

CAPMAN PLC  
INTERIM REPORT  
1 JANUARY – 31 MARCH 2016



**Hotel St. George**  
CapMan Real Estate  
develops a five-star hotel  
in the Helsinki city centre

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## CAPMAN PLC INTERIM REPORT FOR 1 JANUARY–31 MARCH 2016

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

- Group turnover totalled MEUR 7.5 (Jan–Mar 2015: MEUR 7.3).
- Operating profit was MEUR 3.8 (MEUR 0.9).
- Profit before taxes was MEUR 3.0 (MEUR 0.5).
- Profit after taxes was MEUR 2.9 (MEUR 0.5).
- Earnings per share for the review period were 3.0 cents (0.3 cents).
- Since the beginning of the year we have raised more than MEUR 120 for real estate and credit strategies.

### Heikki Westerlund, CEO:

“Our year had a strong start. We have made progress in our growth initiatives by building a MEUR 80 residential portfolio for a large German investor, launching a MEUR 40 real estate product offering a stable income and finalising the establishment of a new credit fund. We are satisfied with our results for the first three months of the year, although our full potential is not yet reflected in the improvement. Our annual return on equity was at 17.9 per cent, which is close to our objective of at least 20 per cent.

Our five active investment strategies provide a good base for growing our specialised asset management business. The return on our own investments was good as the lengthy value creation process in our portfolio bore fruit. Our strategic investment in Norvestia has also generated good returns. The service business has continued growing. Relocations of offices in Moscow and Helsinki will have a positive effect on our cost structure. We proceed on our current strategic path with an objective to continuously improve our earnings per share.”

” *We are satisfied with our results for the first three months of the year, although our full potential is not yet reflected in the improvement.*”

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## Outlook for 2016

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 and an 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 according to investment strategies

implemented by its investment partnerships. CapMan raises capital for the funds from Nordic and international investors. In addition, CapMan offers fund advisory services through Scala Fund Advisory and purchasing services to companies in Finland and Sweden through its purchasing scheme CaPS. CapMan also offers fund management services to external alternative fund managers. The Management Company and Services business has two main sources of income: fees and carried interest. The fees include management fees related to CapMan's position as a fund management company as well as 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 changes 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 net asset value (NAV) as reported by Norvestia. 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 January–March 2016

The Group's turnover totalled MEUR 7.5 (January–March 2015: MEUR 7.3). Turnover increased slightly due to higher carried interest income compared to the corresponding period last year. Operating expenses totalled MEUR 6.8 (MEUR 6.8) and included approx. MEUR 0.3 of bonus provisions (MEUR 0.5) for the personnel based on CapMan's short term compensation scheme.

The Group's operating profit quadrupled from the comparable period and was MEUR 3.8 (MEUR 0.9).



The increase was mainly due to higher changes in the fair values of investments.

Financial income and expenses amounted to MEUR -0.8 (MEUR -0.4). Profit before taxes was MEUR 3.0 (MEUR 0.5) and profit after taxes was MEUR 2.9 (MEUR 0.5). The Group's comprehensive result was MEUR 2.9 (MEUR 0.4). Earnings per share were 3.0 cents (0.3 cents) after deducting the (net of tax) interest on the hybrid bond for the 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 and Services business

Turnover generated by the Management Company and Services business for the review period totalled MEUR 7.5 (MEUR 7.3). Fees totalled MEUR 6.5 (MEUR 6.8). In addition to management fees, fees recorded also included fees generated by CapMan's purchasing scheme (CaPS), Scala Fund Advisory and other services.

Carried interest income for the review period totalled MEUR 1.0 (MEUR 0.5) and was mainly due to exits from the CapMan Public Market fund.

The operating profit of the Management Company and Services business was MEUR 0.8 (MEUR 0.6). The profit for the review period was MEUR 0.6 (MEUR 0.5). The status of the funds managed by CapMan is presented in more detail in Appendix 1.

### Investment business

Total fair value changes of investments for January–March 2016 were MEUR 3.1 (January–March 2015: MEUR 0.4). Fair value changes of fund investments were MEUR 2.1 (MEUR 0.4) representing a 4.3% increase in value (+0.7% in January–March 2015). The positive change in the fair value of fund investments in the beginning of the year was mainly due to positive development of portfolio companies that are particularly significant for the overall development of CapMan's own fund investments.

The aggregate fair value of fund investments as of 31 March 2016 was MEUR 50.1 (31 March 2015: MEUR 56.1). The change was mainly due to significant exits completed after the comparable period. CapMan's share of the change in the net asset value of its associated company Norvestia was MEUR 1.0. The fair value of CapMan's investment in Norvestia was MEUR 46.2 on 31 March 2016. The fair value change of Maneq investments was MEUR 0.0 (MEUR 0.0).

Operating profit for the Investment business was MEUR 3.1 (MEUR 0.3) and profit for the review period was MEUR 2.2 (MEUR -0.0).

CapMan invested a total of MEUR 4.4 (MEUR 0.9) in its funds in the first three months of 2016. Investments were mostly allocated to the CapMan Buyout X, CapMan Buyout IX and CapMan Russia II funds as well as Kokoelmakeskus Ky, which has invested in KOy Mastolan Keskusvarasto. CapMan received distributions from funds totalling MEUR 1.0 (MEUR 0.3). The majority of the distributions came from the CapMan Public Market fund due to exits completed in the review period.

