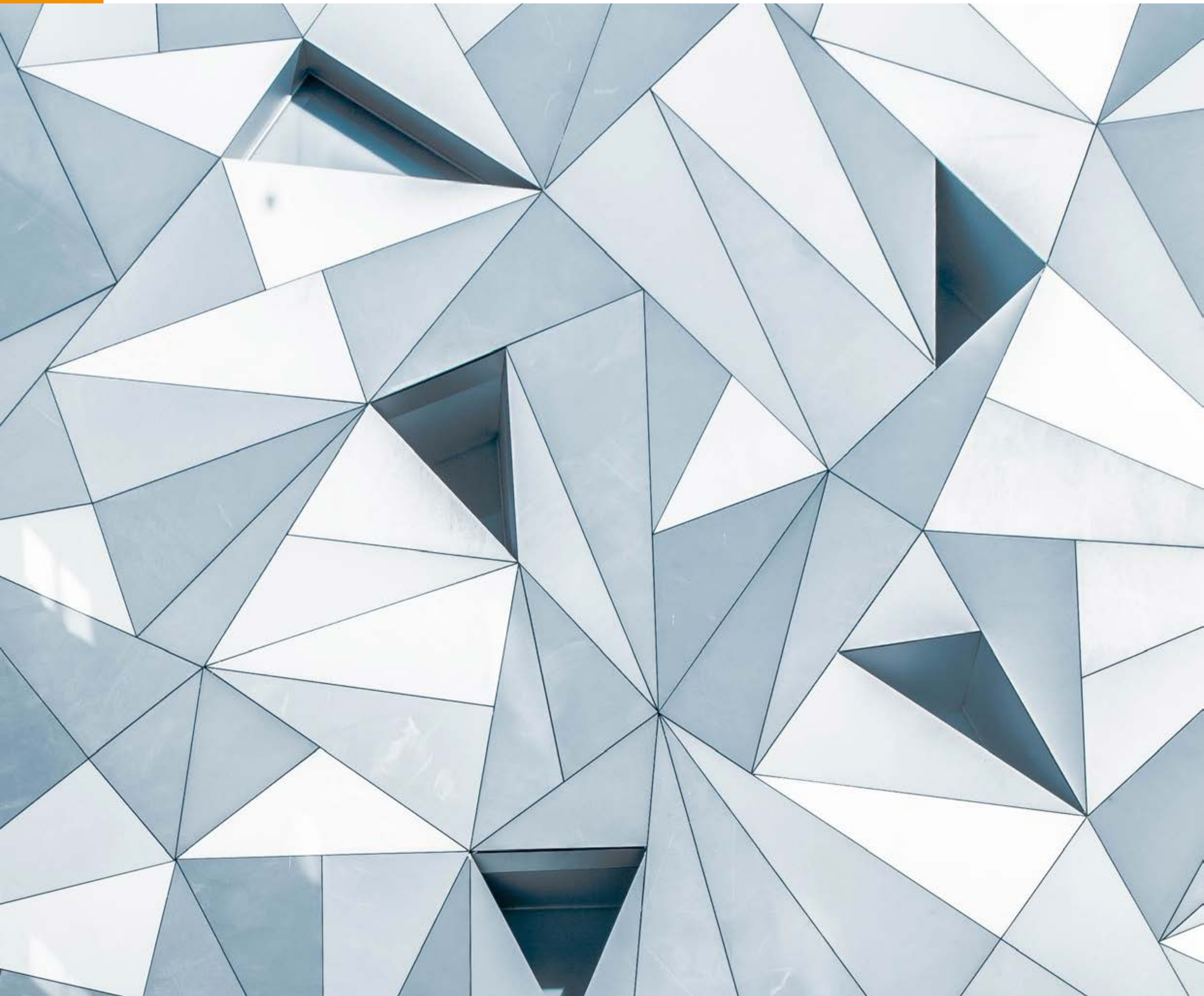
2018

Annual review

Finnish Industry Investment Ltd



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More important than money

TEXT **JAN SASSE** | PHOTO **JUNNU LUSA**

IN ADDITION to money, Finnish companies need skilled ownership, active board work and insight into international business operations, to support their growth and internationalisation. The most successful investors contribute with experience, resources and risk-taking ability to their portfolio companies, which consequently show much higher growth rates than their peer companies. A study conducted by the Finnish Venture Capital Association, shows that companies that received a VC/PE investment on average showed a 6 times higher average rate of annual growth in net sales, compared to their peers. Annual growth in the numbers of personnel employed was up to 15 times faster. Tesi's role in supporting companies' growth and internationalisation is deployed through both direct minority investments and investments made in funds.

OUR STRATEGIC THEMES IN 2018

Market developer. To develop Finland's venture capital and private equity market, Tesi's primary task is to eliminate market bottlenecks. We assist in the creation of new VC/PE funds, especially in sectors where we see potential for fund-based growth financing. Last year, for example, we invested in Saari Partners, which develops SMEs in the service sector, and in Maki.vc, which invests in early-stage technology companies.

Direct minority financing together with private investors is one way to support the growth and internationalisation of SMEs. Direct investments allow capital to be put to work faster than fund investments and can be used in business sectors that do not fit the typical operating models for fund investments. I believe there is room in the market for funds and for institutional investors operating as minority financers. With direct investments we can also support funds in situations where the size or lifetime of the fund set challenges for implementing a planned investment.

Our role as an owner. Developing a company strategically over a long timespan calls for skilled owners who are active and complement each other, a properly functioning board and a professional and innovative management team. Seamless teamwork between all parties is essential. Our active ownership primarily implies, that we collaborate with the owners of the company to identify what expertise and experience is needed in the company's board and executive management to achieve the company's planned growth and internationalisation. The best results are often achieved when the board and the executive management is diversified in terms of age, gender, education and cultural background. ▶

Impact and responsibility. As an investor, we can make an impact on the achievement of national and global goals for sustainable growth through the investments we select and by promoting sustainable development in our portfolio companies. When we invest, we look not only at the financial goals but also at the responsibility targets and impact objectives of the companies and funds. We analyse what type of tangible issues there are that promote responsibility and subsequently improve the company's business. The content of these issues range, depending on the case, from climate change mitigation to promoting diversity. Decisive for achieving the goals is setting the right direction for the development and working over a long timespan.

