

# CapMan Plc

## Interim Report

1 January – 31 March 2017



Capgemini acquired Idean Enterprises Oy from CapMan's Growth Equity portfolio in February 2017.

# CapMan Plc Interim Report 1 January–31 March 2017

## PERFORMANCE AND MAIN EVENTS FOR THE REVIEW PERIOD:

- Group turnover was MEUR 7.5 (MEUR 7.5 1 Jan –31 Mar 2016).
- Operating profit was MEUR10.5 (MEUR 3.8). Comparable adjusted operating profit was MEUR 10.9 (MEUR 3.8).
- Profit before taxes was MEUR 9.6 (MEUR 3.0).
- Profit for the period was MEUR 9.1 (MEUR 2.9). Comparable adjusted profit was MEUR 9.3 (MEUR 2.9).
- Diluted earnings per share for the period were 5.9 cents (3.0 cents). Comparable adjusted diluted earnings per share were 6.1 cents (3.0 cents).
- CapMan exited Idean Enterprises Oy.
- CapMan redeemed the MEUR 15 hybrid bond issued in 2013.
- Heikki Westerlund announced on 27 March 2017 that he will step down as CEO. Joakim Frimodig has been appointed Interim CEO as of 4 May 2017.

## HEIKKI WESTERLUND, CEO

"We achieved good results in the beginning of the year especially due to the performance of our investment business. The most significant event was the realisation of Idean from the Growth Equity portfolio. Our own fund investments have also developed in the right direction, although there is some industry-specific variance in the portfolio.

Norvestia was acquired in order to boost our growth objectives and the integration with CapMan proceeds according to plan. New growth initiatives for 2017 include, among others, our new investment area CapMan Infra and growth investment-focused Growth Equity. We expect strong demand for infrastructure investments, and growth investing has become a separate category within private equity. Of our existing businesses, the service business has continued on a growth track and the outlook for the rest of the year is good.

*"We achieved good results in the beginning of the year especially due to the performance of our investment business."*

We are establishing the next Nordic real estate fund and based on discussions with potential investors we are well-positioned to reach the MEUR 350 target size for the fund. The team's value-add predecessor fund has been among the best performing in its segment.

A month ago, I announced my decision to resign as CEO after almost four years on the job. I have worked at CapMan for a total of 23 years, during which our industry has transformed from a niche of the capital markets into the mainstream. CapMan is in a good position to take advantage of the tailwinds of the industry. Our value-add fund offering is versatile and well-suited for our

growing customer base. I want to especially thank our investors, shareholders and personnel, who have supported us on our journey to become a leading Nordic private equity investor and asset manager.”

## CAPMAN MAINTAINS ITS OUTLOOK ESTIMATE FOR 2017

CapMan renewed its financial objectives at the end of 2016. The growth objective for Management Company and Services business is more than 10 per cent p.a. on average. The objective for return on equity is more than 20 per cent p.a. on average. The objective for net gearing, that is ratio of net interest bearing debt to equity, is a maximum of 40 per cent on average. CapMan’s objective is to pay at least 75 per cent of earnings per share as dividend.

CapMan expects to achieve these financial objectives gradually and key figures are expected to show seasonality. CapMan expects fees from services to have a larger impact on results from the Management Company and Services business in 2017. The Management Company and Services business is profitable before carried interest income and any possible items affecting comparability. The integration of Norvestia and other growth initiatives will generate expenses in 2017.

The return on 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 of CapMan’s overall investments in addition to company and real estate specific development.

CapMan’s objective is to improve results longer term, taking into account the seasonality affecting services and the Investment business. For these and other

above mentioned reasons, CapMan does not provide numeric estimates for 2017.

Items affecting comparability are described in the Tables section of this report.

## BUSINESS OPERATIONS

CapMan is a pioneering Nordic private equity investment and asset management company. CapMan has two operating segments: a Management Company and Services business and an Investment business.

In its **Management Company and Services business**, CapMan manages private equity funds that are invested by its partnership-based investment teams. Investments are 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 services through Scala Fund Advisory and procurement services to companies in Finland and Sweden through its procurement service CaPS. CapMan also offers fund management services to 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 and listed markets in a diversified manner. Income in this business segment is generated by changes in the fair value of investments and realised returns following exits and periodic returns, such as interest and dividends. Please see Appendix 3 for additional details about CapMan’s business model.

## GROUP TURNOVER AND RESULT IN JANUARY–MARCH 2017

The Group's turnover totalled MEUR 7.5 (Jan-Mar 2017: MEUR 7.5).

Operating expenses were MEUR 7.3 (MEUR 6.8). The higher personnel expenses were partially due to the increase in personnel following the acquisition of Norvestia.

The Group's operating profit was MEUR 10.5 (MEUR 3.8). The comparable operating profit was MEUR 10.9 (MEUR 3.8) and has been adjusted with items related to the integration of Norvestia. The significant improvement was mainly due to successful investments, to which the exit from Idean Enterprises Oy contributed greatly.

Financial income and expenses amounted to MEUR -0.9 (MEUR -0.8). Profit before taxes was MEUR 9.6 (MEUR 3.0) and profit after taxes was MEUR 9.1 (MEUR 2.9). Comparable adjusted result after taxes was MEUR 9.3 (MEUR 2.9).

Earnings per share were 6.0 cents (3.0 cents). Comparable adjusted earnings per share were 6.2 cents (3.0 cents). Diluted earnings per share were 5.9 cents (3.0 cents). Comparable adjusted diluted earnings per share were 6.1 cents (3.0 cents). Net of tax interest on the hybrid bond for the period as well as penalties related to the early redemption has been deducted when calculating earnings per share. Adjustments to results and earnings per share are described in Table 1 and further in the Tables section of this report.

**Table 1: Items affecting comparability and alternative performance measures**

€ ('000)	1-3/17	1-3/16
Operating profit	<b>10,543</b>	3,846
Items affecting comparability		
Norvestia integration related costs	<b>360</b>	
Items affecting comparability, total	<b>360</b>	
Adjusted operating profit	<b>10,903</b>	3,846
Profit for the period	<b>9,057</b>	2,851
Norvestia integration related costs	<b>288</b>	
Items affecting comparability, total	<b>288</b>	
Adjusted profit for the period	<b>9,345</b>	2,851
Earnings per share, cents	<b>6.0</b>	3.0
Items affecting comparability, cents	<b>0.2</b>	
Adjusted earnings per share, cents	<b>6.2</b>	3.0
Earnings per share, diluted, cents	<b>5.9</b>	3.0
Items affecting comparability, cents	<b>0.2</b>	
Adjusted earnings per share, diluted, cents	<b>6.1</b>	3.0

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

## MANAGEMENT COMPANY AND SERVICES BUSINESS

Turnover generated by the Management Company and Services business for the financial year totalled MEUR 6.4 (MEUR 7.5).

Fees totalled MEUR 6.4 (MEUR 6.5). In addition to management fees, fees recorded also included fees generated by CapMan's Procurement Services (CaPS), fund advisory services (Scala Fund Advisory) and other services. Only a small amount of fees for fund advisory services are paid as retainers and total fees may therefore vary significantly from one period to the next.

CapMan did not receive any carried interest for the review period. The corresponding period last year included MEUR 1.0 in carried interest income.

The operating income of the Management Company and Services business was MEUR 0.1 (MEUR 0.8). The loss for the review period was MEUR 0.1 (profit of MEUR 0.6).

## INVESTMENT BUSINESS

Turnover of the investment business was MEUR 1.1 in January-March 2017 (Jan-Mar 2016: MEUR 0.0) due to dividend and interest income from financial assets held for trading.

Operating profit for the Investment business was MEUR 10.5 (MEUR 3.1). Comparable adjusted operating profit was MEUR 10.8 (MEUR 3.1) adjusting for expenses related to the integration of Norvestia. Profit for the Investment business was MEUR 9.2 (MEUR 2.2). Comparable adjusted profit was MEUR 9.5 (MEUR 2.2). Items affecting comparability are presented in the Tables section of this report.

Total fair value changes of investments for the review period were MEUR 10.3 (Jan-Mar 2016: MEUR 3.1). CapMan's investments at fair value are presented in Table 2.

**Table 2: CapMan's investments booked at fair value as of 31 March 2017**

	Fair value 31 March 2017 (MEUR)
Fund investments	51.7
Growth Equity investments	28.2
Investments in joint ventures	5.4
Other financial assets	0.2
Current financial assets (incl.trading portfolio)	80.2
<b>Total</b>	<b>165.5</b>

Fair value changes of **fund investments** were MEUR 0.9 (MEUR 0.4) representing a 1.7% increase in value (Jan-Mar 2016: +4.3%). 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 significant for CapMan's own investments. Fund investments also include investments in funds not managed by CapMan.

