

# CAPMAN GROUP'S FINANCIAL STATEMENTS BULLETIN 1 JANUARY – 31 DECEMBER 2015



CapMan

## CAPMAN GROUP'S FINANCIAL STATEMENTS BULLETIN FOR 1 JANUARY– 31 DECEMBER 2015

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

- Group turnover totalled MEUR 31.8 (2014: MEUR 39.5).
- Operating profit was MEUR 9.3 (MEUR 6.3).
- Profit before taxes was MEUR 6.4 (MEUR 4.9).
- Profit after taxes was MEUR 6.1 (MEUR 4.0).
- Earnings per share for the review period were 5.9 cents (3.4 cents) and diluted earnings per share were 5.8 cents (3.4 cents).
- Cash flow to CapMan from exits was MEUR 20.7 (MEUR 26.5).
- The Board of Directors will propose a dividend of EUR 0.07 per share

### Heikki Westerlund, CEO:

“Our earnings per share for 2015 improved in line with our guidance. The baseline profit of our overall fee income (management fees and other fees) has developed in the right direction. The earnings impact of Norvestia was good and attributable especially to the fair value development of growth equity. Our carried interest income was below the previous year's level and our target, but we expect to realise the potential from the funds in the future. The fair value development of our own funds improved from last year, but did not yet meet our target level.

Services became an increasingly important part of our business during the year. In the beginning of 2016, CapMan launched Scala Fund Advisory with its roots in the extensive international fundraising experience of the team. Scala offers fund advisory services to private equity fund managers and institutional investors and has already several external mandates. We have also signed the first contracts for private equity fund management. Our service offering includes e.g. reporting, valuation and fund compliance. We believe that services have significant long term growth potential and play an integral role in smoothing out the fluctuation of our earnings.

The development of our funds' portfolio companies and real estate was generally positive in 2015, but the decrease in oil prices and the development of the Norwegian krona and the rouble had a negative impact on the valuation of some portfolio companies. In addition, the weakness of the Finnish economy has slowed down the development of some investments. The value development of the CapMan Nordic Real Estate fund was particularly favourable and strengthens our belief in the growth potential of real estate as an investment area. The fair value development of investments into CapMan's own funds fell below target in 2015 partially due to the depreciation in the CapMan Mezzanine IV fund.

Our focus areas for 2016 are the fair value development of our own fund portfolio, the utilisation of growth opportunities by for example raising new capital for real estate and credit funds, the growth of our service business and the acceleration of growth investments through our ownership in Norvestia. We proceed on our current strategic path with an objective to improve our earnings per share.”

## Outlook for 2016

CapMan has updated its guidance policy. In line with the new policy, CapMan typically provides general descriptive statements related to the general outlook of its business and its sources of income in lieu of estimates. CapMan's full disclosure policy is available here: <http://www.capman.com/capman-group/governance/disclosure>.

The Management Company and Services business is profitable before carried interest income and any possible non-recurring expenses related to acquisitions or larger development projects. CapMan expects fees from services to continue growing and to constitute a larger share of overall fee income in 2016 compared to 2015.

A significant component contributing to CapMan's result is carried interest income. 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. The current portfolio holds several investments, which are in exit process, although the exact timing of such exits may fluctuate.

The fair value development of CapMan's investments have a substantial impact on CapMan's overall result. The development of industries and local economies, inflation development, valuation multiples of peer companies, exchange rates and various other factors outside of CapMan's control influence fair value development in addition to company and real estate specific development, and the fair value development of the overall portfolio depends on the interplay of these factors. For a future outlook on Norvestia, CapMan refers to the assessment published by Norvestia in its own reports. As a consequence, CapMan refrains from providing projections related to the fair value development of its investments.

## Business operations

CapMan Group is a private equity fund manager operating in the Nordic countries and Russia. The Group operates through two segments: a Management Company and Services business (previously Management Company business) and an Investment business (previously Fund Investment business).

In its Management Company and Services business, CapMan manages private equity funds that invest in Nordic and Russian mainly unlisted companies and Nordic real estate. CapMan raises capital for the funds from Nordic and international investors. In addition, CapMan offers Fund Advisory (Scala Fund Advisory) and Fund Management services to external funds and purchasing services (CaPS) to companies in Finland and Sweden. The Management Company and Services 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.

Through its Investment business, CapMan invests from its own balance sheet in the private equity asset class (funds and other investments). CapMan's largest individual investment is its 28.7% stake in Norvestia. Income in this business is generated by increases in the fair value of investments and realised returns. The fair value change of the associated company Norvestia is booked in CapMan's income statement, based on the change in Norvestia's adjusted net asset value (NAV) as communicated in Norvestia's stock exchange releases. CapMan makes no adjustments to Norvestia's reported figures.

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

## Group turnover and result in 2015

The Group's turnover totalled MEUR 31.8 (2014: MEUR 39.5). The decrease in turnover was mainly attributed to lower carried interest income compared to the previous year. Operating expenses totalled MEUR 28.0 (MEUR 30.2)



and included MEUR 0.7 of non-recurring expenses mainly related to the acquisition of shares in Norvestia (there were approx. MEUR 0.8 in non-recurring expenses in 2014 mainly related to the closing of CapMan's Oslo office). Expenses for the year period also included approx. MEUR 2.1 of bonus provisions (MEUR 1.7) for the personnel based on CapMan's short term compensation scheme.

The Group recorded an operating profit of MEUR 9.3 (MEUR 6.3), which represented a 47% increase from the previous year.

Financial income and expenses amounted to MEUR -2.9 (MEUR -1.4). Profit before taxes was MEUR 6.4 (MEUR 4.9) and profit after taxes was MEUR 6.1 (MEUR 4.0). The Group's comprehensive result was MEUR 6.0 (MEUR 4.0). Earnings per share were 5.9 cents (3.4 cents) and the diluted earnings per share were 5.8 cents (3.4 cents) after deducting the (net of tax) interest on the hybrid bond for the year.

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

### **Management Company and Services business**

Turnover generated by the Management Company and Services business during 2015 totalled MEUR 31.8 (MEUR 39.5). Fees totalled MEUR 27.4 (MEUR 28.7). The decrease in fees was mainly due to less capital under management compared to last year due to exits completed in 2015. Fees recorded also include fees generated by CapMan's purchasing scheme (CaPS), Scala Fund Advisory and other services.

Carried interest income for the review period totalled MEUR 4.4 (MEUR 10.8) and was mainly due to recognised revenue received from the CapMan Equity VII A, B and Sweden funds and Finnmezzanine III A and B funds following the exit from Symbio and Silex Microsystems as well as the repayment of a vendor loan that was granted to Inflight Service in conjunction with the exit in 2010.

The operating profit of the Management Company and Services business was MEUR 4.1 (MEUR 10.4). The profit for 2015 was MEUR 3.3 (MEUR 8.4). The status of the funds managed by CapMan is presented in more detail in Appendix 1.