Renewal. As a state-owned capital investor, we constantly evaluate our role in the market. The reason for Tesi's existence is defined by law: we help Finnish companies to grow and internationalise and we develop the Finnish capital market. To fulfil this mission, we are constantly critically assessing both new and current investment themes. Thus, our investment portfolio and investment focus are subject to alteration of changing market needs.

At the end of 2018, we started a new form of investing by providing supportive anchor investments to growth companies planning an IPO. Anchor investments are made in companies where listing is the best financing option but when the size or the business sector makes an IPO challenging. In October, we made our first anchor investment in the First North listing of the industrial facility maintenance specialist Viafin Service.

In August we entered a co-investment programme with the European Investment Bank (EIB) that will channel a total of MEUR 100 to promote the growth of innovative SMEs and mid-cap companies. In each financing round, private investors will provide at least the same amount of capital as the EIB and Tesi. This is a way of helping a Finnish fund make larger investments and deploying larger growth investments.

In 2018, the Finnish state decided to concentrate its mining industry holdings in a new ownership and development company, Finnish Minerals Group, to which Tesi's Mining Cluster Investment programme was transferred. As part of this arrangement, Tesi exited from its investments in Keliber Oy, Ferrovan Oy and Sotkamo Silver Ab. We also disposed of our international buyout fund portfolio. We will support long-term market development by focusing now on other prospective funds.

OUR INVESTMENT YEAR

Our investments. The financial year 2018 was busy in terms of investment volumes. We invested altogether €59m in eight funds and €37m in FoF Growth III. Direct investments comprised first-round investments of €52m and follow-on investments of €10m.

The focus of venture investments was on fast-growing deep tech companies, such as ICEYE and Dispelix. Nosto, Oura Health and Kaiku Health represent investments in scale-up phase. Conventional growth and minority investments included Zsar, Uusioaines and GRK.

Exits. In capital investment, the systematic development and goal-oriented value creation in the company is followed by the sale to a new owner prepared to develop the company further, or the company goes public. The investment year showed examples of successful exits from both our Finnish and international funds. Creandum exited from Spotify and MB Rahastot sold Suomen Transval Group Oy to Posti Group Corporation. Nexit Ventures exited its Ekahau holding, selling it to Ookla. Tesi exited from six companies, three of which were in the Mining Cluster Investment programme.

A LOOK AHEAD: CIRCULAR ECONOMY PROGRAMME AND DEVELOPMENT OF OPERATIONS

Circular Economy. As an investor, we can make an impact on the achievement of national and global goals for responsibility through the investments we select. We invested in some interesting circular economy companies and funds through our new MEUR 75 Circular Economy programme. The programme's first direct investment was in Uusioaines, a company processing recyclable glass and a manufacturer of foam glass. We made our first fund investment in the Environmental Technologies Fund III, which focuses on investing in early-stage technology companies.

Our goal is that the companies and funds in our investment portfolio have a positive net impact, and we support them in solving any challenges to achieving this goal. The circular economy offers abundant opportunities for profitable and responsible business.

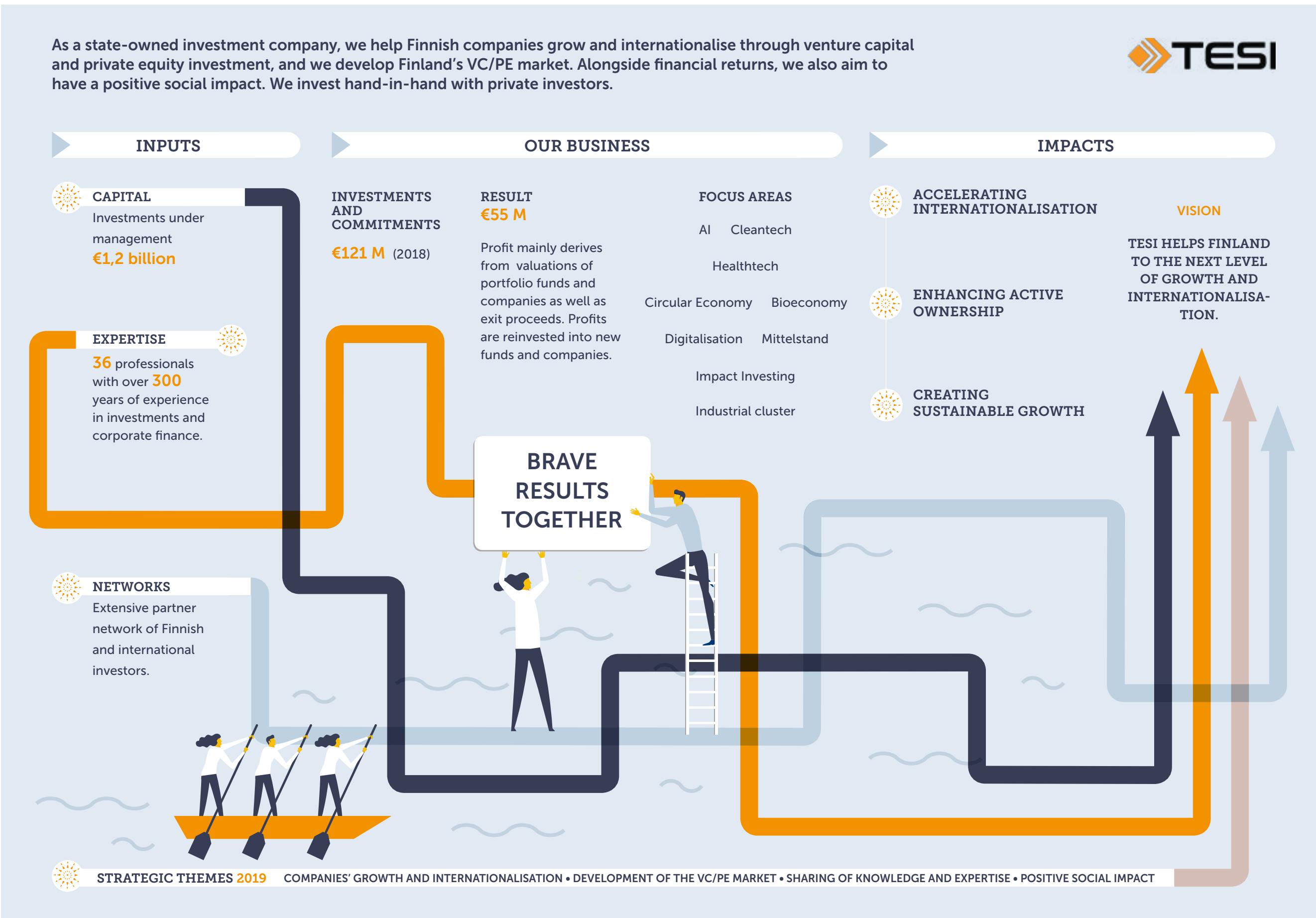
Strategy work. In autumn 2018, we launched a strategy process during which we will identify the steps Tesi should take to better assist companies towards growth and internationalisation. We want our strategy to clarify where Tesi is particularly needed as a finance provider and market facilitator, and to bring to light which actions we can take to develop the investment market. Strategy work gives us the resources to focus our efforts better and to make a stronger beneficial impact.