CapMan invested a total of MEUR 0.6 (MEUR 4.4) in funds during the review period. CapMan received distributions from funds totalling MEUR 1.4 (MEUR 1.0). The aggregate fair value of all fund investments as of 31 March 2017 was



MEUR 51.7 (MEUR 50.1 as of 31 March 2016). Funds managed by CapMan are described in greater detail in Appendix 1.

The amount of remaining commitments that have not yet been called totalled MEUR 35.9 as of 31 March 2017, including commitments to funds from Norvestia (31 March 2016: MEUR 24.9).

Fair value of **Growth Equity investments** was MEUR 28.2. The fair value change of growth investments was MEUR 9.6 in January – March 2017, which corresponds to a 24,5% increase. The significant change was mainly due to the exit from Idean Enterprises Oy.

Growth Equity investments include direct investments in Nordic unlisted companies. At the end of March 2017, the Growth Equity portfolio consisted of six unlisted companies: Aste Holding which offers media production and consulting, Coronaria which offers health care and wellbeing services, Fluido which offers cloud services consulting, Digital Workforce Services which offers robotic process automation services, Polystar Instruments which develops telecommunications business intelligence software solutions and Touhula Varhaiskasvatus which offers early childhood and preschool education.

**The trading portfolio**, which invests in market instruments, was MEUR 80.2.

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. Fair value assessment

of financial assets is based on quoted prices of identical assets or information derived from prices.

Investments at fair value, their sensitivity analysis 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 2017**

CapMan's balance sheet totalled MEUR 229.9 as of 31 March 2017 (31 March 2016: MEUR 156.3). Non-current assets amounted to MEUR 99.2 (MEUR 121.4), of which goodwill totalled MEUR 6.2 (MEUR 6.2).

As of 31 March 2017, fund investments booked at fair value totalled MEUR 51.7 (MEUR 50.1 as of 31 March 2016). Fair value of Growth Equity investments was MEUR 28.2 (MEUR 0) and were booked following the acquisition of Norvestia. Other financial assets booked at fair value were MEUR 0.2 (MEUR 46.3). Other assets in the comparable period included CapMan's share of Norvestia before the exchange offer and subsequent acquisition. The fair value of investments in joint ventures was MEUR 5.4 (MEUR 7.7). Long-term receivables amounted to MEUR 4.4 (MEUR 6.0).

Current assets amounted to MEUR 130.8 (MEUR 34.9). Financial assets booked at fair value, i.e. current investments, were MEUR 80.2 (MEUR 0.3) and included the trading portfolio acquired with Norvestia. Cash in hand and at banks amounted to MEUR 43.9 (MEUR 26.8).

CapMan's interest-bearing net debt amounted to MEUR 21.9 as of 31 March 2017 (MEUR 42.3). CapMan's total interest bearing debt as of 31 March 2017 is outlined in Table 3.

**Table 3: CapMan's interest bearing debt**

	Debt amount 31 Mar 2017	Matures latest	Annual interest	Debt amount 31 Mar 2016
Bank financing	MEUR 11.5	Q2 2019		MEUR 15
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 %	MEUR 30
Long-term credit facility (available)	(MEUR 10)			(MEUR 15)
(Hybrid bond*)	-	-	-	(MEUR 15)

\*) In line with IFRS standards, the hybrid bond is classified as equity. The hybrid bond was issued on 11 December 2013. The interest on the hybrid bond is deducted from equity as interest is paid, which is annually. CapMan redeemed the bond 17 March 2017. The hybrid bond had no maturity, but CapMan had 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.

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 2017.

Trade and other payables totalled MEUR 31.9 (MEUR 22.9).

The Group's cash flow from operations totalled MEUR 3.2 for the review period (MEUR 5.3). The change was due to the interest expenses related to the early repayment of the hybrid bond, among others. 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 28.3 (MEUR -0.1) and includes, inter alia, investments and repaid capital received by the Group. Cash flow before financing totalled MEUR 31.6 (MEUR 5.2) and reflects the development in the Management Company and Services business and Investment business. Cash flow from financing was MEUR -32.6 (MEUR 0.0) as CapMan repaid the MEUR 15 hybrid bond and dividend payments for 2016 were already made in the first quarter of 2017.



**KEY FIGURES 31 MARCH 2017**

CapMan's return on equity was 27.6 per cent (31 March 2016: 17.9 per cent), return on investment 21.4 per cent (11.6 per cent) and net gearing 18.2 per cent (68.1 per cent) as of 31 March 2017. The target levels for the company's return on

equity and net gearing are on average over 20 per cent and a maximum of 40 per cent, respectively.

**Table 4: CapMan's key figures**

	31.3.17	31.3.16	31.12.16
Earnings per share, cents *	6.0	3.0	16.2
Diluted, cents *	5.9	3.0	16.1
Shareholders' equity / share, cents **	82.7	72.0	98.6
Share issue adjusted number of shares	144,990,351	86,290,467	88,382,868
Number of shares at the end of period	144,990,351	86,316,766	143,313,255
Number of shares outstanding	144,964,052	86,290,467	143,286,956
Company's possession of its own shares, end of period	26,299	26,299	26,299
Return on equity, %	27.6	17.9	14.7
Return on investment, %	21.4	11.6	10.9
Equity ratio, %	53.1	40.9	56.6
Net gearing, %	18.2	68.1	14.5

\* Hybrid bond of MEUR 15 (MEUR 15 as at 31 March 2016 and 31 December 2016) is recognised as equity until its repayment date 17 March 2017. Interest on the hybrid bond (net of tax) for the financial year has been deducted when calculating earnings per share. The share issue adjusted number of shares includes the shares issued as consideration transferred in the acquisition of Norvestia as of December 19, 2016, when calculating earnings per share under IAS 33.

\*\* Included a hybrid bond of MEUR 15 (MEUR 15 as of 31 March 2016 and 31 December 2016) until 17 March 2017. Calculation of shareholders' equity per share includes all shares issued as consideration in the acquisition of Norvestia.

## CAPITAL UNDER MANAGEMENT AS OF 31 MARCH 2017 AND FUNDRAISING STATUS

Capital under management refers to the remaining investment capacity, mainly equity, of funds and capital already invested at acquisition cost or at fair value, when referring to mandates. As capital under management is calculated based on the capital, which forms the basis for management fees, investment capacity includes in addition to equity also debt for such funds where debt is included in the fee base. Capital increases as fundraising for new funds progresses or as investments are executed under investment mandates and declines as exits are completed.

Capital under management was MEUR 2,671 as of 31 March 2017 (31 March 2016: MEUR 2,805). The establishment of a MEUR 100 private debt fund and investments made based on the MEUR 400 BVK investment mandate had a positive impact on capital under management, although the increase was offset by exits completed following the end of the comparable period. Of the total capital under management, MEUR 1,389 (MEUR 1,420) was held in real estate funds or investment mandates and MEUR 1,282 (MEUR 1,312) was held in funds making investments in portfolio companies. Funds under management, together with their investment activities, are presented in more detail in Appendices 1 and 2 of this report.

CapMan has commenced fundraising for the CapMan Nordic Real Estate II fund with the objective to obtain the first closing in the first half of 2017. The previous fund under the same strategy, CapMan Nordic Real Estate, was established in 2013 with MEUR 273 in equity. In line with its predecessor fund the new value-add fund would invest mainly in mid-sized office, retail and

residential properties in growth centres in Finland, Sweden, Denmark and Norway.

## SERVICE BUSINESS FOR THE REVIEW PERIOD

CapMan's service business has continued to grow and especially CaPS contributes to CapMan's fee income alongside management fees. CaPS develops its member companies' purchasing activities and fees obtained from the services are significant. Fees generated by CaPS have grown through geographic expansion as well as due to new members and purchasing categories.

Scala Fund Advisory operates as part of CapMan Group and offers private equity fundraising and advisory services for private equity fund managers and institutional investors. Scala has several mandates, which have stretched into 2017. The majority of fees paid for advisory services are success fees, which are paid as a one-off compensation following a successful fundraise. No success fees were yet booked for the first quarter of the year.

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

## DECISIONS TAKEN BY THE AGM

The Annual General Meeting (AGM) of CapMan Plc was held in Helsinki on 15 March 2017. The AGM approved the annual accounts for the 2016 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 0.09 per share should be paid to shareholders, and this was paid to shareholders on 3 April 2017.

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 and Ari Tolppanen were re-elected to the Board. Mammu Kaario and Andreas Tallberg were elected as new members to the Board. PricewaterhouseCoopers Oy, Authorised Public Accountants, was re-elected as the company's auditor, with Lauri Kallaskari as new responsible auditor.

More details on the decisions taken by the AGM are available in the stock exchange release issued on 15 March 2017.