### **Investment business**

Total fair value changes of investments in 2015 were MEUR 5.2 (MEUR -3.2 in 2014). Fair value changes of fund investments were MEUR 0.2 (MEUR -3.1) representing a 0.3% increase in value (4.3% decrease in 2014). The overall change in the fair value of fund investments was due to the slightly positive development in several portfolio companies offset by a write down. The aggregate fair value of fund investments as of 31 December 2015 was MEUR 47.2 (31 December 2014: MEUR 55.3). The decrease was mainly due to significant exits completed in 2015. CapMan's share of the change in the net asset value of its associated company Norvestia was MEUR 4.4. The positive fair value development was mainly due to the development in Norvestia's growth equity investments. The fair value of CapMan's investment in Norvestia was MEUR 48.7 on 31 December 2015. The fair value change of Maneq investments was MEUR 0.6 (MEUR -0.1).

Operating profit for the Investment business was MEUR 5.2 (MEUR -4.1) and profit for 2015 was MEUR 2.8 (MEUR -4.4). The Investment business includes the results of Maneq companies remaining in CapMan's portfolio and CapMan's share of the change in net asset value of associated company Norvestia.

CapMan invested a total of MEUR 4.4 (MEUR 9.7) in its funds in 2015. Investments were mostly allocated to the CapMan Buyout X, CapMan Mezzanine V, CapMan Russia II and CapMan Nordic Real Estate funds. CapMan received distributions from funds totalling MEUR 10.7 (MEUR 12.1). The majority of the distributions came from



the CapMan Buyout VIII, CapMan Equity VII, CapMan Real Estate I, CapMan Nordic Real Estate and CapMan Public Market funds due to exits completed in 2015.

The amount of remaining commitments that have not yet been called totalled MEUR 25.2 as of 31 December 2015 (31 December 2014: MEUR 30.3). CapMan estimates that MEUR 10-15 of the remaining commitments will be called in the next 4 years, particularly due to unused investment capacity of the older funds. The aggregate fair value of existing fund investments and remaining commitments was MEUR 72.4 (MEUR 85.5). 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. The fair value change of the associated company Norvestia is booked in CapMan's income statement, based on the change in Norvestia's adjusted NAV as communicated in Norvestia's stock exchange releases. CapMan makes no adjustments to Norvestia's reported figures.

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 2015**

CapMan's balance sheet totalled MEUR 149.6 as of 31 December 2015 (31 December 2014: MEUR 113.9). The expansion of the balance sheet was due to the acquisition of shares in Norvestia. Non-current assets amounted to MEUR 121.1 (MEUR 79.0), of which goodwill totalled MEUR 6.2 (MEUR 6.2).

As of 31 December 2015, fund investments booked at fair value totalled MEUR 47.2 (MEUR 55.3). The adjusted NAV of Norvestia was MEUR 169.9 on 31 December 2015, of which the book value on CapMan's balance sheet was MEUR 48.7 based on CapMan's 28.7% ownership. The fair value of investments in joint ventures was MEUR 7.7 (MEUR 9.0) and consisted mainly of CapMan's investment in Maneq Investments Luxembourg. Long-term receivables amounted to MEUR 6.1 (MEUR 3.3).

Current assets amounted to MEUR 28.5 (MEUR 34.9). Liquid assets (cash in hand and at banks, plus other financial assets at fair value through profit and loss) amounted to MEUR 21.9 (MEUR 29.0).

CapMan's interest-bearing net debt amounted to MEUR 47.5 (MEUR 3.3). In October, CapMan issued a MEUR 30 fixed-rate unsecured bond for institutional investors. The proceeds from the bond issue were used mainly for the refinancing of the senior bank loan, which was obtained for the acquisition of shares in Norvestia in May.



The CapMan's total interest bearing debt as of 31 December 2015 is outlined in the below table.

	Debt amount 31 December 2015	Matures latest	Annual interest	Debt amount 31 December 2014
Bank financing	MEUR 15	Q2 2017		MEUR 7
Senior bond (issued in 2013)	MEUR 15	Q4 2017	5.5%	MEUR 15
Multi-issuer bond (issued in 2014)	MEUR 10	Q2 2019	1.85%	MEUR 10
Senior bond (issued in 2015)	MEUR 30	Q4 2019	4.2%	
Long-term credit facility (available)	(MEUR 15)			(MEUR 15)
(Hybrid bond*)	(MEUR 15)	No maturity	8.0%	MEUR 15

\*) In line with IFRS standards, the hybrid bond is classified as equity. 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. The hybrid bond was issued on 11 December 2013.

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 2015.

Trade and other payables totalled MEUR 13.1 (MEUR 13.7).

The Group's cash flow from operations totalled MEUR 0.6 for 2015 (MEUR 11.7). 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 -39.6 (MEUR 2.1) and includes, *inter alia*, the investment in Norvestia and fund investments and repaid capital received by the Group. Cash flow before financing totalled MEUR -39.0 (MEUR 13.8), while cash flow from financing was MEUR 32.0 (MEUR -2.1) and included the bond issued to repay the bank financing used for the investment in Norvestia.

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## Key figures 31 December 2015

CapMan's equity ratio was 43.7% as of 31 December 2015 (31 December 2014: 57.8%), its return on equity 9.3% (6.1%), and its return on investment 8.0% (7.0%). The target levels for the company's equity ratio and return on equity are 45–60% and over 20%, respectively.

	31.12.15	31.12.14
Earnings per share, cents*	5.9	3.4
Diluted, cents*	5.8	3.4
Shareholders' equity / share, cents *	75.5	76.1
Share issue adjusted number of shares	86,290,467	86,163,919
Number of shares at the end of period	86,316,766	86,316,766
Number of shares outstanding	86,290,467	86,290,467
Company's possession of its own shares, end of period	26,299	26,299
Return on equity, %	9.3	6.1
Return on investment, %	8.0	7.0
Equity ratio,%	43.7	57.8
Net gearing,%	72.9	5.0

\*) In line with IFRS standards, the MEUR 15 (31 December 2014: 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 review period has been deducted when calculating earnings per share.

## Board's proposal for distribution of profit

CapMan Plc's policy is to distribute at least 60% of earnings per share as dividends. CapMan Plc's Board of Directors will propose to the Annual General Meeting to be held on 16 March 2016 that a dividend of EUR 0.07 per share will be paid to shareholders, equivalent to a total of approx. MEUR 6.0. A dividend of EUR 0.06 per share, totalling MEUR 5.2, was paid for 2014. CapMan Plc's distributable assets amounted to MEUR 39.3 on 31 December 2015 (MEUR 34.2 on 31 December 2014).

## Capital under management as of 31 December 2015, fundraising status and service business during the year

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.

Capital under management was MEUR 2,805.3 as of 31 December 2015 (31 December 2014: MEUR 2,955.7). The amount decreased due to exits completed in 2015. Of the total capital under management, MEUR 1,341.1 (MEUR 1,466.3) was held in funds making investments in portfolio companies and MEUR 1,464.2 (MEUR 1,489.4) in real estate funds.

CapMan's newest Credit fund targets first closing in the first half of 2016.

