

Funds managed by CapMan signed an agreement to exit Espira Gruppen AS in March. The transaction was finalised in May 2014 and contributed some MEUR 5 in cash flow to the CapMan Group.

Funds managed by CapMan exited completely from LUMENE Oy in June and from Finlayson & Co Oy in July. In addition, CapMan Real Estate sold Yrjönkatu 17 property, and as a consequence the project-specific hotel property fund CapMan Yrjönkatu 17 Ky was transferred to a new owner. The exits have a positive impact on CapMan Group's financial result for 2014 through carried interest income.

In September, funds managed by CapMan exited from Profit Software Oy that provides IT solutions to the insurance sector and Global Intelligence Alliance Group Oy (GIA), a strategic market intelligence and advisory group. The exits did not generate any carried interest to CapMan Plc as the exiting funds are not yet in carry.

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 focused their resources in Stockholm and Helsinki and 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.

Funds managed by CapMan made a number of new investments during the review period. The CapMan Buyout X fund acquired a majority holding in The North Alliance Group (NOA), a network focused on digital communication in the Nordic markets, a Finnish luxury and lifestyle hotel chain Kämp Group, Suomen Lämpöikkuna Oy, a provider of turnkey window and door renovation solutions in Finland and the Finnish Harvia Oy, which operates in the sauna industry. Furthermore, in April 2014 Renideo Group Oy, a company controlled by funds managed by CapMan Plc, and Renideo Holding Oy, a company wholly owned by Renideo Group Oy, announced a public tender offer for all shares issued by Oral Hammaslääkärit Plc. The transaction was realised during an extended acceptance period in June. In addition, CapMan Buyout X fund invested in Malte Månson – a Swedish network of heavy vehicle service workshops and YrkesAkademin – a private provider of vocational education in Sweden.

CapMan Nordic Real Estate fund acquired an office building Bergshamra Bro ("Bladet 3") located in Solna, Northern Stockholm in April. In June, the fund invested in Prime Residential Portfolio consisting of residential properties in central Copenhagen and in September the fund added two new residential properties in Amagerbrogade portfolio in Copenhagen.

CapMan Credit's fund CapMan Mezzanine V invested in Kämp Group and in Suomen Lämpöikkuna Oy in March. In September the fund invested in Gram Equipment A/S, a leading global supplier of advanced industrial ice cream equipment.





## Events after the close of the review period

In October CapMan Nordic Real Estate fund acquired MREC Plaza Presto, an office building in Vantaa Aviapolis business centre near Helsinki Airport and Apelsinen 4, an office building located in Northern Stockholm. In addition, CapMan Real Estate II fund exited MREC Mäntsälä logistics centre in Finland.

In October CapMan Russia II fund made its second investment in Kidburg, a company providing children's educational entertainment services in Russia.

## Significant risks and short-term uncertainties

Weak 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, which could possibly affect the outcome of the on-going fundraising. 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 significant 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. The MEUR 6.4 provision in CapMan's balance sheet 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

Despite the prolonged slow and negative economic growth in the Eurozone, the long-term outlook for private equity investments is good. The Nordic countries are still 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>1</sup>

The volume of real estate transactions in Finland during the third quarter of 2014 was very high totalling approx. BEUR 1.5. A large ownership arrangement accounted for over BEUR 0.9 of the transaction volume. However, even

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



without the afore mentioned ownership arrangement the transaction volume more than doubled from the previous year. During the same period in Sweden, the transaction volume increased by nearly 42% from the previous year, to approx. BEUR 2.7. Both in Finland and Sweden, especially international investors continued to focus on prime real estate with stable rents, although there has been increasing demand for better properties outside prime areas. The yield gap between prime and secondary assets remained high especially in Finland. In Sweden, on the other hand, there has been a continued downward pressure on secondary asset yields for some time due to high demand. Rental levels remained generally stable in the Nordic countries also during the third quarter of the year. At the same time, the availability of traditional senior financing has shown some signs of recovery compared to the same period last year.<sup>2</sup>