## 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 shares. The number of shares concerned shall not exceed 14,000,000, which corresponds to approx. 9.66 per cent of all shares in the company. The authorisation shall remain in force until the end of the following AGM and 30 June 2018 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 21,000,000 shares, which corresponds to approx. 14.48 per cent of all shares in the company. The authorisation shall remain in force until the end of the following AGM and 30 June 2018 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 15 March 2017.

## ORGANISATION OF THE BOARD OF DIRECTORS

At its organising meeting held on 15 March 2017, the Board of Directors elected Andreas Tallberg as Chairman and Karri Kaitue as Vice Chairman. The Board established an Audit Committee comprising Nora Kerppola (Chairman), Mammu Kaario and Karri Kaitue, a Remuneration Committee comprising Andreas Tallberg (Chairman), Karri Kaitue and Ari Tolppanen, and a Nomination Committee comprising Andreas Tallberg (Chairman), Karri Kaitue and Ari Tolppanen.

## PERSONNEL

CapMan employed a total of 116 people as of 31 March 2017 (31 March 2016: 101), of whom 76 (66) 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 2017. CapMan issued 1,677,096 new shares as share consideration for shareholders, who had

accepted the exchange offer for Norvestia's shares, after which CapMan had 144,990,351 shares outstanding as of 31 March 2017.

All shares generate equal voting rights (one vote per share) and rights to a dividend and other distribution to shareholders. CapMan Plc's shares are included in the Finnish book-entry system.

## SHAREHOLDERS

The number of CapMan Plc shareholders increased by 86% from the comparable period and totalled 13,412 as of 31 March 2017 (31 March 2016: 7,194).

## COMPANY SHARES

As of 31 March 2017, CapMan Plc held a total of 26,299 CapMan shares, representing 0.02% of shares and voting rights. The market value of own shares held by CapMan was EUR 37,345 as of 31 March 2017 (31 March 2016: EUR 24,195). No changes occurred in the number of own shares held by CapMan Plc during the review period.

## TRADING AND MARKET CAPITALISATION

CapMan Plc's shares closed at EUR 1.42 on 31 March 2017 (31 March 2016: EUR 0.92). The trade-weighted average price for the review period was EUR 1.44 (EUR 0.95). The highest price paid was EUR 1.64 (EUR 1.02) and the lowest EUR 1.24 (EUR 0.91). The number of CapMan Plc shares traded totalled 20.3 million (8.9 million), valued at MEUR 28.9 (MEUR 8.5).

The market capitalisation of CapMan Plc shares as of 31 March 2017 was MEUR 205.9 (31 March 2016: MEUR 79.9, including unlisted A shares valued at the closing price of listed B shares).

## 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 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 0.66 (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 0.94 (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 0.96 (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 and 2013B options began on 1 May 2016 and 1 May 2017, respectively, and that for 2013C options will begin 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 1,325,000 stock option entitlements under the Option Programme 2013A, a total of 1,218,334 stock option entitlements under the Option Programme 2013B and a total of 1,227,291 stock option entitlements under the Option Programme 2013C had been allocated by 31 March 2017. A total of 29,171 new shares had been subscribed to with 2013A options as of 31 March 2017.

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 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 EUR 0.95 (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 2017 under the Option Programme 2016. In April 2017, a total of 823,958 stock options 2016A were allocated to CapMan's management and key personnel in line with the Option Programme 2016.

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

## OTHER SIGNIFICANT EVENTS DURING THE REVIEW PERIOD

CapMan's CEO Heikki Westerlund announced on 27 March 2017 that he will step down as CEO.

CapMan's subsidiary Norvestia sold its ownership in Idean Enterprises Oy to the global IT Services Group Capgemini.

CapMan Real Estate Ltd was in March 2017 granted a license by the FIN-FSA to act as an alternative investment fund manager (AIFM). The AIFM license is based on the European Securities Markets Authorities' (ESMA) directive concerning alternative fund managers and will enable, among others, marketing, investment and risk management and administration of funds exceeding certain size limits and following a specified investment strategy.

On 17 March 2017, CapMan redeemed its MEUR 15 hybrid bond issued on 11 December 2013 in accordance with the bond terms. The hybrid bond is

classified as an equity instrument. The redemption lowers CapMan's financing expenses by approx. MEUR 1 per annum.

On 13 January 2017, capMan has commenced mandatory redemption proceedings to obtain the remaining Norvestia's shares in accordance with Chapter 18 of the Limited Liability Companies Act. The Redemption Committee of the Finnish Chamber of Commerce has appointed an Arbitral Tribunal consisting of three arbitrators for the redemption proceedings concerning the right of squeeze-out and squeeze-out price relating to Norvestia's shares not held by CapMan. The Arbitral Tribunal comprises of professor (emeritus) Risto Nuolimaa, attorney Petra Kiurunen and attorney Kirsi Eksymä. The Helsinki District Court has appointed Olli Rautiainen (MSc (Econ.), LL.M.) to act as the special representative.

CapMan is classified as a mid-cap company in Nasdaq Helsinki based on market cap. Trading in the new category commenced on 11 January 2017.

## EVENTS AFTER THE END OF THE REVIEW PERIOD

Joakim Frimodig has been appointed Interim CEO as of 4 May 2017.

In April 2017, Norvestia has applied for the delisting of its shares from the stock exchange. CapMan estimates that Norvestia's minority shares will be transferred to CapMan after the security has been granted on or about in June 2017, at the earliest. The progress and duration of the proceedings are however dependent on the arbitrators and other parties of the proceedings.

## SIGNIFICANT RISKS AND SHORT-TERM UNCERTAINTIES

Private equity investment is generally subject to a risk of non-liquid investments, among others, which means uncertainty of the realization of any increase in value, a risk concerning general economic development and market situation and a risk concerning the economy and political situation of target countries.

Investment operations carried out by CapMan are subject to general market risk. Market values can change, for example, because of fluctuations in the equity, fixed income, currency and real estate markets. Changes in market values impact the result of CapMan through the appreciations of its investment assets. Changes in the equity markets also influence the valuation of unlisted portfolio companies because the valuation methods used by funds include the share values of suitable listed companies. Economic uncertainty may have a direct impact on the success of the funds administered by CapMan, on the success of CapMan's investment activities, and also on the assets available for investment or solvency of the current and potential investors of the funds.

The business operations of the CapMan Group have a material risk of failure regarding the establishment of new private equity funds and their fundraising. Successful funding is important to management fees and creates opportunity for receiving carried interest income in the future. For example, poor performance of investments made by funds managed by CapMan, increasing competition or other reasons that are independent of CapMan may make it more difficult to raise funds from new or current investors in the future.

The values of growth companies can vary positively or negatively within short periods if changes occur in the peer group or in the interest in the company of

potential buyers. As a result of exit processes, significant return is typically realised on successful growth investments also in the short term as the exit price is based on strategic value and synergies created for the buyer, and not directly on peer group multiples.

The timing of exits and the magnitude of the potential carried interest profits are difficult to foretell. The timing of fees from fund advisory activities are difficult to predict due to the nature of the business.

Group companies managing a fund may in certain circumstances, pursuant to the terms of the fund agreement, have to return carried interest income they have received (so-called clawback). The obligation to return carried interest income applies typically when the fund management company is deemed to have received a higher total carried interest income when the fund expires than what it was entitled to under the fund agreement. CapMan books received carried interest income on a cash basis. As such, only realised carried interest income is booked in CapMan's result. Returned carried interest income based on clawback conditions would in turn have a negative impact on CapMan's result as a potential clawback provision may not be sufficient. CapMan has recorded a EUR 7.5 million clawback provision for the CapMan Real Estate I KY fund. The sufficiency of the provision is reviewed quarterly by the management but its actual amount will only be known after all target investments of the fund have been liquidated. The realisation of the clawback liability would have

a negative cash flow impact and it is possible that the provision made is not sufficient.

The company's financing agreements include financing covenants and other conditions. Violation of covenants related to financing agreements and a failure to fulfil other contractual terms may cause the cost of financing to increase significantly and even jeopardise continued financing for CapMan.

Changes in the securities markets regulation, significant domestic or international tax regulation or practice and regulation generally applicable to business operations, or measures and actions by authorities or requirements set by authorities, or in the manner in which such laws, regulations and actions are implemented or interpreted, as well as the application and implementation of new laws and regulations, may have a significant effect on CapMan's business operations.