Data. So that we can develop the venture capital and private equity market, now and in the future, we want to deepen our understanding by augmenting data. We are building our own data model to combine Tesi's long-term knowledge of the investment industry and transactions with external data on companies, transactions and VC/PE investing.

By collecting, refining and analysing data, we will examine what has been done, how different solutions have worked and what sort of new strategic opportunities different players can find. Using our data model, we will produce useful information and market prospects for our stakeholders and in collaboration with them. Just the same as in ownership and boardwork, cooperation and diversity enable the best possible outcome also in exploiting data.

Personnel development. Tesi's personnel have been involved in all stages of our strategy work. Our personnel's diversified skills and enthusiasm for enhancing our operations is a joy to behold. By doing things together, we also continuously learn from each other. Enhanced utilisation of data is a key component of our new strategy, and for us that also means focusing efforts on developing new types of talents and skills.

Many thanks to growth companies, funds, co-investors and partners! I would particularly like to thank the Finnish Venture Capital Association, the Directors' Institute Finland and the Family Business Network Finland, with whom we arranged many events. Heartfelt thanks to Tesi staff for a year rich in investment activity and strategy work. |



Aiming for a broader investor base

Historically, public sector players like Tesi have been expected to develop the market mainly by distributing capital. As the market develops, though, our role has diversified. We have accumulated a massive amount of data about Finland and about international markets, and we are planning to harness this data to provide even better, more enhanced market services.

PHOTO **JUNNU LUSA**

SINCE the very start of our operations, we have been involved with bringing new fund teams to market. Altogether 31 of these teams were new entrants. Some 80 per cent of them are still operating. Additionally, Tesi's FoF Growth funds have channelled pension capital, through FoF Growth and directly from pension companies, into new, developing and smaller-sized funds. Simultaneously, the operations of more established players have been scaled up to a larger size range. Over the past year, alongside making conventional investments in funds and directly in companies, Tesi has researched and developed new types of financing models to supplement the market.

There were many positive examples of market development in 2018. Saari Partners, our target fund, announced a new MEUR 40 fund making majority investments in service SMEs operating in traditional sectors. We also invested in Maki.vc fund, that raised MEUR 80 for seed round or Series A round investments in promising tech startups.

A BROADER INVESTOR BASE GIVES CONTINUITY

Our goal is to collaborate with the Finnish Venture Capital Association and Business Finland Venture Capital in finding ways we can induce new fund investors to invest in Finnish venture capital funds.

> **A broader investor base will benefit managers by giving them more continuity.**
> **MATIAS KAILA** / DIRECTOR, FUNDS, TESI

This can be achieved by, for instance, improving market transparency. The analysis we published in spring 2018 of the long-term performance of Finnish venture capital funds is a step in the right direction. Alongside its publication, we arranged an event to keep family office investors abreast of developments in Finland's venture capital industry.

The proportion of domestic investment in the Finnish venture capital market remains extremely high in comparison with the rest of Europe. A broader investor base at an early stage of the investment process will benefit managers by giving them more continuity and the ability to scale financing activities to suit new funds.

INTERNATIONAL NETWORKING ESSENTIAL

Investing in international funds that supplement the market enables Tesi to reinforce the networking of investors already interested in Finland and show them a potential deal flow. Collaboration also corresponds to Finnish companies' financing needs, because Finland still lacks larger-sized venture capital funds that are capable of effectively scaling up Finnish companies to enter competitive international markets.

Finland's visibility amongst international investors does not just project itself: a lot of footwork is required from both the private and the public sector. Fund players must devote time between fund-raising processes to networking at industry events. The public sector, on the other hand, must sharpen Finland's market image, highlight the country's strengths and ensure it has both a viable operational framework for the VC/PE market and an attractive investment environment.

DATA TO SUPPORT THE MARKET

In 2018 we started building up a comprehensive data model encompassing the whole of Finland's private equity sector. We have solid expertise and sound skills in refining and utilising data. Now we plan to be even more active in producing and distributing information to meet the needs of our various stakeholders and enhance market transparency. We will also endeavour to use our networks to enhance our efficiency in channelling expertise and capital.

TOWARDS MAKING AN IMPACT

Last year also saw the investment world make significant strides forward in fostering responsibility. **Laurence D. Fink**, CEO of BlackRock, an American asset management company and the world's largest asset manager, announced that BlackRock would no longer invest in companies that did not have a clear social mission. Social responsibility is, indeed, shifting more towards making a social impact. Responsibility is increasingly becoming a planned component of business activities.

Finland's visibility amongst international investors does not just project itself.

TOMI RIIHIRANTA / MIDDLE OFFICE MANAGER, TESI

For companies to be competitive, it is now even more important for them to focus on the type of problems or development opportunities that will generate benefits in Finland or throughout the world. At Tesi, this trend is most visible as investments in funds that support the growth of companies developing the circular economy and cleantech.

We are keen to see whether impact investing will form its own investment segment or whether it will be integrated into wider investment activity. For the latter case, the results are promising. Some 64 per cent of respondents to Global Impact Investing Network's (GIIN) 2018 Annual Impact Investor Survey target market-rate returns for their investments through impact investing. A clear majority of all respondents reported that their investments performed in line with, or exceeding, both financial and impact expectations. |

A brisk year for the venture capital market

FINANCIAL YEAR 2018 again saw brisk activity in the venture capital industry, as was the case in 2017. The Finnish venture capital market continued to develop favourably and to internationalise, and the improved performance of Finnish funds reflected this.

Tesi made investment commitments to venture capital and private equity funds totalling MEUR 96 in 2018. Our international investor partners and portfolio funds invested MEUR 123 in Finnish companies during the year. The favourable conditions also allowed Tesi to successfully sell its holdings in international buyout funds.