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>3</sup>

The Nordic buyout and M&A markets continued active and the value of realised acquisitions clearly increased from the comparable period. Contrarily, the third quarter was a traditionally quiet quarter in Europe where the M&A market slowed down and the value of realised acquisitions decreased from the comparable period. Competition for investment opportunities remained stiff, as the value of unspent commitments to private equity funds, known as 'dry powder', surged to record levels during the review period. However, the European exit market continued active as quality investments were in high demand.<sup>4</sup>

The third quarter of the year is typically quieter also in the fundraising market. The European private equity funds secured less capital and the number of funds established decreased from the comparable period. However, the average fund size further increased as large and more experienced fund managers attracted most of the investment commitments during the review period.<sup>5</sup> Yet investors also favoured small and mid-sized fund managers having excellent track record and specific investment focus. According to a global survey by Preqin, buyout funds are the most sought after fund type and more than half of investors indicated a preference for buyout funds in the year ahead.<sup>6</sup>

The growth forecast for the Russian economy has been reduced significantly as a result of the Ukrainian crisis and the consequent sanctions imposed on Russia.<sup>7</sup> A weaker rouble and stock market could have a negative impact on the fair value development of portfolio companies in Russia, but could also result in increased domestic production and create better investment opportunities due to lower valuations. The competition in the market has decreased and 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.

## Regulatory environment

The law implementing the European Directive on Alternative Investment Fund Managers (AIFM directive) came into force in Finland on 15 March 2014. The directive stipulates, among other things, an operating license or registration for alternative investment fund managers, as well as other requirements, including fund investor and authority reporting. CapMan has taken actions to comply with the directive inter alia by registering the fund managers in the

<sup>2</sup> Pangea Monthly Update, October 2014

<sup>3</sup> S&P, LCD European Leveraged Buyout Review Q3 2014, October 2014

<sup>4</sup> Preqin Quarterly Private Equity update Q3 2014, October 2014 and Business Money, 3 October 2014

<sup>5</sup> Preqin Quarterly Private Equity fundraising Q3 2014, October 2014

<sup>6</sup> Bain Global Private Equity report 2014

<sup>7</sup> World Bank, September 2014



scope of the regulation and evaluates that its organisation and operating model enables it to comply with the requirements of these new regulations, where applicable.

CapMan actively monitors other regulatory developments affecting the industry, including the Basel III and Solvency II initiatives, which will have an impact on capital requirements for European banks and insurance companies.

#### **CapMan maintains its outlook estimate for 2014:**

We estimate our earnings per share to improve significantly from the level achieved in 2013 primarily due to increasing operating profit.

#### **Basis for outlook specified:**

Our fees will cover our expenses before possible non-recurring expenses related to acquisitions or larger development projects.

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 that are far in their exit process and we expect to finalise them during 2014. In case the exits will be completed at the end of the year, the carried interest income can be entered either in 2014 or 2015, which could impact our operating profit and outlook estimate for 2014.

The fair value development of our own fund investments will have a substantial impact on our overall result in 2014. We expect disparity in the development of individual portfolio companies and real estate also during 2014 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, valuation multiples of peer companies, and exchange rates.



**The CapMan Group will publish its Financial Statements Bulletin for 1 January – 31 December 2014 on Thursday, 5 February 2015.**

Helsinki, 6 November 2014

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

Appendix 1: The CapMan Group's funds under management as of 30 September 2014, MEUR

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

Appendix 3: Description of CapMan's business operations



## Accounting principles

The Interim Report has been prepared in accordance with the International Financial Reporting Standards (IFRS). The information presented in the Interim Report is un-audited.