The amount of remaining commitments that have not yet been called totalled MEUR 24.9 as of 31 March 2016 (31 March 2015: MEUR 29.1). 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. CapMan invests 1-5% of the original capital in the new funds that it manages, depending on fund size and investor composition.

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 NAV as reported by Norvestia. 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 March 2016**

CapMan's balance sheet totalled MEUR 156.3 as of 31 March 2016 (31 March 2015: MEUR 116.5). The expansion of the balance sheet was due to the acquisition of shares in Norvestia. Non-current assets amounted to MEUR 121.4 (MEUR 79.8), of which goodwill totalled MEUR 6.2 (MEUR 6.2).

As of 31 March 2016, fund investments booked at fair value totalled MEUR 50.1 (MEUR 56.1 as of 31

March 2015). The NAV of Norvestia was MEUR 161.1 on 31 March 2016, of which the book value on CapMan's balance sheet was MEUR 46.2 based on CapMan's 28.7% ownership. The fair value of investments in joint ventures was MEUR 7.6 (MEUR 9.0) and consisted mainly of CapMan's investment in Maneq Investments Luxembourg. Long-term receivables amounted to MEUR 6.0 (MEUR 3.3).

Current assets amounted to MEUR 34.9 (MEUR 36.7). Liquid assets (cash in hand and at banks, plus other financial assets at fair value through profit and loss) amounted to MEUR 27.1 (MEUR 30.9).

CapMan's interest-bearing net debt amounted to MEUR 42.3 (MEUR 0.1). CapMan's total interest bearing debt as of 31 March 2016 is outlined in the table on the next page



	Debt amount 31 March 2016	Matures latest	Annual interest	Debt amount 31 March 2015
Bank financing	MEUR 15	Q2 2019		MEUR 6
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 10)			(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 March 2016.

Trade and other payables totalled MEUR 22.9 (MEUR 22.9).

The Group's cash flow from operations totalled MEUR 5.3 for the review period (MEUR 3.7). 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 -0.1 (MEUR -0.6) and includes, *inter alia*, the investment in Norvestia and fund investments and repaid capital received by the Group. Cash flow before financing totalled MEUR -5.2 (MEUR 3.1), while cash flow from financing was MEUR 0 (MEUR -1.2).

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## Key figures 31 March 2016

CapMan's equity ratio was 40.9 per cent as of 31 March 2016 (31 March 2015: 54.3 per cent), its return on equity 17.9 per cent (3.1 per cent), and its return on investment 11.6 per cent (4.2 per cent). The target levels for the company's equity ratio and return on equity are 45–60 per cent and over 20 per cent, respectively.

	31.3.16	31.3.15	31.12.15
Earnings per share, cents	3.0	0.3	5.9
Diluted, cents	3.0	0.3	5.8
Shareholders' equity / share, cents *	72.0	69.9	75.5
Share issue adjusted number of shares	86,290,467	86,290,467	86,290,467
Number of shares at the end of period	86,316,766	86,316,766	86,316,766
Number of shares outstanding	86,290,467	86,290,467	86,290,467
Company's possession of its own shares, end of period	26,299	26,299	26,299
Return on equity, %	17.9	3.1	9.3
Return on investment, %	11.6	4.2	8.0
Equity ratio, %	40.9	54.3	43.7
Net gearing, %	68.1	0.2	72.9

\*) In line with IFRS standards, the MEUR 15 (31 March 2015 and 31 December 2015: 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.

## Capital under management as of 31 March 2016, fundraising status and service business for the review period

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 2,731.8 as of 31 March 2016 (31 March 2015: MEUR 2,960.0). The amount decreased due to exits completed since the comparable period. Of the total capital under management, MEUR 1,311.5 (MEUR 1,470.6) was held in funds making investments in portfolio companies and MEUR 1,420.3 (MEUR 1,489.4) in real estate funds.

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

CapMan has continued developing its service business in 2016. CaPS develops its member companies' purchasing activities and fees obtained from the services are significant. We expect the fees generated by CaPS to continue growing through geographic expansion as well as new members and purchasing categories.

Scala Fund Advisory offers private equity fundraising and advisory services for private equity fund managers and institutional investors globally. Scala has several external mandates, which contribute to advisory fees in 2016. Scala is an independent partnership part of CapMan Group.

CapMan has also started 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.

### Decisions taken by the AGM

The Annual General Meeting (AGM) of CapMan Plc was held in Helsinki on 16 March 2016. The AGM approved the annual accounts for the 2015 financial year and discharged the company's Board of Directors and Chief Executive Officers from liability. The AGM approved all the proposals presented by the Board of Directors to the AGM. The AGM decided in accordance with the proposal of the Board of Directors that a dividend of EUR 0.07 per share should be paid to shareholders, and this was paid to shareholders on 1 April 2016.

The AGM elected five members to the Board of Directors for a term of office expiring at the end of the next AGM.