UNCERTAINTY IN THE AIR

Towards the end of the year, the pace of fund investment slowed as stock market valuations began to fall. The culmination of a protracted economic upswing combined with the threat of a trade war, among other factors, has created investor uncertainty. A slowdown in market growth is expected in 2019, both in Europe and throughout the entire global economy.

Tesi made investment commitments to venture capital and private equity funds totalling MEUR 96 in 2018.

A correction in evaluation levels generally depresses buyers' price expectations rapidly, whereas sellers' conceptions of the price level are slower to follow. This can slow down the pace of corporate acquisitions and the raising of equity financing. If the fundamentals of the real economy remain favourable, we believe attractive investment prospects will still be found in the market. |

The future looks bright for an investor

Staffan Helgesson, founder of Creandum – one of Europe's leading venture capital investors – believes there are more promising investment prospects now than ever before. Creandum is deploying an even more diversified team to hunt for the next unicorn, also outside the conventional boundaries of the technology sector.

TEXT **TONI PEREZ** | PHOTO **DREAMSTIME**

FOUNDED in Sweden in 2003, Creandum is one of the best-performing venture capital investors in Europe. Last year the company was particularly successful, making five graceful exits, including Spotify, Elastic Search, Small Giant Games and Cornershop.

"As far as exits are concerned, it's difficult to match such a successful year as 2018. With exits, the economic cycle must always be factored in, whereas you can invest in new companies whenever. Creandum invests in companies over a 10-year cycle, so business cycles can change within that span," explains Creandum's founder **Staffan Helgesson**.

DISRUPTORS ENVISAGED IN B-TO-B

Helgesson foresees a bright future despite the pessimism of prevailing economic forecasts.

"There are more opportunities than ever right now. My estimate is that some 90% of global GDP is still generated in sectors not yet really disrupted by technological advances. I believe many of the next success stories will be in conventional sectors that are seldom thought to be adaptable with technology" Helgesson says.

Some 90 % of global GDP is still generated in sectors not yet really disrupted by technological advances.

This trend is visible in Creandum's recent investments, which include Cargo.one, a company digitalising conventional air freight, and Xeneta, which offers price comparisons and market data in maritime freight.

"The transport and logistics markets are a prime example of sectors in which companies are large and have a lot of clout. However, apart from delivery services, the sector has not yet much exploited the opportunities that technology offers," assets Helgesson.

SUFFICIENT POTENTIAL IN EUROPE

In Helgesson's opinion, the next success story could be found in any corner of the world.

"China will overtake the USA as a technological power house, which will certainly upset the present scenario. Although Europe is often overshadowed by those two countries, there's good potential here also for disruptive global businesses," says Helgesson, and adds:

"Europe does not lack talent, but perhaps we need a more resolute attitude towards business and risk-taking. A good example of this is Finland, where Nokia's difficulties in the end opened up a good field for startups."

Helgesson points out that, for the startups, difficult times are often a gold mine.

"Many successful companies were often established during an economic downturn. VC investors make it possible for companies to grow and expand internationally in challenging market conditions. Also state-owned players like Tesi play an important role as a catalyst in raising the amount of financing needed."

COMPETITION STIMULATES

Helgesson hopes for more competition in the Nordic venture capital market. He believes the successful ascent of new teams will give impetus to existing ones.

"A good VC player must have a clear strategy for identifying investee companies with large enough markets and with ideas for disrupting them," advises Helgesson and adds:

"The backgrounds of a good VC team can be varied, but what should unite the team members is the ability to live in uncertainty and willingness to take risk. Networking is also extremely important, as well as the skills needed for building good relationships."

RESPONSIBILITY IS GOOD BUSINESS

Creandum aims to increase the diversity of its own team, and has examined how equality is achieved in practice, both in its own operations and in its portfolio companies. The company has trained personnel to recognise biases and puts a spotlight on equality at industry events.

> **For the startups, difficult times are often a gold mine.**
>
> **STAFAN HELGESSON** / CREANDUMIN

"We approach diversity from two directions. We want to promote gender equality and increase the number of employees with first or second generation immigrant backgrounds, both in-house and in portfolio companies. While it's difficult for women to break through the glass ceiling, it's just as challenging for certain immigrant groups whose representatives experience discrimination – perhaps just because of their names."

Helgesson points out that research data provides evidence that diverse teams perform better.

"We still have a lot to do in our own team too. Of our 18 staff members, ten are men and eight are women, but there's only one woman in our investment team. That's an important start, though, because investor teams are predominantly male. To fundamentally change this high-profile female role models are needed and we have an important role in helping them succeed," says Helgesson.

Creandum also evaluates the environmental perspectives of each investment, as well as its diversity aspects. Many of the company's latest investments have promoted climate change mitigation.

"Responsibility has been transformed from a buzzword into practical deeds. At Creandum, we give high priority to environmental issues and diversity because they are good for business and they improve returns," sums up Helgesson.

CREANDUM ADVISOR AB

- **What it is: Venture capital advisor company with funds investing in innovative companies seeking international growth through technology.**
- **Where it is: Stockholm, San Francisco and Berlin. Team of 18 people.**
- **Funds: Latest fund (Creandum IV) 2016. Raised altogether approximately MEUR 500 and financed 75 companies including, for instance, Klarna and Virta. Tesi has invested in the Creandum II, III and IV funds.**
- **Website: creandum.com**

Finland is a fine location for a fund

How does Finland's VC/PE market appear to an experienced serial entrepreneur, a start-up godfather and an investor? Do we still need to be ashamed? Maki.vc fund's founder Ilkka Kivimäki replies.

TEXT **MAIJA RAUHA** | PHOTOS **JUNNU LUSA**

"NOW is a good time to be an innovative entrepreneur in Finland. Financing structures are in good shape: we have a well-functioning network of angel investors and sufficient early-stage funds. Aaltoes student entrepreneurship community, Startup Sauna, Slush and Junction have brought the players together. And large numbers of international players have also been pulled in," Kivimäki explains.

Kivimäki points out that getting the attention of international investors cannot be taken for granted. Nevertheless, there is now a lot happening in Finland and Sweden that international investment managers also are keen to keep an eye on.

"The change has been really fast. Looking to the future, Asia seems to be particularly interesting, and Slush has been helping to blaze trails in that direction. Supercell is a prime example of successful acquisitions from China," adds Kivimäki.