## GENERAL BUSINESS ENVIRONMENT

Economic growth in the Nordic countries is forecast to remain moderate in 2017. Sweden's growth is expected to slow down somewhat, while the outlook for Finland has clearly improved following strengthened export conditions, among others.<sup>1</sup>

The hunt for yield remains a recurring theme in the capital markets and alternative investments are perceived as increasingly attractive. According to

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<sup>1</sup> Danske Bank Nordic Outlook March 2017



an investor survey by Preqin, 48 per cent of respondents plan to increase allocations in private equity, 36 per cent in real estate, 53 per cent in infrastructure and 62 per cent in private debt.<sup>2</sup>

### Private Equity

Long-term returns of the private equity market have been historically higher compared to other asset classes. The 10-year median net return of European buyout funds was 11 per cent p.a., which was 7 percentage points higher compared to a comparable stock market index.<sup>3</sup> Private equity investments by Finnish pension insurance companies have returned on average 10 per cent p.a. during the past 10 years.<sup>4</sup> Almost half of respondents to Preqin's survey expect their private equity portfolio to outperform stock markets by at least 4.1 percentage points.<sup>5</sup>

In line with previous years, distributions from private equity funds have exceeded capital calls in 2016.<sup>6</sup> Attitudes towards private equity have become more positive in recent years. According to Preqin, 84 per cent of investors have a positive perception of the asset class and 95 per cent consider that the development of their private equity portfolio has either met or exceeded their expectations. 96 per cent of investors expect to either increase or maintain allocations into European private equity in the long term. More than half of

respondents believe small and mid-sized buyout funds offer the best opportunities.<sup>7</sup>

The prevalent interest in private equity as an asset class is also reflected in the fundraising market. The number of funds in the market has grown steadily since 2010 and target fund sizes are at new record levels. The competition for capital remains intense as new funds enter the market. Investors are increasingly looking to commit bigger tickets to fewer funds compared to the past few years.<sup>8</sup> In addition, co-investments or direct investments have become more popular.

Nordic buyouts have had a slow start in 2017 as activity was lower compared to last year both in terms of number and value of deals completed. The bullish stock market has increased multiples in the region overall, but discrepancies between buyers' and sellers' price expectations restrict the completion of transactions. The average deal size has also decreased during the past year.<sup>9</sup> Relatively high valuations support the exit market and recent Nordic IPO activity indicates that the stock market remains an attractive exit route.

Fundraising for private debt funds has had a strong start in 2017 and direct lending funds have so far proven most successful.<sup>10</sup> Flexible unitranche

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<sup>2</sup> Preqin Investor Outlook Alternative Assets H1 2017

<sup>3</sup> Bain & Company Global Private Equity report 2017

<sup>4</sup> Tela

<sup>5</sup> Preqin Private Equity and Venture Capital Spotlight March 2017

<sup>6</sup> Bain & Co Global Private Equity Report 2017

<sup>7</sup> Preqin Private Equity and Venture Capital Spotlight March 2017

<sup>8</sup> Preqin Private Equity Quarterly Update Q1 2017

<sup>9</sup> Unquote 11.4.2017

<sup>10</sup> Preqin Fundraising Update Q1 2017

financing competes increasingly with bank financing in the European private debt market.<sup>11</sup>

## Real Estate

Based on the preliminary market data, transaction volume in the Nordic real estate market amounted to circa EUR 8 billion in Q1 2017, which represents a 5 per cent increase year over year.<sup>12</sup>

The steady increase in transaction volumes across the Nordic region compressed the yields further. Yield compression has especially impacted secondary assets and the yield gap to prime has decreased. In Sweden, prime offices traded at 3.8 per cent while cap rates for retail properties stood at 4.0 per cent as of Q1 2017.<sup>13</sup> In Denmark, prime office and retail yields stood around 4.0 per cent and 3.3 per cent, respectively, at the end of the quarter.<sup>14</sup> Also, the Finnish property investment market has remained strong in the beginning of the year with prime yields ranging between 4.0 per cent (office) and 3.8 per cent (retail) in the Helsinki city centre. When it comes to the secondary stock, pricing of risk still differs substantially across the Nordic countries. Typically, the yield premium obtained from secondary assets over A-class properties is 100 to 300 basis points depending on the location and qualities of the asset.<sup>15</sup>

The Nordic occupancy markets have benefitted from the macro-economic growth and positive momentum has continued leading to decreasing vacancies and rent hikes. In the first quarter of 2017, occupancy activity has notably increased in the Helsinki Metropolitan Area which has previously suffered from high market vacancy.<sup>16</sup>

## CAPMAN MAINTAINS ITS OUTLOOK ESTIMATE FOR 2017

CapMan renewed its financial objectives at the end of 2016. The growth objective for Management Company and Services business is more than 10 per cent p.a. on average. The objective for return on equity is more than 20 per cent p.a. on average. The objective for net gearing, that is ratio of interest bearing debt to equity, is a maximum of 40 per cent on average. CapMan's objective is to pay at least 75 per cent of earnings per share as dividend.

CapMan expects to achieve these financial objectives gradually and key figures are expected to show seasonality. CapMan expects fees from services to have a larger impact on results from the Management Company and Services business in 2017. The Management Company and Services business is profitable before carried interest income and any possible items affecting comparability. The integration of Norvestia and other growth initiatives will generate expenses in 2017.

<sup>11</sup> Marlborough Partners Q4 2016 Market Update

<sup>12</sup> CapMan Real Estate

<sup>13</sup> Savills Swedish Market report Q1 2017

<sup>14</sup> Sadolin&Albaek Newsletter Q1 2017

<sup>15</sup> KTI

<sup>16</sup> KTI, CapMan Real Estate

The return on 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 of CapMan's overall investments in addition to company and real estate specific development.

CapMan's objective is to improve results longer term, taking into account the seasonality affecting services and the Investment business. For these and other above mentioned reasons, CapMan does not provide numeric estimates for 2017.

Helsinki 4 May 2017

**CapMan Plc**  
Board of Directors

CapMan Group's Half-Year report for 2017 is published on Thursday 10 August 2017.

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NASDAQ Helsinki Ltd  
Principal media  
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**Appendices (after the financial tables):**

Appendix 1: The CapMan Group's funds under management as of 31 March 2017

Appendix 2: Operations of CapMan's funds under management January-March 2017

Appendix 3: Description of CapMan's business operations

**GROUP STATEMENT OF COMPREHENSIVE INCOME (IFRS)**

€('000)	1-3/17	1-3/16	1-12/16
Fee income	6,350	6,577	26,632
Carried interest	0	963	45
Dividend and interest income from financial assets held for trading	1,149		
<b>Turnover</b>	<b>7,499</b>	7,540	26,677
Other operating income	3	29	126
Personnel expenses	-5,007	-4,399	-18,291
Depreciation and amortisation	-56	-62	-257
Other operating expenses	-2,204	-2,313	-12,190
Fair value changes of investments	10,308	3,051	22,607
<b>Operating profit</b>	<b>10,543</b>	3,846	18,672
Financial income and expenses	-901	-848	-3,139
Share of the income of investments accounted for using the equity method	0	0	-8
<b>Profit before taxes</b>	<b>9,642</b>	2,998	15,525
Income taxes	-586	-147	-239
<b>Profit for the period</b>	<b>9,057</b>	2,851	15,286
<b>Other comprehensive income:</b>			

Translation differences	0	31	-195
<b>Total comprehensive income</b>	<b>9,057</b>	2,882	15,091
<b>Profit attributable to:</b>			
Equity holders of the company	<b>9,057</b>	2,851	15,286
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company	<b>9,057</b>	2,882	15,091
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>			
Earnings per share, cents	<b>6.0</b>	3.0	16.2
Diluted, cents	<b>5.9</b>	3.0	16.1

Accrued interest payable on the hybrid bond, net of taxes, has been deducted from the earnings per share.