Karri Kaitue, Nora Kerppola, Claes de Neergaard, and Ari Tolppanen were re-elected to the Board. Dirk Beeusaert was elected as a new member to the Board.

PricewaterhouseCoopers Oy, authorized public accountants, was re-elected as the company's auditor, with Mikko Nieminen as responsible auditor.

More details on the decisions taken at the AGM can be found in the stock exchange release issued on 16 March 2016.

### 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 2017 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 2017 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 16 March 2016.

### Organisation of the Board of Directors

At its organising meeting held on 16 March 2016, the Board of Directors elected Karri Kaitue as Chairman and Nora Kerppola as Vice Chairman. The Board established an Audit Committee comprising Nora Kerppola (Chairman), Karri Kaitue and Claes de Neergaard, a Remuneration Committee comprising Karri Kaitue (Chairman), Dirk Beeusaert, and Claes de Neergaard, and a Nomination Committee comprising Karri Kaitue (Chairman), Dirk Beeusaert, and Ari Tolppanen.

### Personnel

CapMan employed a total of 101 people as of 31 March 2016 (31 March 2015: 105), of whom 66 (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 during the review period. Share capital totalled EUR





771,586.98 as of 31 March 2016. The number of B shares was 80,566,766 and that of A shares 5,750,000 as of 31 March 2016.

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 5% from the comparable period and totalled 7,194 as of 31 March 2016 (31 March 2015: 6,884).

### Company shares

As of 31 March 2016, 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 24,195 as of 31 March 2016 (31 March 2015: EUR 25,247). No changes occurred in the number of own shares held by CapMan Plc during the review period.

### Trading and market capitalisation

CapMan Plc's B shares closed at EUR 0.92 on 31 March 2016 (31 March 2015: EUR 0.96). The trade-weighted average price during the review period was EUR 0.95 (EUR 0.99). The highest price paid was EUR 1.02 (EUR 1.09) and the lowest EUR 0.91 (EUR 0.83). The number of CapMan Plc B shares traded totalled 8.9 million (5.1 million), valued at MEUR 8.5 (MEUR 5.0).

The market capitalisation of CapMan Plc B shares as of 31 March 2016 was MEUR 74.1 (31 March 2015: MEUR 77.3). The market capitalisation of all company shares, including A shares valued at the closing price of B shares, was MEUR 79.9 (MEUR 82.9).

### 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 two stock option programmes – Option Programme 2013 and Stock Option Programme 2016 – 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 0.75 (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 1.03 (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 1.05 (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 began on 1 May 2016 and that for 2013B options and 2013C options will begin on 1 May 2017 and 1 May 2018, respectively. 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 March 2016.

The maximum number of stock options issued under Option Programme 2016 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 2016A options is the trade volume-weighted average quotation of the share during 1 April–31 May 2016 with an addition of 10%, that of the 2016B options is the trade volume-weighted average quotation of the share during 1 April–31 May 2017 with an addition of 10%, and that of the 2016C options is the trade volume-weighted average quotation of the share during 1 April–31 May 2018 with an addition of 10%. The subscription period for 2016A options will begin on 1 May 2019, that for 2016B options on 1 May 2020 and that for 2016C options on 1 May 2021. Receivables from shares subscribed to under these options will be entered in the company's unrestricted shareholders' equity. No stock option entitlements had been allocated by 31 March 2016 under the Option Programme 2016.

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

### **Other significant events during the review period**

The CapMan Real Estate I fund sold its holding in KOy Mastolan Keskusvarasto to Kokoelmakeskus Ky. The investors of Kokoelmakeskus are a group of Finnish investors, including CapMan. CapMan Real Estate is

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responsible for managing the asset also going forward and CapMan will receive management fees from the consortium in line with general industry practices.

Joakim Frimodig (BA, Oxon) was appointed member of CapMan's management group in March. He is responsible for the Group's strategic growth initiatives.

The CapMan Public Market fund exited its final portfolio companies in the beginning of the year. As a result, the fund transferred to carry and will be terminated during 2016. CapMan receives carried interest income of MEUR 1.2 from the fund, the majority of which were booked in the first quarter of 2016.

CapMan has signed a new lease for office space in Helsinki and will move to Ludviginkatu 6 by 2017. CapMan's Moscow office moved to a new space in the end of 2015. The new leases will decrease CapMan's office expenses.

### **Events after the end of the review period**

In April 2016, the CapMan Buyout X fund has agreed to sell its majority in Suomen Lämpöikkuna Oy to the international window and door supplier Inwido AB (publ.). The exit is the fund's first.

In April 2016, CapMan Real Estate advised Bayerische Versorgungskammer (BVK), Germany's largest pension scheme group, on the acquisition of a MEUR 80 prime residential portfolio in the Helsinki Metropolitan Area. BVK has approx. BEUR 62 in assets under management and it invests also through partners. In addition to advising on the transaction, CapMan Real Estate will manage the assets. CapMan obtains management fees from the arrangement in line with general industry practices.

CapMan has renewed its website and was rewarded as the best investor website for small cap companies in a competition organised by the Finnish Foundation for Share Promotion.

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 and real estate assets.