## GROUP STATEMENT OF COMPREHENSIVE INCOME (IFRS)

€ ('000)	7-9/14	7-9/13	1-9/14	1-9/13	1-12/13
<b>Turnover</b>	<b>8,122</b>	6,753	<b>23,128</b>	23,237	29,774
Other operating income	<b>28</b>	0	<b>170</b>	19	187
Personnel expenses	<b>-3,285</b>	-4,093	<b>-11,264</b>	-13,789	-15,560
Depreciation and amortisation	<b>-93</b>	-172	<b>-305</b>	-522	-664
Other operating expenses	<b>-3,132</b>	-2,198	<b>-8,469</b>	-8,559	-11,630
Fair value changes of investments	<b>-2,176</b>	-129	<b>-1,045</b>	3,803	1,240
<b>Operating profit / loss</b>	<b>-536</b>	161	<b>2,215</b>	4,189	3,347
Financial income and expenses	<b>-346</b>	-211	<b>-1,099</b>	-159	-747
Share of associated companies' result	<b>-164</b>	-365	<b>-8</b>	-186	-610
<b>Profit / loss before taxes</b>	<b>-1,046</b>	-415	<b>1,108</b>	3,844	1,990
Income taxes	<b>-190</b>	-39	<b>-426</b>	27	-531
<b>Profit / loss for the period</b>	<b>-1,236</b>	-454	<b>682</b>	3,871	1,459
<b>Other comprehensive income:</b>					
Translation differences	<b>-18</b>	21	<b>-3</b>	-71	83
Remeasurements of post-employment benefit obligations	<b>0</b>	0	<b>0</b>	0	-103
<b>Total comprehensive income</b>	<b>-1,254</b>	-433	<b>679</b>	3,800	1,439
<b>Profit attributable to:</b>					
Equity holders of the company	<b>-1,236</b>	-454	<b>682</b>	3,871	1,459
<b>Total comprehensive income attributable to:</b>					
Equity holders of the company	<b>-1,254</b>	-433	<b>679</b>	3,800	1,439
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>					
Earnings per share, cents	<b>-1.7</b>	-1.3	<b>0.0</b>	2.4	-1.2
Diluted, cents	<b>-1.7</b>	-1.3	<b>0.0</b>	2.4	-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)	30.9.14	30.9.13	31.12.13
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	256	294	282
Goodwill	6,204	6,204	6,204
Other intangible assets	816	1,153	1,047
Investments in associated companies	9,091	10,060	9,583
Investments at fair value through profit and loss			
Investments in funds	60,669	73,954	64,122
Other financial assets	121	94	94
Receivables	4,770	2,264	2,432
Deferred income tax assets	4,083	5,054	4,111
	<b>86,010</b>	<b>99,077</b>	<b>87,875</b>
<b>Current assets</b>			
Trade and other receivables	6,798	6,303	5,199
Other financial assets at fair value through profit and loss	319	365	361
Cash and bank	22,795	16,967	17,004
	<b>29,912</b>	<b>23,635</b>	<b>22,564</b>
<b>Total assets</b>	<b>115,922</b>	<b>122,712</b>	<b>110,439</b>

€ ('000)	30.9.14	30.9.13	31.12.13
<b>EQUITY AND LIABILITIES</b>			
<b>Capital attributable the Company's equity holders</b>			
Share capital	772	772	772
Share premium account	38,968	38,968	38,968
Other reserves	27,041	38,814	26,107
Translation difference	123	-28	126
Retained earnings	-3,766	3,289	-1,112
<b>Total equity</b>	<b>63,138</b>	<b>81,815</b>	<b>64,861</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	1,814	2,153	1,820
Interest-bearing loans and borrowings	29,747	14,354	25,854



Other liabilities	<b>0</b>	310	0
Post-employment benefits	<b>299</b>	169	299
	<b>31,860</b>	16,986	27,973
<b>Current liabilities</b>			
Trade and other payables	<b>16,358</b>	18,815	11,344
Interest-bearing loans and borrowings	<b>4,500</b>	5,000	6,000
Current income tax liabilities	<b>66</b>	96	261
	<b>20,924</b>	23,911	17,605
<b>Total liabilities</b>	<b>52,784</b>	40,897	45,578
<b>Total equity and liabilities</b>	<b>115,922</b>	122,712	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					3,871	3,871
Other comprehensive income for the year						
Currency translation differences				-71		-71
Total comprehensive income for the year				-71	3,871	3,800
Hybrid bond, interest (net of tax)					-1,135	-1,135
Equity on 30 September 2013	772	38,968	38,814	-28	3,289	81,815
Equity on 1 January 2014	772	38,968	26,107	126	-1,112	64,861
Profit / loss for the year					682	682
Other comprehensive income for the year						
Currency translation differences				-3		-3
Total comprehensive income for the year				-3	682	679
Share issue			934			934
Options					116	116
Dividends					-3,452	-3,452
<b>Equity on 30 September 2014</b>	<b>772</b>	<b>38,968</b>	<b>27,041</b>	<b>123</b>	<b>-3,766</b>	<b>63,138</b>