CapMan's Fund Advisory team became Scala Fund Advisory in early 2016. Scala offers private equity fundraising and advisory services for private equity fund managers and institutional investors globally. Scala has several external mandates, which have generated advisory fees in 2015. Scala is an independent partnership part of CapMan Group.

CaPS develops its member companies' purchasing activities. The purchasing scheme has continued growing in 2015 and the member companies employ a total of 50,000 people with a combined turnover of BEUR 10. We expect the



fees generated by CaPS to continue growing through geographic expansion as well as new members and purchasing categories.

CapMan has also stated monetising services related to fund management. The stringent regulatory environment creates possibilities for established companies like CapMan with sufficient know-how and resources to offer services related to among others fund establishment, fund management and valuation to smaller players in the industry.

CapMan's various service offerings have significant growth potential and are expected to increase CapMan's fee income in the long term.

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 AGM 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 2016 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 2016 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 18 March 2015.

### **Personnel**

CapMan employed a total of 101 people as of 31 December 2015 (31 December 2014: 106), of whom 67 (68) 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 in 2015. Share capital totalled EUR 771,586.98 as of 31 December 2015. The number of B shares was 80,566,766 and that of A shares 5,750,000 as of 31 December 2015.

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

### **Shareholders**

The number of CapMan Plc shareholders decreased by 2% from 2014 and totalled 6,660 as of 31 December 2015 (31 December 2014: 6,816).

### **Company shares**

As of 31 December 2015, 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 26,299 as of 31 December 2015 (31 December 2014: EUR 21,828). 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 key personnel. 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 0.82 (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 1.10 (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 is EUR 1.12 (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 1,225,000 stock option entitlements under the Option Programme 2013A, a total of 1,208,334 stock option entitlements under the Option Programme 2013B and a total of 1,257,291 stock option entitlements under the Option Programme 2013C had been allocated by 31 December 2015.

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 1.00 on 31 December 2015 (31 December 2014: EUR 0.83). The trade-weighted average price during the year was EUR 1.00 (EUR 1.04). The highest price paid was EUR 1.09 (EUR 1.23) and the lowest EUR 0.83 (EUR 0.80). The number of CapMan Plc B shares traded totalled 13.7 million (19.6 million), valued at MEUR 13.8 (MEUR 20.4).

The market capitalisation of CapMan Plc B shares as of 31 December 2015 was MEUR 80.6 (31 December 2014: MEUR 66.5). The market capitalisation of all company shares, including A shares valued at the closing price of B shares, was MEUR 86.3 (MEUR 71.2).

## Decisions taken by the Annual General Meeting for 2015 and organising meeting held by the Board of Directors

The decisions have been described in detail in two stock exchange releases published on 18 March 2015.

## Publication of the Financial Statements and the Report of the Board of Directors, and the Annual General Meeting for 2016

CapMan Group's Financial Statements and the Report of the Board of Directors for 2015 will be published as part of the company's Annual Report for 2015 in February 2016 during week 8. CapMan Plc's 2016 Annual General



Meeting will be held on Wednesday 16 March 2016 at 10:00 am in Helsinki. The Notice to the Annual General Meeting and other proposals of the Board of Directors to the Annual General Meeting are published by 24 February the latest. Complete financial statements, as required under the terms of the Finnish Companies Act, will be available on CapMan's website by 24 February 2016 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 2015 during week 8 and will be available on the company's website by 24 February 2016 at the latest.

### **Other significant events in 2015**

The CapMan Mezzanine V fund completed a mezzanine investment in Lumene in December, which resulted in the fund transferring to the value creation and exit phase.

In September, CapMan's former portfolio company Inflight Service repaid a vendor loan that had been granted by the exiting funds managed by CapMan. The result impact of the repayment for CapMan's result for 2015 was MEUR 1.2 in carried interest income (net). The impact on CapMan's cash flow was MEUR 1.9.

Funds managed by CapMan completed the sale of their ownership in Cederroth Intressenter AB in August. The transaction contributed MEUR 8 to CapMan Group's 2015 cash flow.

In July, funds managed by CapMan sold their holdings in Silex Microsystems AB, an independent MEMS (Micro Electro Mechanical Systems) foundry. The transaction had a positive impact on CapMan Group's result for the second quarter of 2015 through a total of approx. MEUR 1.5 in carried interest income (net) and fair value changes. The cash flow contribution of the transaction was MEUR 2.

In May, CapMan announced its acquisition of 4.4 million shares in Norvestia Plc from Kaupthing h.f. The acquired shares represent a total of 28.7% of all shares and votes outstanding in Norvestia. Norvestia became an associated company of CapMan as a result of the transaction.

In March, CapMan updated its financial objectives. CapMan's target for return on equity is over 20% p.a. (previously over 20% p.a.) and the target for equity ratio is 45–60% (previously at least 60%). According to CapMan's new dividend policy, the dividend pay-out ratio is at least 60% of the earnings per share (previously at least 50% of net profit).

In January, funds managed by CapMan announced the sale of their holding in Symbio S.A., a provider of outsourced product development services. The transaction had a positive impact on CapMan Group's result for 2015 through approx. MEUR 1 of carried interest income from the exiting funds. The transaction contributed some EUR 1.2 million to CapMan Group's 2015 cash flow.

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

All portfolio companies of CapMan Public Market fund have been sold as of January. CapMan receives carried interest income of MEUR 1.2 from the fund in 2016.

CapMan's Fund Advisory team became Scala Fund Advisory in January 2016. Scala offers private equity advisory services globally to private equity fund managers and institutional investors in the asset class. Scala is an independent partnership of CapMan.

Additional operations of the funds are described in Appendix 2.



## 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 stock market development and the valuation of growth equity investments affect CapMan's valuation of its associated company Norvestia.

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 and Services business involve uncertainty especially related to the 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 timing of fees from fund advisory activities are difficult to predict due to the nature of the business.

The CapMan Real Estate I fund transferred into carry in 2007. Of the MEUR 27.4 carried interest paid in 2007, part 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. 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, given that the exit plans materialise.

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 regulatory initiatives (e.g. Basel III and Solvency II) may limit the ability of European banks and insurance companies to invest in private equity funds, and could therefore impact CapMan's fundraising activity. The increased complexity of the regulatory environment pertaining to Alternative Investment Funds and their managers, and the heavier reporting obligations may lead to higher expenses related to fund management.

## Business environment

There is widespread interest in alternative investments and the capital allocated to the asset class has increased significantly in the last few years.<sup>1</sup> The low interest rate environment and uncertainty pertaining to the cyclicity of the stock market drive investors to look for alternative returns. Generous distributions from private equity funds compared to capital calls enable new private equity investments for institutional investors and encourage additional growth of the asset class in the medium term.