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

The low interest rate environment and uncertainty pertaining to the cyclicity of the stock market drive investors to look for alternative assets with a more attractive return profile. Private equity is a globally growing asset class. Almost 90 per cent of investors in the asset class believe that private equity will return a premium of at least 2 percentage points compared to listed equity, while almost half of investors believe that the premium to listed equity is at least 4 percentage points. According to a survey by Preqin 42 per cent of investors expect to increase their private equity commitments over the coming year and 51 per cent would raise their allocations in private equity longer term.<sup>1</sup> Geographically Europe is generating the most interest among investors<sup>2</sup> and the Nordic countries, with their relatively strong economies, are of particular interest.

The global fundraising for private equity funds has remained strong and the competition for capital

<sup>1</sup> Bain & Company Private Equity Report 2016

<sup>2</sup> Preqin Private Equity Update Q1 2016

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between funds is intense. The beginning of 2016 saw the establishment of larger, but fewer, funds compared to last year.<sup>3</sup> Fundraising activity in Europe has slowed down somewhat, reflecting large pools of dry powder available in the market.<sup>4</sup>

Co-investments are a growing form of investing in the Nordic countries as valuations remain high. 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 amounted EUR 2.9 billion during the first quarter of 2016 representing a 26 per cent year-over-year increase. In Denmark real estate turnover amounted to EUR 1.9 billion in Q1 2016 corresponding an 86 per cent year-over-year increase. The Finnish property market, however, recorded the highest increase in transaction volume in the first quarter with EUR 1.8 billion, which is almost four times the amount what was transacted in Q1 2015.<sup>5</sup>

The increased investment volume has caused the yield levels to compress further across the Nordic capitals. In Sweden prime offices and retail properties trade already below 4.0 per cent while in Denmark prime office and retail yields stood at 4.0% and 3.5 per cent, respectively, at the end of Q1 2016. Also the Finnish property market recorded some yield compression caused by the strong influx of new capital into the market. As of March 2016 prime yields range between 4.0 per cent (retail) and 4.25 per cent (office) in the Helsinki city centre. As general note, secondary properties are gaining more traction

in the Nordic property market due to the fact that the demand for prime properties currently significantly exceeds the supply of these assets in the market.<sup>6</sup>

The relatively well-performing macro economies of Sweden and Denmark have supported the positive development in the occupancy market; rents increased and vacancies decreased compared to the previous quarter both in Stockholm and Copenhagen. Also the Copenhagen residential market has continued to develop favourably with both market rents and prices posting solid gains also in Q1 2016. The no-growth environment continues to negatively affect the Finnish occupancy market. As a result, both occupancy rates and rent levels remained mostly flat on a quarter-over-quarter basis in the Helsinki Metropolitan Area.<sup>7</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 among investors in Europe. Nevertheless, time spent fundraising for debt strategies has increased from previous years.<sup>8</sup>

Russia's GDP contracted by 3.7 per cent last year and the economy is expected to contract further in 2016.<sup>9</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 services, and healthcare that are the investment focus of CapMan Russia are still expected to continue growing.

<sup>3</sup> Preqin Private Equity Update Q1 2016

<sup>4</sup> Preqin Fundraising Update 2015

<sup>5</sup> CBRE Nordic Investment MarketView Q1 2016

<sup>6</sup> CBRE EMEA Rents and Yields MarketView Q1 2016

<sup>7</sup> Sadolin & Albæk: Property Market Report 2016

<sup>8</sup> Preqin Private Debt Outlook Q1 2016

<sup>9</sup> Bank of Finland "Forecast for Russia 2016-2018" 21.3.2016



## Outlook for 2016

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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.

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**The CapMan Group will publish its Interim Report for 1 January – 30 June 2016 on Thursday, 11 August 2016.**

Helsinki, 4 May 2016

CAPMAN PLC  
Board of Directors

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

Appendix 1: The CapMan Group's funds under management as of 31 March 2016, MEUR

Appendix 2: Operations of CapMan's funds under management January–March 2016

Appendix 3: Description of CapMan's business operations

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## 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)	1-3/16	1-3/15	1-12/15
<b>Turnover</b>	<b>7,540</b>	7,336	31,767
Other operating income	29	28	314
Personnel expenses	-4,399	-3,977	-17,066
Depreciation and amortisation	-62	-80	-322
Other operating expenses	-2,313	-2,776	-10,574
Fair value changes of investments	3,051	381	5,152
<b>Operating profit</b>	<b>3,846</b>	912	9,271
Financial income and expenses	-848	-423	-2,875
Share of the income of investments accounted for using the equity method	0	15	53
<b>Profit before taxes</b>	<b>2,998</b>	504	6,449
Income taxes	-147	-19	-395
<b>Profit for the period</b>	<b>2,851</b>	485	6,054
<b>Other comprehensive income:</b>			
Translation differences	31	-59	-41
<b>Total comprehensive income</b>	<b>2,882</b>	426	6,013
<b>Profit attributable to:</b>			
Equity holders of the company	2,851	485	6,054
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company	2,882	426	6,013
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>			
Earnings per share, cents	3.0	0.3	5.9
Diluted, cents	3.0	0.3	5.8