## STATEMENT OF CASH FLOW (IFRS)

€ ('000)	1-9/14	1-9/13	1-12/13
<b>Cash flow from operations</b>			
Profit / loss for the financial year	682	3,871	1,459
Adjustments	4,475	-965	363
<b>Cash flow before change in working capital</b>	<b>5,157</b>	2,906	1,822
Change in working capital	1,710	7,320	921
Financing items and taxes	-1,220	-3,281	-5,708
<b>Cash flow from operations</b>	<b>5,647</b>	6,945	-2,965
<b>Cash flow from investments</b>	<b>269</b>	16,221	26,792
<b>Cash flow before financing</b>	<b>5,916</b>	23,166	23,827
Dividends paid	-3,452	0	0
Other net cash flow	3,327	-12,824	-13,448
<b>Financial cash flow</b>	<b>-125</b>	-12,824	-13,448
<b>Change in cash funds</b>	<b>5,791</b>	10,342	10,379
Cash funds at start of the period	17,004	6,625	6,625
<b>Cash funds at end of the period</b>	<b>22,795</b>	16,967	17,004



## SEGMENT INFORMATION

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

7-9/2014	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	6,533	1,589	8,122	0	8,122
Operating profit/loss	1,572	172	1,744	-2,280	-536
Profit/loss for the financial year	1,212	47	1,259	-2,495	-1,236

7-9/2013	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	4,966	1,787	6,753	0	6,753
Operating profit/loss	187	188	375	-214	161
Profit/loss for the financial year	95	188	283	-737	-454

1-9/2014	Management Company business			Fund Investment business	Total
	CapMan		Total		
	Private Equity	CapMan Real Estate			
€ ('000)					
Turnover	16,547	6,581	23,128	0	23,128
Operating profit/loss	1,812	1,832	3,644	-1,429	2,215
Profit/loss for the financial year	1,452	1,472	2,924	-2,242	682
Assets	7,119	278	7,397	78,613	86,010
Total assets includes:					
Investments in associated companies	0	0	0	9,091	9,091



1-9/2013	Management Company business			Fund Investment business	Total
	CapMan Private Equity	CapMan Real Estate	Total		
€ ('000)					
Turnover	17,934	5,303	23,237	0	23,237
Operating profit/loss	838	-127	711	3,478	4,189
Profit/loss for the financial year	1,015	-127	888	2,983	3,871
Assets	7,525	325	7,850	91,227	99,077
Total assets includes:					
Investments in associated companies	0	0	0	10,060	10,060

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 in associated companies	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

A dividend of €0.04 per share, totalling MEUR 3.5 million in all, was paid for 2013. The dividend was paid to shareholders on 1 April 2014. No dividend was paid for 2012.



## NON-CURRENT ASSETS

€ ('000)	30.9.14	30.9.13	31.12.13
Investments in funds at fair value through profit and loss at Jan 1	<b>64,122</b>	74,465	74,465
Additions	<b>8,731</b>	5,050	5,496
Distributions	<b>-10,066</b>	-6,434	-14,098
Fair value gains/losses on investments	<b>-2,118</b>	873	-1,741
Investments in funds at fair value through profit and loss at end of the period	<b>60,669</b>	73,954	64,122
Investments in funds at fair value through profit and loss at the end of period	<b>30.9.14</b>	30.9.13	31.12.13
Buyout	<b>31,781</b>	40,375	33,897
Credit	<b>2,993</b>	3,076	2,660
Russia	<b>4,581</b>	4,919	4,036
Public Market	<b>3,373</b>	5,449	5,296
Real Estate	<b>7,712</b>	6,950	7,345
Other	<b>7,861</b>	10,182	8,153
Access	<b>2,368</b>	3,003	2,735
In total	<b>60,669</b>	73,954	64,122