The global fundraising for private equity funds has remained strong and the competition for capital between funds is intense. The year 2015 saw the establishment of larger, but fewer, funds compared to previous years. Fundraising activity in Europe has slowed down somewhat, reflecting large pools of dry powder available in the market.<sup>2</sup>

The holding periods of Buyout funds have shortened in 2015 after six years of lengthening. Shorter holding periods are a testament to good exit conditions<sup>3</sup> and there was a record number of private equity-backed IPOs in the

<sup>1</sup> Preqin Private Equity Spotlight December 2015

<sup>2</sup> Preqin Fundraising Update 2015

<sup>3</sup> Preqin Private Equity Spotlight December 2015



Nordic countries in 2015.<sup>4</sup> M&A activity slowed down in the Nordic countries in the second half of the year as market volatility increased.<sup>5</sup> The competition for interesting acquisition targets is intense and the ability to add value is increasingly important. Growth investment through minority stakes has become increasingly popular. Denmark and Sweden are the most popular Nordic regions to invest in.

The transaction volume in the Swedish property market totalled EUR 13.4 billion, which is 7% less than what was recorded in 2014. In Denmark real estate turnover amounted to EUR 4.3 billion in 2015 corresponding a 5% year-over-year increase. The total value of transactions in the Finnish property market increased by 50% from 2014 amounting to EUR 5.5 billion in 2015.<sup>6</sup>

Although the transaction activity in the Swedish property market declined from the previous year, the 2015 volume was still well above the long-term average of approximately EUR 10 billion and yields remained on a record low level. In addition, the amount of portfolio transactions increased for the sixth year in a row mirroring the state of the Swedish investment market. The market activity remained robust also in Denmark, and yields compressed further in the prime property segment. The price growth and investment activity in Denmark can be largely attributed to the increased investment appetite from foreign investors who have acquired sizable assets and portfolios in recent quarters. Due to the challenging macro-economic situation in Finland, capital flows targeted mainly prime assets in the capital region. Also well-located secondary properties featuring defensive characteristics gained some traction among investors, but the demand for pure value-add properties is still very limited.<sup>7</sup>

In Sweden the macro economy is performing relatively well and prime rents grew firmly through 2015 reaching a record high level at the year-end. The CBD vacancy was almost non-existent supporting the positive rent development. The occupier demand continued strong also in secondary locations causing rents to increase from the previous year. In Denmark both office and retail rents increased modestly in 2015 supported by the gradually improving Danish economy. Also residential rents and prices continued on the growth path demonstrating the strong market fundamentals of the Greater Copenhagen residential market. The no-growth environment has affected the occupancy market in Finland. Office rents dropped slightly in the CBD year-over-year while in the secondary locations rents remained largely unchanged, but vacancy rates increased. While the office sector has been hurt by the lack of growth industries and many lay-offs materialized both in the private and public sector, the retail sector continues to be negatively affected by low consumer confidence, increased unemployment, and low wage growth.<sup>8</sup>

Regulation in the banking sector and limited access to financing has increased interest in alternative debt financing for mid-sized enterprises and the demand for alternative debt is growing in Europe.<sup>9</sup> Commitments to alternative debt funds investing in Europe reached record levels in 2015.<sup>10</sup>

After a significant downturn in the first half of 2015, the Russian economy has demonstrated some signs of stabilisation. A broad-based pick-up in the economic activity is unlikely in the coming months as the country's GDP is expected to contract further in 2016.<sup>11</sup> The economic situation has not yet had a material impact on CapMan Russia's portfolio companies apart from the fluctuation in euro-rouble exchange rate and the team is actively exploring attractive investment opportunities by taking advantage of the decreased competition in the market and attractive valuations, among others. Non-strategic sectors serving Russia's expanding middle class such as IT, B2B

<sup>4</sup> ArgentumNordic Private Equity Report H1 2015

<sup>5</sup> Unquote Annual Buyout Review 2015

<sup>6</sup> CBRE Investment Market View Q4 2015 / KTI

<sup>7</sup> CBRE Investment Market View Q4 2015 / KTI / CapMan Real Estate

<sup>8</sup> Newsec (Datscha), KTI, Sadolin & Albaek December 2015

<sup>9</sup> Preqin Private Debt Outlook Q4 2015

<sup>10</sup> Preqin Fundraising Update 2015

<sup>11</sup> Focus Economics January 2016



services, and healthcare that are the investment focus of CapMan Russia are still expected to continue their growth.

## **Outlook for 2016**

CapMan has updated its guidance policy. In line with the new policy, CapMan typically provides general descriptive statements related to the general outlook of its business and its sources of income in lieu of estimates. CapMan's full disclosure policy is available here: <http://www.capman.com/capman-group/governance/disclosure>.

The Management Company and Services business is profitable before carried interest income and any possible non-recurring expenses related to acquisitions or larger development projects. CapMan expects fees from services to continue growing and to constitute a larger share of overall fee income in 2016 compared to 2015.

A significant component contributing to CapMan's result is carried interest income. 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. The current portfolio holds several investments, which are in exit process, although the exact timing of such exits may fluctuate.

The fair value development of CapMan's investments have a substantial impact on CapMan's overall result. The development of industries and local economies, inflation development, valuation multiples of peer companies, exchange rates and various other factors outside of CapMan's control influence fair value development in addition to company and real estate specific development, and the fair value development of the overall portfolio depends on the interplay of these factors. For a future outlook on Norvestia, CapMan refers to the assessment published by Norvestia in its own reports. As a consequence, CapMan refrains from providing projections related to the fair value development of its investments.

**The CapMan Group will publish its Interim Report for 1 January – 31 March 2016 on Wednesday, 4 May 2016.**

Helsinki, 4 February 2016

CAPMAN PLC  
Board of Directors

**Further information:**

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The logo for CapMan, featuring the word "CapMan" in a stylized, serif font. The "C" is large and prominent, and the "Man" is in a smaller, similar font.

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

Appendix 1: The CapMan Group's funds under management as of 31 December 2015, MEUR

Appendix 2: Operations of CapMan's funds under management January–December 2015

Appendix 3: Description of CapMan's business operations

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## Accounting principles

The Financial Statement Bulletin has been prepared in accordance with the International Financial Reporting Standards (IFRS). The information presented in the Financial Statements Bulletin is based on the audited CapMan 2015 financial statements.