**GROUP BALANCE SHEET (IFRS)**

€('000)	31.3.17	31.3.16	31.12.16
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	172	181	169
Goodwill	6,204	6,204	6,204
Other intangible assets	230	433	277
Investments accounted for using the equity method	87	95	87
Investments at fair value through profit and loss			
Investments in funds	51,658	50,130	51,394
Growth equity investments	28,158	0	37,856
Other financial assets	179	46,279	179
Investments in joint ventures	5,362	7,650	5,376
Receivables	4,419	6,043	5,202
Deferred income tax assets	2,712	4,400	4,887
	99,182	121,415	111,631
<b>Current assets</b>			
Trade and other receivables	6,661	7,860	9,849
Financial assets at fair value through profit and loss	80,174	306	86,213
Cash and bank	43,931	26,759	45,001
	130,766	34,925	141,063
<b>Total assets</b>	<b>229,947</b>	<b>156,340</b>	<b>252,694</b>

€('000)	31.3.17	31.3.16	31.12.16
<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	82,188	27,397	97,111
Translation difference	-101	127	-101
Retained earnings	-1,933	-5,158	6,229
<b>Total equity</b>	<b>119,894</b>	<b>62,106</b>	<b>142,979</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	11,591	1,957	9,868
Interest-bearing loans and borrowings	48,103	67,389	48,065
Other non-current liabilities	124	0	124
	<b>59,818</b>	<b>69,346</b>	<b>58,057</b>
<b>Current liabilities</b>			
Trade and other payables	31,899	22,888	33,341
Interest-bearing loans and borrowings	18,000	2,000	18,000
Current income tax liabilities	337	0	317
	<b>50,235</b>	<b>24,888</b>	<b>51,658</b>
<b>Total liabilities</b>	<b>110,053</b>	<b>94,234</b>	<b>109,715</b>
<b>Total equity and liabilities</b>	<b>229,947</b>	<b>156,340</b>	<b>252,694</b>



## GROUP STATEMENT OF CHANGES IN EQUITY

€ ('000)	Attributable to the equity holders of the Company					
	Share capital	Share premium account	Other reserves	Translation differences	Retained earnings	Total
Equity on 1 January 2016	772	38,968	27,397	96	-2,048	65,185
Profit for the period					2,851	2,851
Other comprehensive income for the period						
Currency translation differences				31		31
Total comprehensive income for the period				31	2,851	2,882
Options					81	81
Dividends					-6,042	-6,042
Equity on 31 March 2016	772	38,968	27,397	127	-5,158	62,106
Equity on 1 January 2017	772	38,968	97,111	-101	6,229	142,979
Profit for the period					9,057	9,057
Total comprehensive income for the period				0	9,057	9,057
Options			77		-26	51
Dividends					-13,047	-13,047
Hybrid bond, interest and other expenses			-15,000		-4,146	-19,146
<b>Equity on 31 March 2017</b>	<b>772</b>	<b>38,968</b>	<b>82,188</b>	<b>-101</b>	<b>-1,933</b>	<b>119,894</b>

**STATEMENT OF CASH FLOW (IFRS)**

€ ('000)	1-3/17	1-3/16	1-12/16
<b>Cash flow from operations</b>			
Profit for the financial year	9,057	2,851	15,286
Adjustments on cash flow statement	-8,715	-1,274	-18,520
Change in working capital:			
Change in current non-interest-bearing receivables	174	-301	1,681
Change in current trade payables and other non-interest-bearing liabilities	3,546	4,211	2,949
Interest paid	-751	-19	-4,213
Taxes paid	-65	-144	-310
<b>Cash flow from operations</b>	<b>3,246</b>	<b>5,324</b>	<b>-3,126</b>
<b>Cash flow from investing activities</b>			
Acquisition of subsidiaries	-1,117		6,241
Investments in tangible and intangible assets	-12		-23
Investments at fair value through profit and loss	28,100	-3,405	10,838
Long-term loan receivables granted	-35	-265	-2,295
Proceeds from long-term receivables	1,193		3,055
Dividends received	0	3,471	18,841
Interest received	185	58	662
<b>Cash flow from investing activities</b>	<b>28,314</b>	<b>-141</b>	<b>37,319</b>
<b>Cash flow from financing activities</b>			
Repayment of long-term loan	-15,000		-4,729
Paid withheld tax on dividends	-6,151		
Dividends paid	-11,480		-6,040
<b>Cash flow from financing activities</b>	<b>-32,631</b>	<b>0</b>	<b>-10,769</b>

<b>Change in cash and cash equivalents</b>	<b>-1,071</b>	5,183	23,425
Cash and cash equivalents at start of year	<b>45,001</b>	21,576	21,576
<b>Cash and cash equivalents at end of year</b>	<b>43,931</b>	26,759	45,001

## ACCOUNTING PRINCIPLES

This unaudited interim report is prepared in accordance with IAS 34 (Interim Financial Reporting) using the same accounting policies and methods of computation as in the previous annual financial statements.

Figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

## ITEMS AFFECTING COMPARABILITY AND ALTERNATIVE PERFORMANCE MEASURES

CapMan uses alternative performance measures to denote the financial performance of its business and to improve the comparability between different periods. Alternative performance measures do not replace performance measures in accordance with the IFRS and are reported in addition to such measures. Alternative performance measures, as such are presented, are derived from performance measures as reported in accordance with the IFRS by adding or deducting the items affecting comparability and they will be nominated as adjusted.

Items affecting comparability are, among others, material items related to mergers and acquisitions or major development projects, material gains or losses related to the acquisition or disposals of business units, material gains or losses related to the acquisition or disposal of intangible assets, material expenses related to decisions by authorities and material gains or losses related to reassessment of potential repayment risk to the funds.

€ ('000)	1-3/17	1-3/16	1-12/16
Turnover	7,499	7,540	26,677
Items affecting comparability			
Reassessment of potential repayment risk to the funds			2,278
Items affecting comparability, total			2,278
Adjusted turnover	7,499	7,540	28,955
Operating profit	10,543	3,846	18,672
Items affecting comparability			
Items related to the acquisition of Norvestia, of which:			-7,109
gain from a bargain purchase			-13,885
loss from the remeasurement of previous ownership at fair value			3,957
transaction costs			2,819
Norvestia integration related costs	360		
Reassessment of potential repayment risk to the funds			2 278
Write-down of a value-added tax receivable			975
Insurance compensations			-294

Items affecting comparability, total	<b>360</b>		-4,150
Adjusted operating profit	<b>10,903</b>	3,846	14,522
Profit for the period	<b>9,057</b>	2,851	15,286
Items affecting comparability			
Items related to the acquisition of Norvestia			-7,247
Norvestia integration related costs	<b>288</b>		
Reassessment of potential repayment risk to the funds			1,822
Write-down of a value-added tax receivable			1,255
Insurance compensations			-236
Items affecting comparability, total	<b>288</b>		-4,406
Adjusted profit for the period	<b>9,345</b>	2,851	10,879
Earnings per share, cents	<b>6.0</b>	3.0	16.2
Items affecting comparability, cents	<b>0.2</b>		-5.0
Adjusted earnings per share, cents	<b>6.2</b>	3.0	11.2
Earnings per share, diluted, cents	<b>5.9</b>	3.0	16.1
Items affecting comparability, cents	<b>0.2</b>		-4.9
Adjusted earnings per share, diluted, cents	<b>6.1</b>	3.0	11.2

## SEGMENT INFORMATION

CapMan has two operating segments: the Management company and service business and Investments business.

The Management company business is subdivided into two business areas: CapMan Private Equity, which manages funds that invest in portfolio companies, and CapMan Real Estate, which manages funds that invest in real estate.

Income from the Management company and service business is derived from fees and carried interest received from funds. The fees include management fees related to CapMan's position as a fund management company and fees

from CapMan's service business comprising procurement services (CaPS), fundraising advisory services and other services related to fund management.

The Investments business comprises fund investments made from CapMan's balance sheet, growth equity investments, investments in Maneq funds and investments in associated companies as well as short-term market investments held for trading. Income from the Investment business is derived from realised returns on fund investments and unrealised changes in the fair value of investments.



<b>1-3/2017</b>	<b>Management company and Services business</b>			<b>Investment business</b>	<b>Total</b>
€ ('000)	CapMan Private Equity	CapMan Real Estate	Total		
Turnover	<b>4,315</b>	<b>2,035</b>	<b>6,350</b>	<b>1,149</b>	<b>7,499</b>
Operating profit	<b>66</b>	<b>1</b>	<b>67</b>	<b>10,476</b>	<b>10,543</b>
Items affecting comparability					
Norvestia integration related costs				360	<b>360</b>
Items affecting comparability, total				360	<b>360</b>
Adjusted operating profit	<b>66</b>	<b>1</b>	<b>67</b>	<b>10,836</b>	<b>10,903</b>
Profit for the period	<b>-132</b>	<b>1</b>	<b>-131</b>	<b>9,188</b>	<b>9,057</b>
Items affecting comparability					
Norvestia integration related costs				288	<b>288</b>
Items affecting comparability, total				288	<b>288</b>
Adjusted profit for the period	<b>-132</b>	<b>1</b>	<b>-131</b>	<b>9,476</b>	<b>9,345</b>
Earnings per share, cents					<b>6,0</b>
Items affecting comparability, cents					0,2
Adjusted earnings per share, cents					<b>6,2</b>
Earnings per share, diluted, cents					<b>5,9</b>
Items affecting comparability, cents					0,2
Adjusted earnings per share, diluted, cents					<b>6,1</b>
Non-current assets	<b>6,190</b>	<b>578</b>	<b>6,768</b>	<b>92,413</b>	<b>99,181</b>
Total assets include:					
Investments accounted for using the equity method	0	0	<b>0</b>	<b>87</b>	<b>87</b>
Investments in joint ventures	0	0	<b>0</b>	<b>5,362</b>	<b>5,362</b>