## THE GROUP'S ASSETS MEASURED AT FAIR VALUE AT 30 SEPTEMBER 2014.

The different levels have been defined as follows:

Level 1 Quoted prices (unadjusted) 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	8,680	8,731
Distributions		-2,036	-8,030	-10,066
Fair value gains/losses on investments		62	-2,180	-2,118
at the end of period		3,373	57,296	60,669

Level 3 fund investments mainly include investments in unlisted companies that have no quoted market value.

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. 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.

Because there is significant uncertainty in the valuation of, or in the stability of, the value of illiquid investments, the fair values of such investments as reflected in a fund's net asset value do not necessarily reflect the prices that would actually be obtained when such investments are realised.



## TRANSACTIONS WITH RELATED PARTIES (ASSOCIATED COMPANIES)

€ ('000)	30.9.14	30.9.13	31.12.13
Receivables - current at end of review period	0	115	51

## NON-CURRENT LIABILITIES

€ ('000)	30.9.14	30.9.13	31.12.13
Interest bearing loans at end of review period	29,747	14,354	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	30.9.14	30.9.13	31.12.13
Finland	64	65	65
Sweden	22	18	18
Norway	1	8	8
Russia	10	11	11
Luxembourg	1	1	1
United Kingdom	2	0	0
In total	100	103	103



## CONTINGENT LIABILITIES

€ ('000)	30.9.14	30.9.13	31.12.13
Leasing agreements	5,002	5,561	5,131
Securities and other contingent liabilities	64,171	64,439	64,326
Remaining commitments to funds	28,371	25,086	30,305
Remaining commitments by investment area			
Buyout	14,990	9,836	14,929
Credit	2,923	4,512	4,257
Russia	2,369	2,547	2,500
Public Market	1,367	998	1,349
Real Estate	2,300	2,858	2,664
Other	3,256	3,136	3,410
Access	1,166	1,199	1,196
In total	28,371	25,086	30,305

Commitments to funds are typically made for ten years. The majority of the commitments are paid in during fund's investment period, 3–5 years from the establishment of each fund.



## TURNOVER AND PROFIT QUARTERLY

### 2014

MEUR	1-3/14	4-6/14	7-9/14	1-9/14
Turnover	7.0	8.0	8.1	23.1
Fees	7.0	6.6	7.9	21.5
Carried interest	0.0	1.4	0.2	1.6
Other operating income	0.0	0.1	0.1	0.2
Operating expenses	-6.7	-6.8	-6.5	-20.0
Fair value changes of investments	1.5	-0.4	-2.2	-1.1
Operating profit / loss	1.7	1.0	-0.5	2.2
Financial income and expenses	-0.3	-0.5	-0.3	-1.1
Share of associated companies' result	-0.2	0.4	-0.2	0.0
Profit / loss before taxes	1.2	0.9	-1.0	1.1
Profit / loss for the period	1.2	0.7	-1.2	0.7

### 2013

MEUR	1-3/13	4-6/13	7-9/13	1-9/13	10-12/13	1-12/13
Turnover	6.8	9.7	6.7	23.2	6.6	29.8
Fees	6.4	7.3	6.6	20.3	6.6	26.9
Carried interest	0.4	2.4	0.1	2.9	0.0	2.9
Other operating income	0.0	0.0	0.0	0.0	0.2	0.2
Operating expenses	-8.4	-8.0	-6.5	-22.9	-5.0	-27.9
Fair value changes of investments	3.6	0.3	-0.1	3.8	-2.6	1.2
Operating profit / loss	2.0	2.0	0.2	4.2	-0.9	3.3
Financial income and expenses	0.2	-0.1	-0.2	-0.1	-0.6	-0.7
Share of associated companies' result	0.5	-0.3	-0.4	-0.2	-0.4	-0.6
Profit / loss before taxes	2.7	1.6	-0.5	3.8	-1.8	2.0
Profit / loss for the period	2.6	1.7	-0.4	3.9	-2.4	1.5