Kivimäki believes industry-wide, international networking is essential. In almost all follow-on financing rounds, expertise and international connections to target markets are sought for companies, not just money. If a financing company does not have an interface to the world or the ability to help its companies to sit at the top tables, it has no right to exist.

> **The investors in our funds have a wealth of knowledge and expertise.**

MARKET ON A SOUND FOOTING

"The Finnish investment market is now on a much stronger footing than in the early 2000's. Market activity rises and falls, but there's no sign of an actual downturn," he says.

Kivimäki believes the supply and demand for money are now well balanced. There is money, but not an oversupply of it that could result in poorly screened investment decisions. There is still constantly room for improvement:

"The level of ambition can always be higher."

EASY MONEY CARRIES RISKS

In Kivimäki's opinion, Tesi's role as a financer of growth has been critically important over the last 20 years when private money was extremely cautious about investing in venture capital funds. Tesi's investments have, on average, also been very profitable. In the long run, though, he believes private money is a wiser path to follow.

"I don't think the number of good firms can be increased simply by pouring in public money. Easy money encourages laziness. The fact that Maki was able to raise almost MEUR 80 of private capital in a very short time is evidence that there's no longer such a burning need for public financing as there was in bygone years," he says.

Kivimäki is critical also of loans the European Investment Bank gives to very early stage companies.

"I'm not sure whether they're a good or bad influence. The state guarantees some of the loan, but the entrepreneur also shoulders a part. If the firm fails, the entrepreneur loses the company and is left in debt. VC investors are prepared for the cold fact that not all companies fly. The failure of a portfolio company is painful for them, but they quietly lick their wounds, and the entrepreneur is not saddled with debt," Kivimäki points out.

We have altogether 73 LPs, of which ten are institutional.

BEST IN THE BUSINESS ONBOARD

Maki.vc had an exceptional start as a Finnish venture capital fund. Traditionally, public bodies such as Tesi and the EIF form the cornerstone of a new fund, and supplementary money is raised from private institutions and smaller investors. Maki's founders, Ilkka Kivimäki and **Pirkka Palomäki**, did it the other way around.

"First we raised MEUR 30 of private money, then we had our first close. In spring 2018, we included institutional investors. Tesi's investment of MEUR

Ilkka Kivimäki thinks that Finns' propensity for innovation is disproportionately large.

10 makes it the only public sector player in our first fund," reports Ilkka Kivimäki.

The large number of small investors is special, and so is the fact that some of the best in their business are onboard.

"Our investors have a wealth of knowledge and expertise. We know that when we need expertise in, say, marketing automation or processors, we can call someone who knows and is genuinely passionate about that field. That's really neat," quips Kivimäki.

"We have altogether 73 LPs, of which ten are institutional and the remainder private. We talk about the Maki family, and that's a real concept not just idle talk. LPs are an essential component of our investment process," he adds.

A DISPROPORTIONATELY INNOVATIVE NATION

A good third of Maki's deal flow comes from outside Finland and represents many different sectors.

"We believe a diverse range of sectors is wisest in the early stages. If we define what we invest in too strictly, we can't react to changes occurring during the four-year investment period. The segment exploiting artificial intelligence, for instance, was turned upside down in just 18 months once the first processors enabling heavy-duty AI calculation reached the market. Disruptive changes are difficult to foresee," states Kivimäki.

Kivimäki thinks that Finland is an excellent location for a company or a fund, and that Finns rank at the top of the list – Finland is such a small country that investment prospects must be sought abroad. Finns' best characteristic is their ability to swim against the current, because it fosters originality: "We're not forced into a mould."

"Finns' propensity for innovation and talent for doing things first is disproportionately large – after all, there are only five million of us. Too often it has turned out that we did all the difficult work, developed Benecols and Xylitols, and our neighbours reaped the benefits. We don't always know how the game is played or where value is created."

MAKING AN IMPACT MUST ALSO MAKE A PROFIT

Kivimäki has observed that companies making socially important changes are often also very rational commercially. He maintains, however, that consumers cannot be expected to pay for responsibility.

"We must find solutions that are sensible from the consumer's perspective but simultaneously responsible and ecofriendly. One example is our portfolio company Spinnova, which replaces both a toxic viscose process and cotton. Cotton is replaced with wood fibre or some other recycled fibres to make top-quality yarn by "printing". The method is fully mechanical, so no toxic chemicals are needed," he says.

"If even one-third of what we now know about climate change is true, each person must shoulder responsibility for their own actions. There's no going back to irresponsibility," concludes Kivimäki. |

MAKI VENTURES OY

- **What it is: Fund company founded by Ilkka Kivimäki and Pirkka Palomäki.**
- **Where it is: Office in Helsinki at Maria01. Five-person team.**
- **Fund: Maki.vc, MEUR 80. Makes seed round or Series A round investments in promising tech startups. First investments Disior Analytics, Neuro Event Labs, Sumpli, Glue, Valpas, Happeo, Altum Technologies, Spinnova, Ultimate AI and RFRSH Entertainment.**
- **Investors: In addition to the founders, Maki.vc's other investors include Risto Siilasmaa (Chairman of Nokia), Ilkka Paananen and Mikko Kodisoja (co-founders of Supercell), and Mistletoe Venture Partners International (founded by Taizo Son). Other institutional investors include OP Financial Group, Nordea, Varma, Ilmarinen and Tesi.**
- **Website: maki.vc**

Active ownership creates growth

Tesi is a responsible investor. We try to select good investment opportunities with the potential to drive growth. We set the bar high – our goal is for Finnish companies to grow and internationalise, and we also want to make a positive social impact.

PHOTO **JUNNU LUSA**

WHEN we screen companies and funds as portfolio prospects, we look at responsibility issues and social aspects, not just profit targets. A company or fund does not need to be a forerunner in social responsibility at the time we invest, but it must be willing to make progress and be developed in the right direction.

CONSTANT DIALOGUE

We co-own 48 companies and 87 funds. The companies are in different stages of development and operate in different sectors. The ownership structures of portfolio companies vary, but Tesi is almost always a minority owner, and thus does not wield the most authority in a company.

As an investor in our portfolio companies, also, we act more like an owner than a conventional investor. The difference between an owner and an investor becomes apparent when the business faces challenges. If profit targets are not met, an investor might withdraw his capital and invest it somewhere else. An owner, on the other hand, rolls up his sleeves and gets down to work to set the company on a new path for growth. The difference is the time span and the mindset.