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

1-12/2016	Management company and Services business			Investment business	Total
€ ('000)	CapMan Private Equity	CapMan Real Estate	Total		
Turnover	20,430	6,247	26,677	0	26,677
Items affecting comparability					
Reassessment of potential repayment risk to the funds		2,278	2,278	0	2,278
Items affecting comparability, total	0	2,278	2,278	0	2,278
Adjusted turnover	20,430	8,525	28,955	0	28,955
Operating profit	412	-1,905	-1,493	20,165	18,672
Items affecting comparability					
Items related to the acquisition of Norvestia, of which:	215		215	-7,324	-7,109
gain from a bargain purchase				-13,885	-13,885
loss from the remeasurement of previous ownership at fair value				3,957	3,957
transaction costs	215		215	2,604	2,819
Reassessment of potential repayment risk to the funds		2,278	2,278		2,278
Write-down of a value-added tax receivable	975		975		975
Insurance compensations	-294		-294		-294
Items affecting comparability, total	896	2,278	3,174	-7,324	-4,150
Adjusted operating profit	1,308	373	1,681	12,841	14,522
Profit for the period	-103	-1,524	-1,627	16,913	15,286
Items affecting comparability					
Items related to the acquisition of Norvestia	172		172	-7,419	-7,247
Reassessment of potential repayment risk to the funds		1,822	1,822		1,822

Write-down of a value-added tax receivable	1,255		1,255		1,255
Insurance compensations	-236		-236		-236
Items affecting comparability, total	1,191	1,822	3,013	-7,419	-4,406
Adjusted profit for the period	1,088	298	1,386	9,494	10,880
Earnings per share, cents					16,2
Items affecting comparability, cents					-5,0
Adjusted earnings per share, cents					11,2
Earnings per share, diluted, cents					16,1
Items affecting comparability, cents					-4,9
Adjusted earnings per share, diluted, cents					11,2
Non-current assets	6,219	591	6,810	104,821	111,631
Total assets include:					
Investments accounted for using the equity method	0	0	0	87	87
Investments in joint ventures	0	0	0	5,376	5,376

## 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 0.09 per share, totalling EUR 13.0 million, for the financial year 2016 was paid to the shareholders on April 3, 2017. A dividend of EUR 0.07 per share, totalling MEUR 6.0, was paid for the financial year 2015.

## DERIVATIVE CONTRACTS

The Group uses standardized derivative contracts to make portfolio management more effective. The fair values of the derivative contracts as well as the underlying values are given in the table below. The fair values are adjusted for the corresponding share's dividend income. Derivative contracts are recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. The fair value of futures corresponds to the futures' gain or loss. Hedge accounting is not used.

€ ('000)	31.3.17	31.12.16
Index derivatives, bought call options, sold put options and sold futures		
Fair value	-302	-113
Underlying value	-14,460	-14,416

## NON-CURRENT ASSETS

### Fund investments at fair value through profit or loss

€ ('000)	31.3.17	31.12.16
Book value, Jan 1	51,394	47,249
Acquisitions	-	6,393
Additions	595	7,539
Distributions	-1,379	-14,416
Fair value gains/losses	1,048	4,629
<b>Book value at the end of period</b>	<b>51,658</b>	<b>51,394</b>
Investments in funds by investment area:		
Buyout	21,962	20,617
Credit	2,537	2,491
Russia	4,669	4,399
Real Estate	12,860	13,163
Other	1,161	2,078
Funds of funds	1,695	1,657
Norvestia	6,774	6,989
<b>In total</b>	<b>51,658</b>	<b>51,394</b>

Investments in funds include the subsidiary, CapMan Fund Investments SICAV-SIF, with a fair value of MEUR 28.2 at the end of the reporting period.

**Growth Equity investments at fair value through profit or loss**

€ ('000)	31.3.17	31.12.16
Book value, Jan 1	37,856	0
Acquisitions		37,940
Additions	1,600	-
Decreases	-20,921	-
Fair value gains/losses	9,623	-84
<b>Book value at the end of period</b>	<b>28,158</b>	<b>37,856</b>

Growth Equity investments include direct minority investments in Nordic unlisted companies. Associated companies being growth equity investments are measured at fair value according to the exemption from applying the equity method under IAS 28. If the investments have no active market then the fair value is determined quarterly by using valuation methods according to IPEVG. The valuations are based on forecasted cash flows or peer group multiples. In estimating fair value of an investment, a method that is the most appropriate in light of the facts, nature and circumstances of the investment is applied. External valuations are made at least once a year to verify the fair values of growth equity investments.

**Other investments at fair value through profit or loss**

€ ('000)	31.3.17	31.12.16
Book value, Jan 1	179	48,784
Additions		124
Distributions		-18,191
Acquisitions		-31,637
Fair value gains/losses		1,099
<b>Book value at the end of period</b>	<b>179</b>	<b>179</b>

Until acquiring the control in Norvestia Oyj on December 19, 2016, other investments mainly included shares in CapMan's associated company, Norvestia Oyj.



**Investments in joint ventures at fair value through profit or loss**

€ ('000)	31.3.17	31.12.16
Book value, Jan 1	5,376	7,651
Additions	72	
Distributions		-2,484
Fair value gains/losses	-86	209
<b>Book value at the end of period</b>	<b>5,362</b>	<b>5,376</b>

**Fair value hierarchy of financial assets measured at fair value at 31 March 2017**

	<b>Fair value</b>	Level 1	Level 2	Level 3
Investments in funds	<b>51,658</b>		41	51,617
Growth equity investments	<b>28,158</b>			28,158
Joint ventures	<b>5,362</b>			5,362
Other non-current investments	<b>179</b>		124	55
Current financial assets at FVTPL*	<b>80,174</b>	69,527	10,647	

\*fair value through profit or loss

The different levels have been defined as follows:

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

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

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

	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit or loss</b>				
<b>Investments in funds</b>				
at Jan 1		41	51,353	51,394
Additions			595	595
Distributions			-1,379	-1,379
Fair value gains/losses			1,048	1,048
at the end of period		41	51,617	51,658
<b>Growth Equity investments</b>				
at Jan 1			37,856	37,856
Additions			1,600	
Decreases			-20,921	
Fair value gains/losses			9,623	9,623
at the end of period			28,158	28,158
<b>Other investments</b>				
at Jan 1		124	55	179
at the end of period		124	55	179
<b>Investments in joint ventures</b>				
at Jan 1			5,376	5,376
Additions			72	72
Fair value gains/losses			-86	-86
at the end of period			5,362	5,362

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

**Fair value hierarchy of financial assets measured at fair value at 31 December 2016**

	<b>Fair value</b>	Level 1	Level 2	Level 3
Investments in funds	<b>51,394</b>		41	51,353
Growth equity investments	<b>37,856</b>			37,856
Joint ventures	<b>5,376</b>			5,376
Other non-current investments	<b>179</b>		124	55
Current financial assets at FVTPL*	<b>86,213</b>	75,818	10,395	

\*fair value through profit or loss

The different levels have been defined as follows:

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

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

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

	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit or loss</b>				
<b>Investments in funds</b>				
at Jan 1		548	46,701	47,249
Acquisitions			6,393	6,393
Additions			7,539	7,539
Distributions		-480	-13,936	-14,416
Fair value gains/losses		-27	4,656	4,629
at the end of period		41	51,353	51,394
<b>Growth equity investments</b>				
at Jan 1			0	0
Acquisitions			37,940	37,940
Fair value gains/losses			-84	-84
at the end of period			37,856	37,856
<b>Other investments</b>				
at Jan 1		0	48,784	48,784
Additions		124	0	124
Disposals			-18,191	-18,191
Acquisitions			-31,637	-31,637
Fair value gains/losses			1,099	1,099
at the end of period		124	55	179
<b>Investments in joint ventures</b>				
at Jan 1			7,651	7,651
Disposals			-2,484	-2,484
Fair value gains/losses			209	209
at the end of period			5,376	5,376

Fund investments on Level 2 are investments in the CapMan Public Market fund. All other fund investments are included in Level 3.

Other investments reported on Level 3 included Norvestia's shares until acquiring control in Norvestia on December 19, 2016.

Investments in joint ventures reported on Level 3 include investments in Maneq Investments Luxembourg S.a.r.l.

There were no transfers from one level to another during the review period.