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



## GROUP BALANCE SHEET (IFRS)

€ ('000)	31.3.16	31.3.15	31.12.15
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	181	227	189
Goodwill	6,204	6,204	6,204
Other intangible assets	433	687	487
Investments accounted for using the equity method	95	42	95
Investments at fair value through profit and loss			
Investments in funds	50,130	56,073	47,249
Other financial assets	46,279	121	48,784
Investments in joint ventures	7,650	9,029	7,651
Receivables	6,043	3,325	6,062
Deferred income tax assets	4,400	4,097	4,400
	<b>121,415</b>	79,805	121,121
<b>Current assets</b>			
Trade and other receivables	7,860	5,847	6,637
Other financial assets at fair value through profit and loss	306	314	306
Cash and bank	26,759	30,549	21,576
	<b>34,925</b>	36,710	28,519
<b>Total assets</b>	<b>156,340</b>	116,515	149,640

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€ ('000)	31.3.16	31.3.15	31.12.15
<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	27,397	27,175	27,397
Translation difference	127	78	96
Retained earnings	-5,158	-6,661	-2,048
<b>Total equity</b>	<b>62,106</b>	60,332	65,185
<b>Non-current liabilities</b>			
Deferred income tax liabilities	1,957	1,953	1,958
Interest-bearing loans and borrowings	67,389	25,998	69,389
	69,346	27,951	71,347
<b>Current liabilities</b>			
Trade and other payables	22,888	22,907	13,108
Interest-bearing loans and borrowings	2,000	5,000	0
Current income tax liabilities	0	325	0
	24,888	28,232	13,108
<b>Total liabilities</b>	<b>94,234</b>	56,183	84,455
<b>Total equity and liabilities</b>	<b>156,340</b>	116,515	149,640

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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 2015	772	38,968	27,175	137	-1,485	65,567
Profit for the year					485	485
Other comprehensive income for the year						
Currency translation differences				-59		-59
Total comprehensive income for the year				-59	485	426
Options					55	55
Dividends					-5,177	-5,177
Other changes					-539	-539
Equity on 31 March 2015	772	38,968	27,175	78	-6,661	60,332
Equity on 1 January 2016	772	38,968	27,397	96	-2,048	65,185
Profit for the year					2,851	2,851
Other comprehensive income for the year						
Currency translation differences				31		31
Total comprehensive income for the year				31	2,851	2,882
Options					81	81
Dividends					-6,042	-6,042
<b>Equity on 31 March 2016</b>	<b>772</b>	<b>38,968</b>	<b>27,397</b>	<b>127</b>	<b>-5,158</b>	<b>62,106</b>

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## STATEMENT OF CASH FLOW (IFRS)

€ ('000)	1-3/16	1-3/15	1-12/15
<b>Cash flow from operations</b>			
Profit for the period	2,851	485	6,054
Adjustments	-1,274	367	2,996
<b>Cash flow before change in working capital</b>	<b>1,577</b>	852	9,050
Change in working capital	3,910	3,207	-3,309
Financing items and taxes	-163	-355	-5,169
<b>Cash flow from operations</b>	<b>5,324</b>	3,704	572
<b>Cash flow from investments</b>	<b>-141</b>	-556	-39,611
<b>Cash flow before financing</b>	<b>5,183</b>	3,148	-39,039
Dividends paid	0	0	-5,177
Other net cash flow	0	-1,249	37,142
<b>Financial cash flow</b>	<b>0</b>	-1,249	31,965
<b>Change in cash funds</b>	<b>5,183</b>	1,899	-7,074
Cash funds at start of the period	21,576	28,650	28,650
<b>Cash funds at end of the period</b>	<b>26,759</b>	30,549	21,576

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## SEGMENT INFORMATION

The Group reports two segments: Management company business and Investments

1-3/2016	Management company and Services business			Investment business	Total
	CapMan Private Equity	CapMan Real Estate	Total		
€ ('000)					
Turnover	5,340	2,200	7,540	0	7,540
Operating profit/loss	687	108	795	3,051	3,846
Profit/loss for the period	550	86	636	2,215	2,851
Assets	6,686	187	6,873	114,542	121,415
Total assets includes:					
Investments accounted for using the equity method	0	0	0	95	95
Investments in joint ventures	0	0	0	7,650	7,650

1-3/2015	Management company and Services business			Investment business	Total
	CapMan Private Equity	CapMan Real Estate	Total		
€ ('000)					
Turnover	5,125	2,211	7,336	0	7,336
Operating profit/loss	316	263	579	333	912
Profit/loss for the period	266	221	487	-2	485
Assets	6,493	746	7,239	72,566	79,805
Total assets includes:					
Investments accounted for using the equity method	0	0	0	42	42
Investments in joint ventures	0	0	0	9,029	9,029

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

## 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 EUR 0.07 per share, totalling MEUR 6.0 was paid for 2015. The dividend was paid to shareholders on 1 April 2016. 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)	31.3.16	31.12.15
<b>Fund investments at fair value through profit and loss on Jan 1</b>	<b>47,249</b>	55,258
Additions	4,409	4,355
Distributions	-1,004	-10,745
Fair value gains/losses on investments	-524	-1,619
<b>Investments in funds at fair value through profit and loss at end of the period</b>	<b>50,130</b>	47,249
Investments in funds by investment area at the end of period		
Buyout	23,510	21,921
Credit	3,023	3,061
Russia	3,783	3,799
Real Estate	12,870	9,751
Other	6,087	7,509
Funds of funds	857	1,208
<b>In total</b>	<b>50,130</b>	47,249

Investments in funds include the subsidiary, CapMan Fund Investments SICAV-SIF, with a fair value of 31 334 thousands euros.