## GROUP STATEMENT OF COMPREHENSIVE INCOME (IFRS)

€ ('000)	10-12/15	10-12/14	1-12/15	1-12/14
<b>Turnover</b>	<b>7,105</b>	16,347	<b>31,767</b>	39,475
Other operating income	<b>28</b>	56	<b>314</b>	226
Personnel expenses	<b>-4,003</b>	-6,541	<b>-17,066</b>	-17,804
Depreciation and amortisation	<b>-86</b>	-90	<b>-322</b>	-394
Other operating expenses	<b>-2,620</b>	-3,505	<b>-10,574</b>	-11,975
Fair value changes of investments	<b>4,663</b>	-2,157	<b>5,152</b>	-3,211
<b>Operating profit</b>	<b>5,087</b>	4,110	<b>9,271</b>	6,317
Financial income and expenses	<b>-1,204</b>	-313	<b>-2,875</b>	-1,412
Share of the income of investments accounted for using the equity method	<b>53</b>	40	<b>53</b>	40
<b>Profit before taxes</b>	<b>3,936</b>	3,837	<b>6,449</b>	4,945
Income taxes	<b>107</b>	-554	<b>-395</b>	-980
<b>Profit for the period</b>	<b>4,043</b>	3,283	<b>6,054</b>	3,965
<b>Other comprehensive income:</b>				
Translation differences	<b>22</b>	14	<b>-41</b>	11
<b>Total comprehensive income</b>	<b>4,065</b>	3,297	<b>6,013</b>	3,976
<b>Profit attributable to:</b>				
Equity holders of the company	<b>4,043</b>	3,283	<b>6,054</b>	3,965
<b>Total comprehensive income attributable to:</b>				
Equity holders of the company	<b>4,065</b>	3,297	<b>6,013</b>	3,976
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>				
Earnings per share, cents	<b>4.4</b>	3.4	<b>5.9</b>	3.4
Diluted, cents	<b>4.4</b>	3.4	<b>5.8</b>	3.4

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

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## GROUP BALANCE SHEET (IFRS)

€ ('000)	31.12.15	31.12.14
<b>ASSETS</b>		
<b>Non-current assets</b>		
Tangible assets	189	236
Goodwill	6,204	6,204
Other intangible assets	487	756
Investments accounted for using the equity method	95	42
Investments at fair value through profit and loss		
Investments in funds	47,249	55,258
Other financial assets	48,784	121
Investments in joint ventures	7,651	9,014
Receivables	6,062	3,250
Deferred income tax assets	4,400	4,097
	<b>121,121</b>	<b>78,978</b>
<b>Current assets</b>		
Trade and other receivables	6,637	5,959
Other financial assets at fair value through profit and loss	306	319
Cash and bank	21,576	28,650
	<b>28,519</b>	<b>34,928</b>
<b>Total assets</b>	<b>149,640</b>	<b>113,906</b>

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€ ('000)	31.12.15	31.12.14
<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	27,397	27,175
Translation difference	96	137
Retained earnings	-2,048	-1,485
<b>Total equity</b>	<b>65,185</b>	<b>65,567</b>
<b>Non-current liabilities</b>		
Deferred income tax liabilities	1,958	1,976
Interest-bearing loans and borrowings	69,389	27,247
	<b>71,347</b>	<b>29,223</b>
<b>Current liabilities</b>		
Trade and other payables	13,108	13,734
Interest-bearing loans and borrowings	0	5,000
Current income tax liabilities	0	382
	<b>13,108</b>	<b>19,116</b>
<b>Total liabilities</b>	<b>84,455</b>	<b>48,339</b>
<b>Total equity and liabilities</b>	<b>149,640</b>	<b>113,906</b>

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## GROUP STATEMENT OF CHANGES IN EQUITY

€ ('000)	Attributable to the equity holders of the Company					Total
	Share capital	Share premium account	Other reserves	Translation differences	Retained earnings	
Equity on 1 January 2014	772	38,968	26,107	126	-1,112	64,861
Profit 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					-960	-960
Other changes					30	30
Equity on 31 December 2014	772	38,968	27,175	137	-1,485	65,567
Equity on 1 January 2015	772	38,968	27,175	137	-1,485	65,567
Profit for the year					6,054	6,054
Other comprehensive income for the year						
Currency translation differences				-41		-41
Total comprehensive income for the year				-41	6,054	6,013
Options			222		25	247
Dividends					-5,177	-5,177
Hybrid bond, interest					-960	-960
Other changes					-505	-505
<b>Equity on 31 December 2015</b>	<b>772</b>	<b>38,968</b>	<b>27,397</b>	<b>96</b>	<b>-2,048</b>	<b>65,185</b>

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## STATEMENT OF CASH FLOW (IFRS)

€ ('000)	1-12/15	1-12/14
<b>Cash flow from operations</b>		
Profit for the financial year	6,054	3,965
Adjustments	2,996	9,439
<b>Cash flow before change in working capital</b>	<b>9,050</b>	13,404
Change in working capital	-3,309	1,729
Financing items and taxes	-5,169	-3,451
<b>Cash flow from operations</b>	<b>572</b>	11,682
<b>Cash flow from investments</b>	<b>-39,611</b>	2,089
<b>Cash flow before financing</b>	<b>-39,039</b>	13,771
Dividends paid	-5,177	-3,452
Other net cash flow	37,142	1,327
<b>Financial cash flow</b>	<b>31,965</b>	-2,125
<b>Change in cash funds</b>	<b>-7,074</b>	11,646
Cash funds at start of the period	28,650	17,004
<b>Cash funds at end of the period</b>	<b>21,576</b>	28,650

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## SEGMENT INFORMATION

The Group reports two segments: Management Company and Services business and Investment business

10-12/2015	Management Company and Services business			Investment	Total
	CapMan Private Equity	CapMan Real Estate	Total	business	
€ ('000)					
Turnover	4,864	2,241	7,105	0	7,105
Operating profit	414	10	424	4,663	5,087
Profit/loss for the period	118	-15	103	3,940	4,043

10-12/2014	Management Company and Services business			Investment	Total
	CapMan Private Equity	CapMan Real Estate	Total	business	
€ ('000)					
Turnover	11,557	4,790	16,347	0	16,347
Operating profit/loss	5,418	1,376	6,794	-2,684	4,110
Profit/loss for the period	4,340	1,097	5,437	-2,154	3,283

1-12/2015	Management Company and Services business			Investment	Total
	CapMan Private Equity	CapMan Real Estate	Total	business	
€ ('000)					
Turnover	22,933	8,834	31,767	0	31,767
Operating profit	3,487	632	4,119	5,152	9,271
Profit for the period	2,790	506	3,296	2,758	6,054
Assets	6,729	206	6,935	114,186	121,121
Total assets include:					
Investments accounted for using the equity method	0	0	0	95	95
Investments in joint ventures	0	0	0	7,651	7,651

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1-12/2014	Management Company and Services business			Investment business	Total
	CapMan Private Equity	CapMan Real Estate	Total		
€ ('000)					
Turnover	28,104	11,371	39,475	0	39,475
Operating profit/loss	7,230	3,209	10,439	-4,122	6,317
Profit/loss for the period	5,792	2,569	8,361	-4,396	3,965
Assets	6,551	766	7,317	71,661	78,978
Total assets include:					
Investments accounted for using the equity method	0	0	0	42	42
Investments in joint ventures	0	0	0	9,014	9,014

### 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 0.07 per share to be paid to shareholders, equivalent to a total of approx. MEUR 6.0. A dividend of EUR 0.06 per share, totalling MEUR 5.2 million in all, was paid for 2014.