It is typical for a company to experiment with different ways of working and to make other fundamental changes on its path to growth. When the chips are down, owners must believe in the company, and be able to see a new direction for it. Tesi's ownership involves supporting a company through the necessary changes.

ALWAYS THERE WHEN NEEDED

Our value to a company, as well as to a fund, is built up through constant dialogue. We are often involved in the company's boardwork and a fund's investment committee, actively asking questions, commenting, challenging and supporting. Our influence is indirect, and we always act hand-in-hand with co-investors and other owners.

Our role as an owner varies a lot, depending on the company's needs. We monitor all our portfolio companies so that we are aware of their situation and whether they have the necessary resources, organ-

Ownership involves supporting a company through the necessary changes.

JUSSI HATTULA / DIRECTOR, GROWTH & INDUSTRIAL INVESTMENTS, TESI

isations and tools. If not, we are ready to jump in and get them.

Usually a Tesi nominee sits on the company's board of directors, or a Tesi staff member acts as an observer, but other arrangements are also possible. We try to actively exert influence on the investment committees of our portfolio funds.

CONTACTS AND EXPERTISE

For a company seeking growth, Tesi's active ownership provides welcome contacts, expertise and tools. As an organisation, we have long experience in ownership strategy, financing arrangements and management recruiting. When problems arise, we act as a facilitator, moving the conversation onwards at board meetings and ensuring a solution acceptable to all owners is found. Any actions to be taken are always decided on together.

If the other owners and the board so request, in exceptional circumstances we may take part in operative activities – for instance, presenting prospective acquisitions or in strategic projects.

JOINT OWNER STRATEGY

Before any investment decision, we discuss the ownership strategy with other investors and owners. It does not have to be the same amongst the owners, but it must be properly distributed. We ensure that investors and other owners agree about the important points and plan to develop the company along the same lines.

Tesi is a long-term investor, but a temporary one. We agree in advance with the other owners upon the timing and manner of our exit. Circumstances might change along the way, however, leaving a mismatch in owners' time spans. In that case, we always try to find the best solution together.

FACILITATOR OF FOREIGN INVESTMENT

Tesi serves Finland's corporate sector by channelling also international financing to companies. A country the size of Finland can seldom offer its companies sufficiently diversified investor and owner candidates. In recent years we have to an increasing extent been a partner in international investment syndicates as a Finnish investor.

EXAMPLES OF SUCCESS

Good examples of the international growth of our portfolio companies are LeadDesk, in which Tesi has invested since 2015, and BMH Technology, of which Tesi has been an owner for three years.

LeadDesk, offering Contact Center software as a cloud service, was on a fast track to growth in 2015 and Finland's market leader in its sector. The largest investor was the British company Dawn Capital, when LeadDesk raised MEUR 5 in its first round of financing. LeadDesk used that financing to expand its operations in the Nordic countries and in continental Europe. The company has generated strong and steady growth in net sales and currently plans to list on the Nasdaq First North exchange to obtain capital for its next surge of growth. Tesi's investment strategy is often long-term and its ownership of companies can continue through many stages of development. It is natural for us to be the anchor investor for LeadDesk's IPO.

Tesi's ownership provides contacts, expertise and tools.

JUHA LEHTOLA / DIRECTOR, VENTURE CAPITAL, TESI

BMH Technology, for its part, specialises in developing ecofriendly energy solutions. The company's refining plants separate the valuable ingredients of municipal waste for reuse, and the refined products can be burned in more environmentally-friendly manner to produce heat and electricity. The company has delivered waste treatment plants to over 50 countries and employs some 150 people. Hollming, a Rauma-based, family-owned company, is BMH's largest owner. Together with Ilmarinen, we co-invested in the company in 2016. During 2018 we actively strengthened the company's board of directors and executive management with new key personnel.

CASE ICEYE

A bold company requires strong investors

Espoo-based ICEYE has an ambitious goal: to create a global data service based on satellite imagery. High stakes set stiff requirements – also for investors.

TEXT **NIKO HAIKALA** | PHOTOS **JUNNU LUSA**

ICEYE is developing a unique global service based on market-leading satellite and radar imaging technologies. This sets certain requirements for investors also.

"We're creating a new market – one that we must also master at a very rapid pace as soon as it's opened. Consequently, at some point we'll require follow-on financing of maybe hundreds of millions of euros quite abruptly – so we need investors of a certain calibre," explains ICEYE's CSO and co-founder **Pekka Laurila**.

"We want players we can trust to stay involved throughout ICEYE's growth as our partners. We hope investors will be a suitable size, of course. But we also want them to be actively present in our operations and to set their sights as high as ICEYE's lofty vision. On top of this, a technological background would naturally be a plus – because when interests coincide, the job usually gets done."

> We want players we can trust to stay involved throughout ICEYE's growth as our partners.

ICEYE's expertise and vision have convinced investors since the company's beginnings. ICEYE has successfully completed numerous financing rounds over the last few years.

"Compared to Silicon Valley financing, our operations have attracted a high proportion of university and state financing, at least in the company's early days. That's because we're developing equipment for space, and that makes it a high-risk business from the start," explains Laurila.

A NEW DATA SERVICE

ICEYE aims to create a data service covering the globe, which in future could be used by governments and businesses just as widely and reliably as GPS positioning is used today. The core of the service ICEYE is developing is the company's own radar sensor and microsatellite, which can be manufactured cost-effectively and deployed as a constellation spread around the globe.

The company launched its first satellite in January 2018.

This combination of technologies is a market leader and will enable the delivery of updated imaging data for any location whatsoever, every single hour – no matter whether it is dark or cloudy. The service offers a solution to the current lack of information in many areas, including in the maritime, catastrophe response, insurance, finance, safety and intelligence sectors.

"We're developing a new type of technology for space, which already makes our work exciting at the engineering level. What we're doing is of much wider importance than that, though, because our service will assist in responding to major global problems. Radar imaging will allow monitoring flood damage and supporting a rapid response to it, for instance, or detecting illegal fishing in the world's oceans," Laurila says.

A MILESTONE YEAR

Last year was a milestone year for ICEYE because the company launched its first satellite in January 2018. The ICEYE-X1 was Finland's very first commercial satellite and, weighing in at less than 100 kg, the world's first microsatellite equipped with synthetic-aperture radar ever to be deployed in space. Launched in California on SpaceX's rocket, the ICEYE-X2 satellite followed in early December 2018.