## APPENDIX 1: THE CAPMAN GROUP'S FUNDS UNDER MANAGEMENT AS OF 30 SEPTEMBER 2014, MEUR

The tables below show the status of the funds managed by CapMan as of 30 September 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 30.9.2014	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>									
Total	314.5	308.8	24.1	16.5	3.7	507.7	22.8		10-20%
<b>Funds in exit and value creation phase</b>									
FM III A	101.4	100.6	18.4	22.6	0.4	128.7		2.4	20 %
CME VII A <sup>6)</sup>	156.7	156.7	41.2	17.6	5.8	213.6		6.0	15 %
CME Sweden <sup>6)</sup>	67.0	67.0	17.6	7.5	2.5	90.8		4.1	15 %
CMB VIII <sup>2) 6)</sup>	440.0	399.2	159.3	172.2	0.7	292.5		307.6	12 %
CMPM	138.0	133.9	70.1	96.3	0.3	136.8		70.0	10 %
CMR	118.1	110.6	65.9	90.1	0.5	21.9		125.1	3.4 %
CMB IX	294.6	280.2	209.9	249.7	1.8	42.5		314.3	10 %
Total	1,315.8	1,248.2	582.4	656.0	12.0	926.8			
<b>Funds in active investment phase</b>									
CMM V	95.0	60.7	48.8	56.8	0.1	15.4			10 %
CMB X <sup>2)</sup>	244.5	142.9	122.4	122.4	3.4	5.2			8 %
CMR II	99.1	17.4	12.3	11.3	0.9	0.6			8 %
Total	438.6	221.0	183.5	190.5	4.4	21.2			
<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	695.7	657.1	121.4	107.7	18.7	529.1			
<b>Total private equity funds</b>	<b>2,764.6</b>	<b>2,435.1</b>	<b>911.4</b>	<b>970.7</b>	<b>38.8</b>	<b>1,984.8</b>	<b>22.8</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 30.9.2014	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	132.7	135.9		35.9		175.5	12%
Debt financing	450.0	301.7	223.8	223.8					
<b>Total</b>	<b>600.0</b>	<b>430.5</b>	<b>356.5</b>	<b>359.7</b>	<b>2.0</b>	<b>35.9</b>			
CMRHE									
Equity and bonds	332.5	319.9	401.4	324.6		56.7		445.0	12%
Debt financing	617.5	542.6	481.0	481.0					
<b>Total</b>	<b>950.0</b>	<b>862.5</b>	<b>882.4</b>	<b>805.6</b>	<b>9.8</b>	<b>56.7</b>			
<b>Total</b>	<b>1,550.0</b>	<b>1,293.0</b>	<b>1,238.9</b>	<b>1,165.3</b>	<b>11.8</b>	<b>92.6</b>	<b>0.0</b>		
<b>Funds in active investment phase</b>									
CMNRE									
Equity and bonds	166.0	59.8	51.6	51.9		9.6			
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>166.0</b>	<b>59.8</b>	<b>51.6</b>	<b>51.9</b>	<b>5.0</b>	<b>9.6</b>			
<b>Funds with no carried interest potential to CapMan</b>									
CMRE I <sup>5)</sup>									
Equity and bonds	200.0	188.5	66.2	39.2		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>136.7</b>	<b>109.7</b>	<b>-0.1</b>	<b>207.8</b>	<b>27.4</b>		
<b>Real Estate funds total</b>	<b>2,216.0</b>	<b>1,817.9</b>	<b>1,427.2</b>	<b>1,326.9</b>	<b>16.7</b>	<b>310.0</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 30 September 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, JANUARY – SEPTEMBER 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>8</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>8</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 January–September 2014

During the review period, funds managed by CapMan invested in several new companies and made a number of add-on investments in existing portfolio companies, totalling MEUR 177.8. 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 September 2014. Add-on investments were largely concentrated in portfolio companies held by CapMan's Buyout and Russia funds. Funds made one new investment and several add-on investments valued at a total of MEUR 62.5 during the corresponding period last year.