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## NON-CURRENT ASSETS

€ ('000)	31.12.15	31.12.14
<b>Fund investments at fair value through profit and loss on Jan 1</b>	<b>55,258</b>	64,122
Additions	<b>4,355</b>	9,689
Distributions	<b>-10,745</b>	-12,149
Fair value gains/losses on investments	<b>-1,619</b>	-6,404
<b>Investments in funds at fair value through profit and loss at end of the period</b>	<b>47,249</b>	55,258
Investments in funds by investment area at the end of period		
Buyout	<b>21,921</b>	30,584
Credit	<b>3,061</b>	2,344
Russia	<b>3,799</b>	3,955
Real Estate	<b>9,751</b>	8,000
Other	<b>7,509</b>	8,315
Fund of funds	<b>1,208</b>	2,060
<b>In total</b>	<b>47,249</b>	55,258

Investments in funds include the subsidiary, CapMan Fund Investments SICAV-SIF, with a fair value of 32 045 thousand euros.

€ ('000)	31.12.15	31.12.14
<b>Other investments at fair value through profit and loss on Jan 1</b>	<b>121</b>	94
Additions	<b>44,335</b>	27
Disposals	<b>-66</b>	0
Fair value gains/losses on investments	<b>4,394</b>	0
<b>Other investments at fair value through profit and loss at end of the period</b>	<b>48,784</b>	121

Additions for the period include Norvestia's shares at fair value MEUR 48.7. CapMan's share represents 28.7% of Norvestia's total shares. The fair value change of the associated company is booked in CapMan's income statement based on the change in Norvestia's reported adjusted NAV / share. The associated company has been fair valued through profit and loss because CapMan has been qualified as an investment entity by IFRS 10.

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€ ('000)	31.12.15	31.12.14
<b>Investments in joint ventures at fair value through profit and loss on Jan 1</b>	<b>9,014</b>	9,583
Disposals	-1,307	0
Fair value gains/losses on investments	-56	-569
<b>Investments in joint ventures at fair value through profit and loss at end of the period</b>	<b>7,651</b>	9,014

CapMan has changed the presentation of investments in joint ventures. Joint ventures are accounted for in the Balance sheet as Investments at fair value through profit and loss (previously Investments accounted for using the equity method). In the Income statement investments in joint ventures are accounted for as Fair value changes of investments (previously Share of the income of investments accounted for using the equity method). The financials for the comparable period have been revised accordingly to account for the changes in presentation.

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## THE GROUP'S ASSETS MEASURED AT FAIR VALUE AT 31 DECEMBER 2015

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

€ ('000)	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit and loss</b>				
<b>Investments in funds</b>				
at Jan 1		2,993	52,265	55,258
Additions		37	4,318	4,355
Distributions		-2,433	-8,312	-10,745
Fair value gains/losses at the end of period		-49	-1,570	-1,619
		548	46,701	47,249
<b>Other investments</b>				
at Jan 1			121	121
Additions			44,335	44,335
Disposals			-66	-66
Fair value gains/losses at the end of period			4,394	4,394
			48,784	48,784
<b>Investments in joint ventures</b>				
At Jan 1			9,014	9,014
Disposals			-1,307	-1,307
Fair value gains/losses at the end of period			-56	-56
			7,651	7,651

Fund investments in Level 2 are investments in the CapMan Public Market fund. All other fund investments are included in Level 3. Other investments reported under Level 3 include Norvestia's shares. Investments in joint ventures reported in Level 3 include investments in Maneq Investments Luxembourg. There were no transfers from one level to another during the year.

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The group's assets measured at fair value at 31.12.2014

€ ('000)	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit and loss</b>				
<b>Investments in funds</b>				
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 at the end of period		225	-6,629	-6,404
		2,993	52,265	55,258
<b>Other investments</b>				
at Jan 1			121	121
at the end of period			121	121
<b>Investments in joint ventures</b>				
at Jan 1			9,583	9,583
Fair value gains/losses at the end of period			-569	-569
			9,014	9,014

Fund investments in Level 2 are investments in CapMan Public Market fund. All other fund investments are included in Level 3. Investments in joint ventures reported in Level 3 include investments in Maneq Investments Luxembourg. There were no transfers from one level to another during the year.

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## Sensitivity analysis of Level 3 investments

Investment area	Fair value MEUR 31.12.2015	Valuation methodology	Unobservable inputs	Used input value (weighted average)	Fair value sensitivity (MEUR) to a +/- 10% change in input value
Norvestia	48.7	Net assets (amended NAV based on Norvestia's stock exchange releases)	NA*	NA*	NA*
Buyout	21.9	Peer group	Peer group earnings multiples	EV/EBITDA 2015 8.6x	+/-4.1
			Discount to peer group multiples	21%	-1.2 / +1.1
Real Estate	9.8	Valuation by an independent valuer	NA*	NA*	NA*
Investments in joint ventures	7.7	Discounted cash flows	Discount rate	15%	-0.3 / value increase based on a change in the discount rate is not booked
Russia	3.8	Peer group	Peer group earnings multiples	EV/EBITDA 2015 11.6x	+/- 0.3
			Discount to peer group multiples	36%	-/+ 0.2
Credit	3.1	Discounted cash flows	Discount rate; market rate and risk premium	11%	- 0.1 / value increase based on a change in the discount rate is not booked
Other investment areas	5.5	Peer group	Peer group earnings multiples	EV/EBITDA 2015 10.9x	+/- 0.4
			Discount to peer group multiples	32%	-/+ 0.2



CapMan has made some investments also in funds that are not managed by CapMan Group companies. The fair values of these investments in CapMan's balance sheet are based on the valuations by the respective fund managers. No separate sensitivity analysis is prepared by CapMan for these investments.

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 a value increase driven by a change in the discount rate could be realised. 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.

The fair value change of the associated company Norvestia is booked in CapMan's income statement, based on the change in Norvestia's adjusted NAV as communicated in Norvestia's stock exchange releases. CapMan makes no adjustments to Norvestia's reported figures.

The value of investments in joint ventures consist almost entirely of investments in Maneq Investments Luxembourg. The investment is valued based on discounted cash flows, nevertheless so that any potential value increase is booked only when it is realised. There is no functional secondary market where the value increase based on the change in discount rates would be possible to realise for these types of investments. The investment is made through several separate instruments and their values are co-dependent. Therefore the investment has been valued as one entity.

\*) Because Norvestia's fair value is based on the adjusted NAV as communicated by Norvestia, and the real estate properties are valued using third party valuation information, CapMan prepares no sensitivity analysis for the inputs used in these valuations. The quantitative unobservable inputs are not reasonably available to CapMan.