€ ('000)	31.3.16	31.12.15
<b>Other investments at fair value through profit and loss on Jan 1</b>	<b>48,784</b>	121
Additions	0	44,335
Disposals	-3,471	-66
Fair value gains/losses on investments	966	4,394
<b>Other investments at fair value through profit and loss at end of the period</b>	<b>46,279</b>	48,784

Additions of the period include Norvestia's shares at fair value MEUR 46.2.

CapMan's share represents 28.7% of Norvestia's total shares (CapMan acquired 21.7% on 12 May 2015 and an additional 7.0% according to an agreement on 23 October 2015).

The fair value change of the associated company is booked in CapMan's income statement based on the change in Norvestia's reported 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.



€ ('000)	31.3.16	31.12.15
<b>Investments in joint ventures at fair value through profit and loss on Jan 1</b>	<b>7,651</b>	9,014
Disposals	0	-1,307
Fair value gains/losses on investments	-1	-56
<b>Investments in joint ventures at fair value through profit and loss at end of the period</b>	<b>7,650</b>	7,651

### The group's assets measured at fair value at 31 March 2016.

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
<b>Investments at fair value through profit and loss</b>				
<b>Investments in funds</b>				
at Jan 1		548	46,701	47,249
Additions		0	4,409	4,409
Distributions		-480	-524	-1,004
Fair value gains/losses		-21	-503	-524
at the end of period		47	50,083	50,130
<b>Other investments</b>				
at Jan 1			48,784	48,784
Disposals			-3,471	-3,471
Fair value gains/losses			966	966
at the end of period			46,279	46,279
<b>Investments in joint ventures</b>				
at Jan 1			7,651	7,651
Fair value gains/losses			-1	-1
at the end of period			7,650	7,650

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 review period.

The group's assets measured at fair value at 31 December 2015.

	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		-49	-1,570	-1,619
at the end of period		548	46,701	47,249
<b>Other investments</b>				
at Jan 1			121	121
Additions			44,335	44,335
Distributions			-66	-66
Fair value gains/losses			4,394	4,394
at the end of period			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			-56	-56
at the end of period			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. 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 review period.

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## Sensitivity analysis of Level 3 investments at 31 March 2016

Investment area	Fair value MEUR 31.3.2016	Valuation methodology	Unobservable inputs	Used input value (weighted average)	Fair value sensitivity (MEUR) to a +/- 10% change in input value
Norvestia	46.2	Net assets (NAV based on Norvestia's reported figures)	NA*	NA*	NA*
Buyout	23.5	Peer group	Peer group earnings multiples	EV/EBITDA 2015 7.9x	+/-3.1
			Discount to peer group multiples	18%	+/-1.1
Real Estate	12.9	Valuation by an independent valuer	NA*	NA*	NA*
Investments in joint ventures	7.6	Discounted cash flows	Discount rate	15%	-0.4 / 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 8.8x	+/- 0.3
			Discount to peer group multiples	36%	-/+ 0.2
Credit	3.0	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	5.1	Peer group	Peer group earnings multiples	EV/EBITDA 2015 7.3x	+/- 0.4
			Discount to peer group multiples	29%	-/+ 0.2



## Sensitivity analysis of Level 3 investments at 31 December 2015

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 (NAV based on Norvestia's reported figures)	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 realized. The funds' investment strategy is to hold the loans until they are repaid.

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

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 NAV as reported by Norvestia. 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 investments has been values as one entity.

\*) Because Norvestia fair value is based on the NAV as reported 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)	31.3.16	31.12.15
Interest bearing loans at end of review period	<b>67,389</b>	69,389

## SEASONAL NATURE OF BUSINESS

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

## PERSONNEL

By country	31.3.16	31.12.15
Finland	<b>66</b>	67
Sweden	<b>19</b>	20
Russia	<b>12</b>	10
Luxembourg	<b>1</b>	1
United Kingdom	<b>3</b>	3
In total	<b>101</b>	101

## CONTINGENT LIABILITIES

€ ('000)	31.3.16	31.12.15
Leasing agreements	<b>5,352</b>	2,018
Securities and other contingent liabilities	<b>94,844</b>	95,108
Remaining commitments to funds	<b>24,862</b>	25,195
Remaining commitments by investment area		
Buyout	<b>13,909</b>	13,018
Credit	<b>1,335</b>	2,487
Russia	<b>1,887</b>	1,921
Real Estate	<b>2,272</b>	2,272
Other	<b>4,728</b>	4,751
Funds of funds	<b>731</b>	746
In total	<b>24,862</b>	25,195