"Our second satellite in December allowed us to demonstrate to our customers the technology needed for a commercial satellite constellation. During 2019, with the financing we've received so far, we'll scale up our operations, build up our commercial services and launch many more satellites," promises Laurila. |

ICEYE

- **What it is: Established in 2014, ICEYE is a Finnish company manufacturing synthetic-aperture radar (SAR) satellites and selling satellite-based information.**
- **Where it is: The company employs some 70 people, mainly in Espoo, Finland, but also has operations in Poland and the USA.**
- **Financing: ICEYE has already raised MEUR 55 in financing, partly from Business Finland (Tekes) and the European Commission's H2020 financing mechanism and partly from many other investors such as True Ventures, Tesi, Draper Nexus and Promus Ventures.**
- **Website: iceye.com**

Pekka Laurila says that ICEYE's service offers a solution to the current lack of information in many areas.

A sector fund promotes drama content

Fund manager IPR.VC is looking for bold European drama productions for global distribution. It made its first investment in the TV series 'Bordertown' *(Finnish: Sorjonen)*. Tanu-Matti Tuominen and Timo Argillander explain what support a programme-maker receives from a venture investor in European audiovisual content.

TEXT **ANNIKA KUJANPÄÄ** | PHOTOS **JUNNU LUSA**

IPR.VC invests in the digital media content business in Europe through its two funds. A longstanding problem in the sector is the gulf between content producers and investors: production projects are accustomed to receiving their financing from TV channels and movie companies. Most VC investors invest in B2B technological platforms and software, and the real core of the sector – content – has been underserved.

Tanu-Matti Tuominen, a serial entrepreneur in digimedia, creative director and investor in technology, saw this as a market niche. He co-founded a company investing in content and a media-focused fund in autumn 2014 together with media management consultant and company director Timo Argillander and veteran venture investor **Jarkko Virtanen**.

"We challenge entrepreneurs to seek international success and new distribution platforms with their media content. New distribution platforms have widened viewers' freedom of choice, and the demand for interesting multilingual content and media business have both grown strongly," says Tuominen.

A PIONEER IN ITS FIELD

The IPR.VC team's wide-ranging expertise in the worlds of media and investment ensures they can offer diversified financing and skilled ownership to portfolio companies.

"Good investors bring measurable added value to portfolio companies. We actively support the management and participate in strategy development. We can say which things must be developed in a company or ongoing project so that the content will interest the international distribution companies we work alongside," adds Argillander.

"We're happy to have raised a

> We challenge entrepreneurs to seek international success with their media content.

sector fund promoting internationalisation that's a pioneer in its field. There are surely many other sectors in Finland that deserve their own special fund. Someone needs to be bold and do the groundwork, then present a new field and its earnings potential to investors," encourage Argillander and Tuominen.

ROYALTIES AND DEVELOPMENT LOAN INVESTMENTS

Two-thirds of the investments IPR.VC makes are product investments in either a product or in product rights. These are technically an investment in the form of a loan, wherein the investor receives royalties as earnings.

The fund's target size is MEUR 60–70. Its operations will expand.

"Product investment works in selecting investees in much the same way as venture capital investment, but the money starts to flow back quickly after the product is completed, and the yield rate of the investment grows from the royalties produced by the efficient use of capital," explains Argillander.

IPR.VC still makes a third of its investments as conventional venture investments in the ownership and capital of a company. Although exiting from these takes longer, the valuation gains expected are correspondingly higher.

Development loans can be offered to early-stage projects for developing content concepts. These can be attractive but risky investment targets or projects that need changes made to the content or commercial development before the actual investment is made.

"The most important capital from the portfolio companies' viewpoint is, however, our assessment of the sales potential of a project and suitable partners for internationalisation, as well as tips we give for improving them. Our advice has also helped in developing those projects for which we haven't granted financing," points out Tuominen.

ENTERTAINMENT SERIES AND MOVIES

The second fund, to open in early 2019, will focus on the media production and licensing business from earlier investments. The fund's target size is MEUR 60-70. Operations will expand, with a partner join-

Sorjonen on kaikkien aikojen menestynein suomalainen draamasarja liiketoimintamielessä. Sen levitysoikeudet on myyty jo yli 180 maahan. Tv-sarjan kolmas tuotantokausi valmistuu vuonna 2019.

ing the enlarged team in London and consultants in Berlin, Paris and Copenhagen.

"We'll focus our activities in Fund II on TV and movie content as well as on new interactive content. Earning the trust of investors is the alpha and omega in the sector fund business, so we're delighted to have Tesi as a key investor in our new fund. Tesi's involvement gives our fund a quality guarantee. Other investors trust the screening conducted by Tesi, making it easier for them to join us," says grateful Argillander.

RESPONSIBILITY IS ESSENTIAL

Stories influence all sectors of society. That is why IPR.VC pays close attention to the quality of the media content it finances and to the values held by portfolio companies. Responsible investment follows ESG criteria, which address environmental and social responsibility and corporate governance.

IPC.VR's contract terms include a clause under which a portfolio company promises to commit to an action programme to combat harassment. The investment company arranges an annual questionnaire in its portfolio companies, and makes an evaluation of how well each company implements responsibility and equality.

"Our partners appreciate the fact that we also follow up on ESG with concrete action. It increases our credibility and demonstrates that we want to improve the sector's productive conditions and help develop better products," says Tuominen. |

IPR.VC MANAGEMENT OY

- **What it is: A venture investor founded in 2015 and focused on media content. Its objective is to create European success stories from original media content and generate a good return for investors.**
- **Where it is: A (soon to be) six-member team working in Helsinki, Espoo, Tampere, Lappeenranta, Finland, and London, UK.**
- **Funds: The IPR.VC Fund I invests mostly in Finnish digital content companies that produce TV programs, movies, games and Internet content. Investors in the fund include Business Finland Venture Capital, Otava, Ilmarinen, MELA, Tradeka-invest Ltd, OP Financial Group, VR Pension Fund and Seafarers' Pension Fund (MEK). The IPR.VC Fund II is a sector fund investing in European TV and movie business. Investors in the fund include Tesi, FoF Growth III, ELO, Konstsamfundet, Mariatorp Oy, Gustav Serlachius Fine Arts Foundation and Lyy-Invest.**
- **Investments: IPR.VC's first investment was made to develop Fisher King's Sorjonen TV series (English: Bordertown). Other success stories supported by IPR.VC include the TV series 'Love of the Wild' (the international version of 'Eränkävijät'), the 'Tom of Finland' movie, the 'One Last Deal' movie, the children's animation and multimedia 'Gigglebug', and the 'Cold Courage' TV series.**
- **Website: ipr.vc**

Impact delivers competitive advantage

Responsible business and responsible investment are commonplace aims for socially aware companies and investors. Impact – in other words aiming for measurable social benefits, not only profitability – became even more of a buzzword in 2018.