## NON-CURRENT LIABILITIES

€ ('000)	31.12.15	31.12.14
Interest bearing loans at end of the period	69,389	27,247

## 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.

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## PERSONNEL

<b>By country</b>	<b>31.12.15</b>	31.12.14
Finland	<b>67</b>	68
Sweden	<b>20</b>	23
Norway	<b>0</b>	1
Russia	<b>10</b>	10
Luxembourg	<b>1</b>	1
United Kingdom	<b>3</b>	3
<b>In total</b>	<b>101</b>	106

## CONTINGENT LIABILITIES

<b>€ ('000)</b>	<b>31.12.15</b>	31.12.14
Leasing agreements	<b>2,018</b>	3,523
Securities and other contingent liabilities	<b>95,108</b>	60,002
Remaining commitments to funds	<b>25,195</b>	30,250
Remaining commitments by investment area		
Buyout	<b>13,018</b>	14,632
Credit	<b>2,487</b>	3,716
Russia	<b>1,921</b>	2,288
Real Estate	<b>2,272</b>	3,723
Other	<b>4,751</b>	4,725
Fund of funds	<b>746</b>	1,166
<b>In total</b>	<b>25,195</b>	30,250

## COMMITMENTS TO RELATED PARTIES

<b>€ ('000)</b>	<b>31.12.15</b>	31.12.14
Commitments to Maneq funds	<b>4,075</b>	4,090

CapMan estimates that MEUR 10-15 of the remaining commitments will be called in the next 4 years, particularly due to unused investment capacity of the older funds.

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## TURNOVER AND PROFIT QUARTERLY

<b>2015</b>					
<b>MEUR</b>	<b>1-3/15</b>	<b>4-6/15</b>	<b>7-9/15</b>	<b>10-12/15</b>	<b>1-12/15</b>
Turnover	7.3	8.5	8.9	7.1	31.8
Fees	6.8	6.5	7.0	7.1	27.4
Carried interest	0.5	2.0	1.9	0.0	4.4
Other operating income	0.0	0.1	0.2	0.0	0.3
Operating expenses	-6.8	-7.4	-7.1	-6.7	-28.0
Fair value changes of investments	0.4	1.6	-1.5	4.7	5.2
Operating profit / loss	0.9	2.8	0.5	5.1	9.3
Financial income and expenses	-0.4	-0.6	-0.7	-1.2	-2.9
Share of the income of investments accounted for using the equity method	0.0	0.0	0.0	0.1	0.1
Profit / loss before taxes	0.5	2.1	-0.1	4.0	6.5
Profit / loss for the period	0.5	1.7	-0.2	4.1	6.1

  

<b>2014</b>					
<b>MEUR</b>	<b>1-3/14</b>	<b>4-6/14</b>	<b>7-9/14</b>	<b>10-12/14</b>	<b>1-12/14</b>
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	1.3	0.0	-2.4	-2.1	-3.2
Operating profit / loss	1.5	1.4	-0.7	4.1	6.3
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	0.0	0.0	0.0	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

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## APPENDIX 1: THE CAPMAN GROUP'S FUNDS UNDER MANAGEMENT AS OF 31 DECEMBER 2015, MEUR

The tables below show the status of the funds managed by CapMan as of 31 December 2015. 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 31.12.2015	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> , FV V, FM IIIB, CME VII B <sup>6)</sup> , FM III A, CME VII A <sup>6)</sup> , CME Sweden <sup>6)</sup>									
<b>Total</b>	<b>622.6</b>	<b>617.3</b>	<b>37.0</b>	<b>12.2</b>	<b>1.0</b>	<b>977.7</b>	<b>34.3</b>		<b>10-20%</b>
<b>Funds in exit and value creation phase</b>									
CMB VIII <sup>2) 6)</sup>	440.0	402.8	110.3	81.1	0.6	378.2		254.7	12 %
CMPM	138.0	134.9	19.0	16.0	0.0	217.3		28.8	10 %
CMR	118.1	116.1	69.5	74.4	1.4	22.0		143.3	3.4 %
CMB IX	294.6	286.7	211.5	229.6	0.7	44.8		351.6	10 %
CMM V	95.0	84.4	53.0	58.8	0.2	43.1		38.4	10 %
<b>Total</b>	<b>1,085.7</b>	<b>1,024.9</b>	<b>463.3</b>	<b>459.9</b>	<b>2.9</b>	<b>705.4</b>			
<b>Funds in active investment phase</b>									
CMB X <sup>2)</sup>	244.5	177.6	144.1	167.0	3.0	14.0			8 %
CMR II	99.1	25.8	18.8	9.2	0.2	0.8			8 %
<b>Total</b>	<b>343.6</b>	<b>203.4</b>	<b>162.9</b>	<b>176.2</b>	<b>3.2</b>	<b>14.8</b>			
<b>Fund with no carried interest potential for CapMan</b>									
SWE LS <sup>3)</sup> , SWE Tech <sup>2), 3)</sup> , CME VII C <sup>6)</sup> , FM III C, CMM IV <sup>4)</sup> , CMLS IV, CMT 2007 <sup>2)</sup>									
<b>Total</b>	<b>540.4</b>	<b>512.7</b>	<b>96.4</b>	<b>81.2</b>	<b>3.5</b>	<b>409.8</b>			
<b>Total private equity funds</b>	<b>2,592.3</b>	<b>2,358.3</b>	<b>759.6</b>	<b>729.5</b>	<b>10.6</b>	<b>2,107.7</b>	<b>34.3</b>		

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## 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 31.12.2015	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	129.5	122.3	124.0		55.7		174.0	12%
Debt financing	450.0	301.7	175.2	175.2					
<b>Total</b>	<b>600.0</b>	<b>431.2</b>	<b>297.5</b>	<b>299.2</b>	<b>0.8</b>	<b>55.7</b>			
CMRHE									
Equity and bonds	332.5	325.1	449.7	461.6		86.4		465.1	12%
Debt financing	617.5	542.6	439.4	439.4					
<b>Total</b>	<b>950.0</b>	<b>867.7</b>	<b>889.1</b>	<b>901.0</b>	<b>-15.3</b>	<b>86.4</b>			
<b>Total</b>	<b>1,550.0</b>	<b>1,298.9</b>	<b>1,186.6</b>	<b>1,200.2</b>	<b>-14.5</b>	<b>142.1</b>			
<b>Funds in active investment phase</b>									
CMNRE									
Equity and bonds	273.3	160.4	139.0	177.0		14.3			8%
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>273.3</b>	<b>160.4</b>	<b>139.0</b>	<b>177.0</b>	<b>14.4</b>	<b>14.3</b>			
<b>Funds with no carried interest potential to CapMan</b>									
CMRE I <sup>5)</sup>									
Equity and bonds	200.0	200.0	69.7	38.2		207.8	27.4		
Debt financing	300.0	276.6	65.5	65.5					
<b>Total</b>	<b>500.0</b>	<b>476.6</b>	<b>135.2</b>	<b>103.7</b>	<b>7.5</b>	<b>207.8</b>	<b>27.4</b>		
<b>Real Estate funds total</b>	<b>2,323.3</b>	<b>1,935.9</b>	<b>1,460.8</b>	<b>1,480.9</b>	<b>7.4</b>	<b>364.2</b>	<b>27.4</b>		

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### 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.