### Exits from portfolio companies in January– September 2014

During the review period, funds exited Intrum Justitia, Espira AS, LUMENE Oy, Bank Evropeisky, Finlayson & Co Oy, Global Intelligence Alliance Group Oy, Profit Software Oy, SHV Holding AB (Sensia) completely and made a partial exit from Cederroth AB and B&B Tools AB, among others. These exits had a combined acquisition cost of MEUR 96.1. In the corresponding period last year, funds made seven complete exits and two partial exits from portfolio companies, with a combined acquisition cost of MEUR 156.8.

### Events after the close of the review period

CapMan Russia II fund's investment in Kidburg was completed in October 2014.

## CAPMAN REAL ESTATE

### Investments in and commitments to real estate acquisitions and projects, January– September 2014

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 and two new residential properties in Amagerbrogade portfolio in Copenhagen. Funds also made add-on investments in a number of existing properties. The new investments and add-on investments totalled MEUR 68.4. In addition, real estate funds were committed to provide financing for real estate acquisitions and projects totalling MEUR 13.0 as of 30 September 2014. During the comparable period last year, CapMan's real estate funds made two new investments and a number of add-on investments totalling MEUR 10.3, while commitments to finance new projects totalled MEUR 19.0 as of 30 September 2013.

### Exits from real estate investments in January– September 2014

Funds exited from Yrjönkatu 17 Koy during the review period. The exit had a combined acquisition cost of MEUR 11.3. During the comparable period in 2013, real estate funds made one exit with an acquisition cost of MEUR 0.3.



### Events after the close of the review period

CapMan Nordic Real Estate fund acquired Plaza Presto, an office building in Vantaa Aviapolis office area in Finland and Apelsinen 4 office building in Solna, Northern Stockholm. In addition, CapMan Real Estate II fund exited the Mäntsälä logistics centre in Finland.

## FUND INVESTMENT ACTIVITIES IN FIGURES

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

	1-9/2014	1-9/2013	1-12/2013
<b>New and add-on investments</b>			
Funds investing in portfolio companies	177.8	62.5	66.0
Buyout	135.1	38.5	39.2
Credit	31.0	2.5	2.5
Russia	8.4	14.4	15.0
Public Market	0.0	0.0	0.0
+ Other	3.3	7.1	9.3
Real Estate funds	68.4	10.3	16.9
<b>Total</b>	<b>246.2</b>	<b>72.8</b>	<b>82.9</b>

<b>Exits*</b>			
Funds investing in portfolio companies	96.1	156.7	229.0
Buyout	45.8	121.4	169.4
Credit	0.0	9.0	9.0
Russia	4.0	0.6	10.6
Public Market	21.4	3.2	8.9
Other	24.9	22.5	31.1
Real Estate funds	11.3	0.3	0.3
<b>Total</b>	<b>107.4</b>	<b>157.0</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 13.0 as of 30 September 2014.





## Funds' combined portfolio\* as of 30 September 2014, MEUR

	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio (fair value) %
Funds investing in portfolio companies	911.3	970.7	42.2
Real Estate funds	1,427.3	1,326.9	57.8
<b>Total</b>	<b>2,338.6</b>	<b>2,297.6</b>	<b>100.0</b>

Funds investing in portfolio companies			
	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio (fair value) %
Buyout	606.8	653.6	67.3
Credit	48.8	56.8	5.9
Russia	78.2	101.4	10.5
Public Market	70.1	96.3	9.9
Other	107.4	62.6	6.4
<b>Total</b>	<b>911.3</b>	<b>970.7</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 603 for new and add-on investments as of 30 September 2014. Of their remaining capital, approx. MEUR 350 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 114 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 147, 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>9</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. Other services, such as the Purchasing Scheme (CaPS) and accounting services, also generate fees for CapMan. 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>9</sup> Bain & Company, Global Private Equity Report 2014