## COMMITMENTS TO RELATED PARTIES

€ ('000)	31.3.16	31.12.15
Commitments to Maneq funds	<b>4,075</b>	4,075

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>2016 MEUR</b>	<b>1-3/16</b>
Turnover	<b>7.5</b>
Fees	<b>6.5</b>
Carried interest	<b>1.0</b>
Other operating income	<b>0.0</b>
Operating expenses	<b>-6.8</b>
Fair value changes of investments	<b>3.1</b>
Operating profit	<b>3.8</b>
Financial income and expenses	<b>-0.8</b>
Share of the income of investments accounted for using the equity method	<b>0.0</b>
Profit / loss before taxes	<b>3.0</b>
Profit / loss for the period	<b>2.9</b>

<b>2015 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	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

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## APPENDIX 1: THE CAPMAN GROUP'S FUNDS UNDER MANAGEMENT AS OF 31 MARCH 2016, MEUR

The tables below show the status of the funds managed by CapMan as of 31 March 2016. 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 31.3.2016	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>									
FV V, FM IIIB, CME VII B <sup>5)</sup> , FM III A, CME VII A <sup>5)</sup> , CME Sweden <sup>5)</sup> , CPM									
<b>Total</b>	<b>709,7</b>	<b>701,3</b>	<b>37,0</b>	<b>6,9</b>	<b>2,6</b>	<b>1 106,4</b>	<b>28,8</b>		<b>10-20%</b>
<b>Funds in exit and value creation phase</b>									
CMB VIII <sup>1) 5)</sup>	440.0	403.3	110.3	93.5	0.4	382.1		256.2	12 %
CMR	118.1	116.4	52.0	73.4	0.2	23.2		145.3	3.4 %
CMB IX	294.6	289.2	443.5	246.6	2.1	44.8		361.0	10 %
CMM V	95.0	84.5	110.3	59.0	0.0	44.5		48.3	10 %
<b>Total</b>	<b>947.7</b>	<b>893.4</b>	<b>110.3</b>	<b>472.5</b>	<b>2.7</b>	<b>494.6</b>			
<b>Funds in active investment phase</b>									
CMB X <sup>1)</sup>	244.5	177.6	143.7	171.3	2.0	14.0			8 %
CMR II	99.1	28.1	20.2	10.4	0.5	0.8			8 %
<b>Total</b>	<b>343.6</b>	<b>205.7</b>	<b>163.9</b>	<b>181.7</b>	<b>2.5</b>	<b>14.8</b>			
<b>Fund with no carried interest potential for CapMan</b>									
SWE LS <sup>2)</sup> , SWE Tech <sup>1), 2)</sup> , CME VII C <sup>5)</sup> , CMM IV <sup>3)</sup> , CMLS IV, CMT 2007 <sup>1)</sup>									
<b>Total</b>	<b>539.6</b>	<b>528.1</b>	<b>86.5</b>	<b>76.1</b>	<b>0.9</b>	<b>424.1</b>			
<b>Total private equity funds</b>	<b>2,540.6</b>	<b>2,328.5</b>	<b>730.9</b>	<b>737.2</b>	<b>8.7</b>	<b>2,039.9</b>	<b>28.8</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 31.3.2016	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/consortiums in exit and value creation phase</b>									
CMRE II									
Equity and bonds	150.0	129.5	122.9	122.6		55.7		178.2	12%
Debt financing	450.0	301.7	174.7	174.7					
<b>Total</b>	<b>600.0</b>	<b>431.2</b>	<b>297.6</b>	<b>297.3</b>	<b>2.6</b>	<b>55.7</b>			
CMRHE									
Equity and bonds	332.5	325.1	445.1	357.3		86.4		474.1	12%
Debt financing	617.5	542.6	439.4	439.4					
<b>Total</b>	<b>950.0</b>	<b>867.7</b>	<b>884.5</b>	<b>796.7</b>	<b>-0.2</b>	<b>86.4</b>			
Kokoelmakeskus Ky									
Equity and bonds	19.3	19.3	19.2	19.2		0.0		19.3	12%
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>19.3</b>	<b>19.3</b>	<b>19.2</b>	<b>19.2</b>	<b>0.0</b>	<b>0.0</b>			
<b>Total</b>	1,569.3	1,318.2	1,201.3	1,113.2	2.4	142.1			
<b>Funds in active investment phase</b>									
CMNRE									
Equity and bonds	273.3	161.4	141.6	179.0		17.0			8%
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>273.3</b>	<b>161.4</b>	<b>141.6</b>	<b>179.0</b>	<b>5.4</b>	<b>17.0</b>			
<b>Funds with no carried interest potential to CapMan</b>									
CMRE I <sup>5)</sup>									
Equity and bonds	200.0	200.0	57.8	45.2		207.8	27.4		
Debt financing	300.0	276.6	22.5	22.5					
<b>Total</b>	<b>500.0</b>	<b>476.6</b>	<b>80.3</b>	<b>67.7</b>	<b>0.6</b>	<b>207.8</b>	<b>27.4</b>		
<b>Real Estate funds total</b>	<b>2,342.6</b>	<b>1,956.2</b>	<b>1,423.2</b>	<b>1,359.9</b>	<b>8.4</b>	<b>366.9</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. 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

The fund is comprised of two or more legal entities (parallel funds are presented separately only if their investment focuses or portfolios differ significantly).