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### **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. When assessing the cash flow a fund needs in order to start generating carried interest, it should be noted that the capital of some funds has not yet been called and paid-in. After the previous distribution of profits, any new capital called in, as well as any annual preferential returns on it, must however be returned to investors before the new distribution of profits is 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 2015.
- 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 classified as a fund with no carried interest potential to CapMan. A total of some MEUR 5 of carried interest has not been entered in CapMan's profit but instead left in reserve in case that some of the carried interest would have to be returned to investors in the 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 2015

The operations of the private equity funds managed by CapMan during the year 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 two key investment areas in the Nordic countries and one in Russia. These take the form of mid-size buyouts (CapMan Buyout), mezzanine investments (CapMan Credit) and investments in mid-sized companies operating in Russia (CapMan Russia). The investment focus of CapMan's real estate funds is on properties in Finland and the other Nordic countries. CapMan also has three other investment areas (CapMan Technology, CapMan Life Science and CapMan Public Market<sup>12</sup>), which do not make new investments, but concentrate instead on developing the value of their existing portfolio companies. These three investment areas are reported under "Other" in Private Equity.

### CAPMAN PRIVATE EQUITY

#### Investments in portfolio companies in 2015

During the review period, funds managed by CapMan invested in three companies and made a couple of add-on investments in existing portfolio companies, totalling MEUR 41.5. The new investments were made by the CapMan Russia II fund in Maximum Education and the CapMan Mezzanine V fund in Delete Group and Lumene. Add-on investments were largely concentrated in portfolio companies held by CapMan's Russia and Buyout funds. Funds made nine new investments and several add-on investments valued at a total of MEUR 201.3 in 2014.

#### Exits from portfolio companies in 2015

During the year, funds exited Cederroth Intressenter, Symbio, Silex, Swereco, ÅF and B&B Tools and made partial exits from several funds. The combined acquisition cost of exits completed during the year was MEUR 130.4. In 2014, funds completed ten exits and several partial exits with a combined acquisition cost of MEUR 178.5.

#### Events after the end of the financial year

All remaining portfolio companies of CapMan Public Market fund have been sold as of January. CapMan receives carried interest income of MEUR 1.2 from the fund in 2016.

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<sup>12</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".



## CAPMAN REAL ESTATE

### **Investments in and commitments to real estate acquisitions and projects in 2015**

The CapMan Nordic Real Estate fund invested in the development of City Center BROEN, which is a shopping centre in Esbjerg, Denmark and the development of a residential area in Copenhagen, as well as an office building (Finsensvej 86), a residential, office and retail building (Vesterbrogade 80) and a residential and retail building (Kobmagergade 25) in central Copenhagen. The fund also acquired an office building to be converted into residential use in central Helsinki (Ruoholahdenkatu 4), an office building to be converted into a school in Southern Stockholm (Kabelverket 6) and a former office building to be converted into a hotel in central Helsinki (Yrjönkatu 13). The acquisition cost of the investments was MEUR 50.5 in total. Funds made add-on investments in several existing projects totalling MEUR 38.2. Real estate funds were committed to providing financing for real estate acquisitions and projects totalling MEUR 61.9 as of 31 December 2015. CapMan's real estate funds made a number of new and add-on investments totalling MEUR 85.6 in 2014, while commitments to finance new projects totalled MEUR 25.4 as of 31 December 2014.

### **Exits from real estate investments in 2015**

Real Estate funds exited office buildings in Helsinki and Sollentuna, north of Stockholm, with combined acquisition costs of MEUR 12.2. In 2014, CapMan's real estate funds realised two investment with the acquisition cost of MEUR 71.4.

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

There were no significant events for real estate funds after the end of the financial year.

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## FUND INVESTMENT ACTIVITIES IN FIGURES

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

	1-12/2015	1-12/2014
<b>New and add-on investments</b>		
Funds investing in portfolio companies	41.5	201.3
Buyout	10.2	155.7
Credit	23.0	31.0
Russia	7.3	11.3
+ Other	1.0	3.3
Real Estate funds	88.7	85.6
<b>Total</b>	<b>130.2</b>	<b>286.9</b>

	1-12/2015	1-12/2014
<b>Exits*</b>		
Funds investing in portfolio companies	130.4	178.5
Buyout	50.9	97.4
Credit	9.8	9.0
Russia	0.1	4.0
+ Other	69.6	68.1
Real Estate funds	12.2	71.4
<b>Total</b>	<b>142.6</b>	<b>249.9</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 61.9 as of 31 December 2015.

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### Funds' combined portfolio\* as of 31 December 2015, MEUR

	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio (fair value) %
Funds investing in portfolio companies	759.3	729.6	34.6
Real Estate funds	1,460.9	1,380.9	65.4
<b>Total</b>	<b>2,220.2</b>	<b>2,110.5</b>	<b>100.0</b>

Funds investing in portfolio companies			
Buvout	531.1	525.6	72.0
Credit	53.0	58.6	8.1
Russia	88.2	83.6	11.5
Other	87.0	61.6	8.4
<b>Total</b>	<b>759.3</b>	<b>729.6</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 544 for new and add-on investments as of 31 December 2015. Of their remaining capital, approx. MEUR 324 was earmarked for buyout investments (incl. mezzanine investments), approx. MEUR 14 for investments by the Credit team, approx. MEUR 61 for technology investments, approx. MEUR 3 for life science investments, approx. MEUR 104 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 153 which has been reserved for new investments and for the development of funds' existing investments.

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## APPENDIX 3: DESCRIPTION OF BUSINESS OPERATIONS

CapMan Group is a private equity fund manager operating in the Nordic countries and Russia.

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, or directly from the balance sheet. 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>13</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 and Services business and 2) an Investment business.

### 1) Management Company and Services business

In its Management Company and Services business, CapMan manages private equity funds that invest in Nordic and Russian mainly unlisted companies and Nordic real estate. CapMan raises capital for the funds from Nordic and international investors. In addition, CapMan offers Fund Advisory (Scala Fund Advisory) and Fund Management services to external funds and purchasing services (CaPS) to growth companies.

The Management Company and Services 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. Management fees generally represent a steady and highly predictable source of income. Fees, including retainers and success fees, are also generated from CapMan's service business comprising of CapMan Purchasing Scheme (CaPS), fundraising advisory services (Scala Fund Advisory) and services related to fund management. Fees generally cover CapMan's operating costs.

The second source of income of the Management Company and Services 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.). CapMan books carried interest income when an exit is completed from a fund that is in carry or which will enter carry as a consequence of the exit. The amount of carried interest generated depends on the timing of exits and the stage at which funds are in their life cycle.

### 2) Investment business

Through its Investment business, CapMan invests in the private equity asset class (funds and other investments). CapMan's most significant individual investment is a 28.7% stake in Norvestia Plc. Norvestia is a listed investment company with approx. 5,500 shareholders. The company makes growth equity investments in unlisted companies, among others, and market investments mainly in Nordic listed equity, hedge funds and bonds. CapMan also invests in its own funds.

<sup>13</sup> Bain & Company, Global Private Equity Report 2014



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. The fair value change of the associated company Norvestia is booked in CapMan's income statement based on the change in Norvestia's adjusted NAV as communicated in Norvestia's stock exchange releases. CapMan makes no adjustments to Norvestia's reported figures. Income 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.

CapMan