## Sensitivity analysis of Level 3 investments at 31 March 2017

Investment area	Fair value (MEUR) 31 March 2017	Valuation methodology	Unobservable inputs	Used input value (weighted average)	Dair value sensitivity to a +/- 10% change in input value
Growth Equity	28.2	Discounted cash flows	Discount rate	12 %	-2.1 / +2.8
		Peer group	Peer group earnings multiples	EV/Sales 2017 0.7x EV/EBITDA 2017 10.6	+/- 0.2
			Discount to peer group multiples	20 %	-/+ 0.5
Buyout	22.0	Peer group	Peer group earnings multiples	EV/EBITDA 2016 8.7x	+/-3.2
			Discount to peer group multiples	24 %	+/- 1.1
Real Estate	12.9	Valuation by an independent valuer	NA	NA	NA
Norvestia investments in PE funds	6.8	Reports from PE fund management company	NA	NA	NA
Investments in joint ventures	5.4	Discounted cash flows	Discount rate	15 %	- 0.2 / value increase based on change in the discount rate is not booked
Russia	4.7	Peer group	Peer group earnings multiples	EV/EBITDA 2016 13.0x	- 0.4 / + 0.3
			Discount to peer group multiples	35 %	- 0.2 / + 0.1

<b>Credit</b>	<b>2.5</b>	Discounted cash flows	Discount rate, market rate and risk premium	11 %	- 0.1 / value increase based on change in the discount rate is not booked
<b>Fund of funds</b>	<b>1.7</b>	Reports from PE fund management company	NA	NA	NA
<b>Other investment areas</b>	<b>1.1</b>	Peer group	Peer group earnings multiples	EV/EBITDA 2016 9.0x	+/- 0.1
			Discount to peer group multiples	20 %	-/+ 0.0



**Sensitivity analysis of Level 3 investments at 31 December 2016**

Investment area	Fair value (MEUR) 31 March 2017 31.12.2016	Valuation methodology	Unobservable inputs	Used input value (weighted average)	Dair value sensitivity to a +/- 10% change in input value
Growth Equity	37.9	Discounted cash flows	Discount rate	12 %	-2.3 / +3.0
		Peer group	Peer group earnings multiples	EV/Sales 2017 1.3x EV/EBITDA 2017 11.8x	+/- 1.4
			Discount to peer group multiples	4 %	-/+ 0.5
Buyout	20.6	Peer group	Peer group earnings multiples	EV/EBITDA 2016 9.1x	+/- 3.2
			Discount to peer group multiples	23 %	+/- 1.1
Real Estate	13.2	Valuation by an independent valuer	NA	NA	NA
Norvestia investments in PE funds	7.0	Reports from PE fund management company	NA	NA	NA
Investments in joint ventures	5.4	Discounted cash flows	Discount rate	15 %	- 0.2 / value increase based on change in the discount rate is not booked

Russia	4.4	Peer group	Peer group earnings multiples	EV/EBITDA 2016 13.0x	- 0.4 / + 0.3
			Discount to peer group multiples	35 %	- 0.2 / + 0.1
Credit	2.5	Discounted cash flows	Discount rate, market rate and risk premium	11 %	- 0.1 / value increase based on change in the discount rate is not booked
Fund of funds	1.7	Reports from PE fund management company	NA	NA	NA
Other investment areas	2.0	Peer group	Peer group earnings multiples	EV/EBITDA 2016 9.0x	+/- 0.1
			Discount to peer group multiples	20 %	-/+ 0.0

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 or 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.

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:

Future rental cash inflows:	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;
Discount rates:	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
Estimated vacancy rates:	Based on current and expected future market conditions after expiry of any current lease;
Property operating expenses:	Including necessary investments to maintain functionality of the property for its expected useful life;
Capitalisation rates:	Based on actual location size and quality of the properties and taking into account market data at the valuation date;
Terminal value:	Taking into account assumptions regarding maintenance costs, vacancy rates and market rents.

In the valuation of Norvestia's growth investments, several inputs including acquisition price, the nature of the investment and sector, market conditions and discount rate, trading values on public exchanges for comparable securities, current and projected revenue and operating performance as well as financing transactions subsequent to the acquisition of the investment, are taken into account in valuations. The development stage of the company also has a significant effect on the selection of the valuation method. Comparable peer group analysis is not usually a suitable valuation method for fast growing unlisted companies as the peer group typically consists of significantly larger, mature-stage listed companies. Due to the qualitative nature of the valuation methodologies, they are mainly based on CapMan's judgment.

"Valuation methods used in the valuation of growth investments are as follows:

- discounted cash flow
- earnings multiple valuation, whereby public peer group multiples are used to estimate the value of a particular investment
- acquisition price, particularly with new investments."

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. The investment is made through several separate instruments and their values are co-dependent. Therefore, the investment has been values as one entity.

## NON-CURRENT LIABILITIES

€ ('000)	<b>31.3.17</b>	31.3.17
Interest bearing loans at end of review period	<b>51,658</b>	48,065

## 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

<b>By country</b>	<b>31.3.17</b>	31.12.16
Finland	<b>76</b>	69
Sweden	<b>21</b>	22
Denmark	<b>3</b>	2
Russia	<b>12</b>	11
Luxembourg	<b>1</b>	1
United Kingdom	<b>3</b>	3
<b>In total</b>	<b>116</b>	108

**CONTINGENT LIABILITIES**

€ ('000)	<b>31.3.17</b>	31.12.16
Leasing agreements	<b>3,651</b>	3,817
Securities and other contingent liabilities	<b>41,961</b>	42,139
Remaining commitments to funds	<b>35,915</b>	36,518
Remaining commitments by investment area		
Buyout	<b>12,757</b>	12,919
Credit	<b>3,407</b>	3,407
Russia	<b>1,645</b>	1,831
Real Estate	<b>1,003</b>	1,003
Other	<b>4,706</b>	4,747
Funds of funds	<b>720</b>	722
Norvestia	<b>11,677</b>	11,889
In total	<b>35,915</b>	36,518

## RELATED PARTIES

### Loans to related parties

CapMan has granted a Management Group member a short-term loan of 133 thousand euros, the interest rate of which being 12-month Euribor + margin of 1%. The loan has been originally granted in January 2016 and it has been renewed in January 2017 and it will mature in December 2017.

### Commitments to related parties

€ ('000)	<b>31.3.17</b>	31.12.16
Commitments to Maneq funds	<b>4,003</b>	4,075

CapMan estimates that MEUR 20-25 of the remaining commitments will be called in the next 4 years, particularly due to unused investment capacity of the older funds.



**TURNOVER AND PROFIT QUARTERLY****2017**

MEUR	1-3/17
Turnover	7.5
Fee income	6.4
Carried interest	0.0
Dividend and interest income from financial assets held for trading	1.1
Other operating income	0.0
Operating expenses	-7.3
Fair value changes of investments	10.3
Operating profit	10.5
Financial income and expenses	-0.9
Share of the income of investments accounted for using the equity method	0.0
Profit / loss before taxes	9.6
Profit / loss for the period	9.1

## 2016

MEUR	1-3/16	4-6/16	7-9/16	10-12/16	1-12/16
Turnover	7.5	7.9	6.6	4.6	26.6
Fees	6.5	7.4	6.3	6.4	26.6
Carried interest	1.0	0.5	0.3	-1.8	0.0
Other operating income	0.0	0.1	0.0	0.0	0.1
Operating expenses	-6.8	-7.5	-6.7	-9.7	-30.7
Fair value changes of investments	3.1	2.9	2.9	13.7	22.6
Operating profit	3.8	3.3	2.8	8.7	18.6
Financial income and expenses	-0.8	-0.9	-0.8	-0.6	-3.1
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	3.0	2.5	2.1	8.0	15.6
Profit / loss for the period	2.9	2.3	1.9	8.2	15.3

# Appendix 1: The CapMan Group's funds under management as of 31 March 2017

The tables below show the status of the funds managed by CapMan as of 31 March 2017. 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 (current strategies); 3) Funds in the active investment phase (current strategies; and 4) Other funds.

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 are not part of CapMan's current strategy or 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.