Currency items are valued at the average exchange rates quoted at 31 December 2015.

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.

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.

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%.

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## APPENDIX 2: OPERATIONS OF CAPMAN'S FUNDS UNDER MANAGEMENT IN JANUARY–MARCH 2016

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 strategies 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 manages three other investment strategies (CapMan Technology, CapMan Life Science and CapMan Public Market<sup>10</sup>), which do not make new investments, but concentrate instead on developing the value of their existing portfolio companies. These investment areas are reported under "Other" in Private Equity.

### CAPMAN PRIVATE EQUITY

#### Investments in portfolio companies in January–March 2016

During the review period, funds managed by CapMan did not make new investments. Funds made add-on investments in existing portfolio companies totalling MEUR 2.2 in portfolio companies held by CapMan's Russia and Buyout funds. Funds made one new investment and several add-on investments valued at a total of MEUR 1.3 in the comparable period.

Exits from portfolio companies in January–March 2016

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<sup>10</sup> The CapMan Public Market fund, which had invested in Nordic public equity, is in carry. The fund has realised all its investments and will terminate its activities during 2016.



The CapMan Public Market fund exited all its remaining investments with a combined acquisition cost of MEUR 19.0. Funds also made partial exits from several portfolio companies with a combined acquisition cost of MEUR 11.8. The combined acquisition cost of completed exits in the comparable period was MEUR 0.9.

Events after the end of the review period

The CapMan Buyout X fund agreed to exit Suomen Lämpöikkuna Oy in April 2016. The exit was the fund's first.

### CAPMAN REAL ESTATE

Investments in and commitments to real estate acquisitions and projects in January–March 2016

The CapMan Nordic Real Estate fund invested in an office building on Hämeentie 15 in Helsinki and the project specific real estate company Kokoelmakeskus Ky invested in KOy Mastolan Keskusvarasto. The acquisition cost of investments was MEUR 22.6. Funds made add-on investments in several existing projects totalling MEUR 2.9. Real estate funds were committed to providing financing for real estate acquisitions and projects totalling MEUR 53.1 as of 31 March 2016. CapMan's real estate funds made a number of new and add-on investments totalling MEUR 1.6 in January–March 2015, while commitments to finance new projects totalled MEUR 41.2 as of 31 March 2015.

**Exits from real estate investments in January–  
March 2016**

CapMan's real estate funds exited KOy Mastolan Keskusvarasto and the hotel Cumulus Pinja, with combined acquisition costs of MEUR 63.2. CapMan's

real estate funds made no exits in the corresponding period last year.

**Events after the end of the review period**

There were no significant events for real estate funds after the end of the review period.

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## FUND INVESTMENT ACTIVITIES IN FIGURES

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

	1-3/2016	1-3/2015
<b>New and add-on investments</b>		
Funds investing in portfolio companies	2,2	1.3
Buyout	0.7	0.2
Credit	0.0	0.0
Russia	1.5	1.1
Others	0.0	0.0
Real Estate funds	25.6	1.2
<b>Total</b>	<b>27.8</b>	<b>2.5</b>

## Exits, MEUR

	1-3/2016	1-3/2015
Funds investing in portfolio companies	30.8	0.9
Buyout	0.9	0.8
Credit	1.0	0.0
Russia	0.0	0.1
Others	28.9	0.0
Real Estate funds	63.2	0.0
<b>Total</b>	<b>94.0</b>	<b>0.9</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 53.1 as of 31 March 2016.

CapMan

**Funds' combined portfolio\* as of 31 March 2016, MEUR**

	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio
Funds investing in portfolio companies	730.7	737.4	35.2
Real Estate funds	1,423.1	1,359.9	64.8
<b>Total</b>	<b>2,153.8</b>	<b>2,097.3</b>	<b>100.0</b>
Funds investing in portfolio companies			
Buyout	530.9	553.4	75.0
Credit	52.0	59.0	8.0
Russia	89.7	83.8	11.4
Others	58.1	41.2	5.6
<b>Total</b>	<b>730.7</b>	<b>737.4</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 494 for new and add-on investments as of 31 March 2016. Of their remaining capital, approx. MEUR 323 was earmarked for buyout investments (incl. mezzanine investments), approx. MEUR 14 for

investments by the Credit team, approx. MEUR 51 for technology investments, approx. MEUR 3 for life science investments and approx. MEUR 104 for investments by the CapMan Russia team. Real estate funds had a remaining investment capacity of approx. MEUR 140.9 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.

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>11</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 in accordance with the investment strategies of its investment partnerships. 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 fund managers and

investors in the asset class and purchasing services (CaPS) to companies in Finland and Sweden.

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), fund advisory services (Scala Fund Advisory) and services related to fund management. Fees generally cover CapMan's operating expenses.

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. The

<sup>11</sup> Bain & Company, Global Private Equity Report 2016





## APPENDIX 3: DESCRIPTION OF BUSINESS OPERATIONS

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.

Income in this business is generated by changes 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 NAV as reported by Norvestia. 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.

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