## PRIVATE EQUITY FUNDS, MEUR

	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 March 2017	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		
Funds generating carried interest									
FM IIIB, CME VII B, FM III A, CME VII A, CM Sweden, CMPM									
Total	539.8	535.6	33.3	5.9	2.4	843.9	16.9		10-20 %
Funds in exit and value creation phase (current strategies)									
CMB VIII <sup>1)</sup>	440.0	406.8	110.4	112.8	2.1	382.1		280.2	12 %
CMR	118.1	118.0	69.4	87.0	0.2	23.3		158.4	3,4 %
CMB IX	294.6	298.7	171.9	154.8	0.9	173.0		262.7	10 %
CMM V	95.0	85.0	41.0	50.7	0.0	59.0		36.6	10 %
Total	947.7	908.5	392.7	405.3	3.2	637.4			
Funds in active investment phase (current strategies)									
CMB X <sup>1)</sup>	244.5	224.8	169.4	211.7	2.2	44.5			8 %
CMR II	99.1	37.0	20.2	14.3	9.4	1.0			8 %
NC 2015	100.5	2.3	0.0	0.0	0.4	0.0			6 %
Total	444.1	264.1	189.6	226.0	12.0	45.5			
Other funds									
SWE Tech <sup>1), 2)</sup> , CME VII C, CMM IV <sup>3)</sup> , CMLS IV, CMT 2007 <sup>1)</sup>									
Total	487.3	477.9	47.3	28.4	0.1	464.7			
Total private equity funds	2,418.9	2,186.1	662.9	665.6	17.7	1,991.5	16.9		

## REAL ESTATE FUNDS, MEUR

	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 March 2017	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 (current strategies)</b>									
CMRE II									
Equity	150.0	150.0	143.4	113.7		55.7		217.7	12 %
Debt financing	450.0	301.7	129.0	129.0					
<b>Total</b>	<b>600.0</b>	<b>451.7</b>	<b>272.4</b>	<b>242.7</b>	<b>6.1</b>	<b>55.7</b>			
CMHRE									
Equity	332.5	325.1	420.8	338.2		132.7		464.2	12 %
Debt financing	617.5	542.6	437.3	437.3					
<b>Total</b>	<b>950.0</b>	<b>867.7</b>	<b>858.1</b>	<b>775.5</b>	<b>15.7</b>	<b>132.7</b>			
Kokoelmakeskus Ky									
Equity	19.3	19.3	19.5	18.0		0.8		20.1	10 %
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>19.3</b>	<b>19.3</b>	<b>19.5</b>	<b>18.0</b>	<b>1.4</b>	<b>0.8</b>			
<b>Total</b>	<b>1,569.3</b>	<b>1,338.7</b>	<b>1,150.0</b>	<b>1,036.2</b>		<b>189.2</b>			
<b>Funds in active investment phase (current strategies)</b>									
CMNRE									
Equity	273.3	239.9	144.5	202.1		120.2			8 %
Debt financing	0.0	0.0	0.0	0.0					
<b>Total</b>	<b>273.3</b>	<b>239.9</b>	<b>144.5</b>	<b>202.1</b>	<b>-29.6</b>	<b>120.2</b>			
<b>Other funds</b>									
CMRE I <sup>4)</sup>									
Equity and bonds	200.0	200.0	58.9	31.2		207.8	27.4		
Debt financing	300.0	276.6	22.3	22.3					
<b>Total</b>	<b>500.0</b>	<b>476.6</b>	<b>81.2</b>	<b>53.5</b>	<b>1.4</b>	<b>207.8</b>	<b>27.4</b>		
<b>Real Estate funds and mandates, total</b>	<b>2,342.6</b>	<b>2,055.2</b>	<b>1,375.7</b>	<b>1,291.8</b>	<b>-5.0</b>	<b>517.2</b>	<b>27.4</b>		

**Abbreviations used to refer to funds:**

CMB	= CapMan Buyout	CMRE	= CapMan Real Estate
CME	= CapMan Equity	CMT 2007	= CapMan Technology 2007
CMLS	= CapMan Life Science	FM	= Finnmezzanine Fund
CMM	= CapMan Mezzanine	NC 2015	= Nest Capital 2015 Fund Ky
CMHRE	= CapMan Hotels RE	SWE LS	= Swedestart Life Science
CMNRE	= CapMan Nordic Real Estate	SWE Tech	= Swedestart Tech
CMPM	= CapMan Public Market Fund		
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**

- 1) The fund is comprised of two or more legal entities (parallel funds are presented separately only if their investment focuses or portfolios differ significantly).
- 2) Currency items are valued at the average exchange rates quoted at 31 March 2017.
- 3) 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.
- 4) 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. CapMan has recorded a EUR 7.5 million clawback provision for the CapMan Real Estate I KY fund. The sufficiency of the provision is reviewed quarterly by the management but its actual amount will only be known after all target investments of the

fund have been liquidated. The realisation of the clawback liability would have a negative cash flow impact and it is possible that the provision made is not sufficient.



## Appendix 2: Operations of CapMan's funds under management in January–March 2017

The operations of the private equity funds managed by CapMan during the review period comprised direct investments in portfolio companies in the Nordic countries and Russia (CapMan Private Equity), as well as real estate investments (CapMan Real Estate). Investments by CapMan funds investing in portfolio companies focus on two key investment strategies in the Nordic countries and one in Russia. These take the form of mid-size buyouts (CapMan Buyout), private debt 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 the CapMan Technology investment strategy, which does not make new investments but focuses on the value development of its existing portfolio companies. Investments under CapMan Life Science and CapMan Public Market have all but one been exited and the funds are expected to conclude activities in the near future. These investment areas are reported under “Other” in Private Equity.

### CAPMAN PRIVATE EQUITY

#### Investments in portfolio companies in Jan–Mar 2017

Funds managed by CapMan did not make new investments in portfolio companies during the review period. Add-on investments in total of MEUR 3.3 were made mainly in CapMan Buyout portfolio companies. In the comparable period last year funds invested in total MEUR 2.2 in portfolio companies.

#### Exits from portfolio companies in Jan–Mar 2017

Funds made partial investments from portfolio companies with a combined acquisition cost of MEUR 3.3. Acquisition costs of partial and completed exits during the comparable period last year was MEUR 30.8.

#### Events after the review period

There were no significant events after the end of the review period.

## CAPMAN REAL ESTATE

### Investment and commitments to real estate acquisitions and projects in Jan-Mar 2017

CapMan Nordic Real Estate fund did not make any new investments during the review period. Additional investments totalling MEUR 3.0 were made in several properties. As of 31 March 2017, real estate funds were committed to providing financing for real estate acquisitions and projects totalling MEUR 40.7. In the comparable period, funds made new and additional investments totalling MEUR 25.5. Financing commitments were MEUR 53.1 as of 31 March 2016.

### Exits from real estate in Jan-Mar 2017

CapMan Hotels RE fund exited Original Sokos Hotel Seurahuone with an acquisition cost of MEUR 22.4. In the comparable period funds exited two properties with a combined acquisition cost of MEUR 63.2.

### Events after the review period

CapMan Real Estate I fund exited the Entresse shopping centre and CapMan Nordic Real Estate fund exited Plaza Presto in April 2017.

## FUND INVESTMENT ACTIVITIES IN FIGURES

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

	1-3/2017	1-3/2016	
<b>New and add-on investments</b>			
Private Equity funds	3.3	2.2	
Buyout		3.0	0.7
Credit		0.0	0.0
Russia		0.0	1.5
Others		0.3	0.0
Real Estate funds	3.0	25.6	
<b>Total</b>	<b>6.3</b>	<b>27.8</b>	
<b>Exits*</b>			
Private Equity funds	3.3	30.8	
Buyout		3.3	0.9
Credit		0.0	1.0
Russia		0.0	0.0
Others		0.0	28.9
Real Estate funds	22.4	63.2	
<b>Total</b>	<b>25.7</b>	<b>94.0</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 40.7 as of 31 March 2017.

### Funds' combined portfolio\* as of 31 March 2017, MEUR

	Portfolio at acquisition cost	Portfolio at fair value	Share of portfolio
Private Equity funds	662.7	665.5	33.6
Real Estate funds	1,400.8	1,317.9	66.4
<b>Total</b>	<b>2,063.5</b>	<b>1,983.4</b>	<b>100.0</b>
Private Equity funds			
Buyout	496.9	493.8	74.2
Credit	41.0	50.7	7.6
Russia	89.6	101.3	15.2
Others	35.2	19.7	3.0
<b>Total</b>	<b>662.7</b>	<b>665.5</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 March 2017. Of their remaining capital, approx. MEUR 277 was earmarked for buyout investments (incl. mezzanine investments for older mezzanine funds), approx. MEUR 115 for investments by the Nest Capital team (previously Capman Credit), approx. MEUR 47 for technology investments, approx. MEUR 2 for life science investments and approx. MEUR 103 for investments by the CapMan Russia team. Real estate funds had a remaining investment capacity of approx. MEUR 63 which has been reserved for new investments and for the development of funds' existing investments.

# Appendix 3: Description of CapMan's business operations

CapMan is a pioneering Nordic private equity investment and specialised asset management company. 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, and the industry's long-term prospects are favourable.<sup>17</sup> 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 are invested by its investment partnerships. The investments are 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 fund managers and investors in the asset class and procurement 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.

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<sup>17</sup> Bain & Co Global Private Equity Report 2017

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 into 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 and in the listed markets in a diversified manner. Private equity investments are made either directly, mainly as minority investments in unlisted growth companies, or through funds, which are mainly managed by CapMan. CapMan has a trading portfolio, which is mainly invested in Nordic listed equity, hedge funds and bonds. The trading portfolio is mainly for liquidity management.

Income in this business is generated by changes in the fair value of investments and realised returns following exits and periodic returns, such as interest and dividends. Fair value is determined by the development of portfolio companies and real estate held by the funds, in addition to general market developments. Income from 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.