PHOTO **JUNNU LUSA**

RESPONSIBLE business addresses the impacts of operations on the environment, people and society. Traditionally, the goal has been to measure and reduce negative impacts. The focus is now shifting more towards seeking positive impacts and opportunities. Impact investment and impact business aim to actively bring about positive social change and turn that to the company's competitive advantage.

INVESTMENTS IN COMPANIES THAT MAKE AN IMPACT

In 2018 Tesi made many direct investments in companies promoting a positive social impact. Oura Health's objective, for example, is to improve people's general wellbeing and working efficiency by boosting their sleep quality and waking alertness. ICEYE's satellite-based information, meanwhile, can be used for tracking melting ice or tree felling. One of our corporate responsibility targets in 2018 was at least one-half of direct first-round investments implementing at least one UN Sustainable Development Goal in their business activities. We easily surpassed that target.

FUND INVESTMENTS HAVE RESPONSIBLE IMPACT

At the end of 2018 we conducted a study on the attitude of 20 Finnish management companies to responsible investment. The results of the questionnaire we sent show that these players are aware of the importance of responsible investment and have taken tangible steps to promote it. Some players are already exemplary in applying responsible investment, and we are convinced of the positive impact this has on both society and monetary returns.

GREATER FOCUS ON DIVERSITY

VC investment company Atomico Ventures listed diversity as one theme of its State of European Tech report released at the Slush 2018 startup event. The report highlighted that 93% of all funds raised by European VC-backed companies went to all-male founding teams in 2018. Some of Tesi's Finnish venture capital funds have also spotlighted diversity in investment teams and portfolio companies.

All aspects of diversity are relevant – ie, diversity in gender, age and ethnic background. Diversity is also needed on companies' boards of directors to ensure a company has access to the most diversified possible expertise.

The educational backgrounds of Tesi's board members are diverse. Women account for 43% of the members of Tesi's board of directors, a higher proportion than for Finnish listed companies overall. Over 60% of Tesi employees are men, and our investment teams are even more male-dominated.

We are becoming aware of diversity challenges in our sector and portfolio companies, and making efforts to promote diversity through practical action. For example, we will map out the nationality and gender distribution of the boards of our target companies and the teams of the Finnish fund management companies in 2019. Our goal is to improve the ratio for diversity, together with other owners and the company leaders.

NEW PERSPECTIVE ON PRACTICAL ACTION

During 2018 we developed ways to put responsibility and impact into practice in our work, such as in screening prospective investments and fund management companies and in formulating value-creation plans for portfolio companies. For instance, our goal in 2018 was that at least one-half of our actively-managed portfolio companies would have a target for developing responsible business. Although that goal was not quite achieved, during the year we enhanced both our own and our portfolio companies' understanding of responsibility issues by discussions with the companies' boards and jointly considering measures.

We made many investments in companies promoting a positive social impact.

TONY NYSTEN / INVESTMENT MANAGER, TESI

Almost all Finnish management companies of our funds have endorsed the principles of responsible investment. Promoting and evaluating responsibility and impact is a long-term pursuit, and we will continue to develop our methods and procedures also during the current year.

The third corporate responsibility objective in 2018 related to deepening Tesi employees' expertise in respect of responsible business activities. We updated our Code of Conduct, and all our Tesi staff underwent online training on it. We also arranged a workshop to specifically address how to promote responsibility in our portfolio companies.

We encourage management companies to invest responsibly.

RIITTA JÄÄSKELÄINEN / **INVESTMENT DIRECTOR, TESI**

We promote responsibility and impact in the boardwork of our portfolio companies and in management sparring. Together with other owners and company management, we address what responsibility and impact could be in each company, and we try to identify how it can be translated into a competitive edge. We want to encourage our portfolio companies to report their responsibility as well as their financial data. In the case of our fund investments, we encourage management companies to invest responsibly and to disseminate information about responsible operation in their portfolio companies.

WE RESPOND TO GLOBAL CHALLENGES

Tesi has traditionally aimed to produce beneficial social and economic impacts on Finland's national economy and economic activity by creating jobs and helping Finnish companies expand internationally. Local impact is still high on our list of priorities, but we also want to take part in projects that solve international challenges. A central issue relating to impact is how to measure results. How can we ascertain how much impact a company's operations have on the environment or on wellbeing? One way we have examined how to measure and manage impact is by piloting the Upright Project, a Finnish startup tool aimed at indicating the net impacts produced by companies.

To produce beneficial social and economic impact, we also decided in autumn 2018 to launch a circular economy programme for channelling capital into sustainable development. Encouraging the circular economy supports the efficient use of resources. Our sights are set on mitigating climate change and on the wellbeing of both people and the environment.

▶ Tesi's Code of Conduct 2018

CASE UUSIOAINES

We fully re-use recyclable glass

Uusioaines Ltd is a pioneer of the circular economy, processing at its Forssa plant some 70 per cent of all recyclable glass collected in Finland. It fully re-uses its raw material. After processing the glass goes into industrial use or, depending on quality, Uusioaines makes foam glass from it. Foam glass is an ecofriendly insulating product and lightweight fill.

TEXT **MAIJA RAUHA** | PHOTOS **JUNNU LUSA**

UUSIOAINES is Finland's first and only cleaning and processing plant for recyclable glass. Some 80,000 tonnes a year of collected glass pass through the plant. The plant's capacity would be sufficient to clean all the recyclable glass collectable in Finland.

"We collect and recycle packaging glass and plate glass, from which we manufacture cullet, glass powder and foamed glass. The largest supplier of packaging glass is Palpa, a company managing the systems for returning beverage packages. Flat glass comes from glass-handling, glass-cutting and glass-processing businesses," explains Managing Director **Jussi Parkkali**.

LINKS IN A CHAIN

"The circular economy typically functions in chains, in which companies supplement each other by using each other's wastes or surpluses. All the links of the chain are important to their common purpose. This can also be seen here in the Forssa region, where companies in the circular economy employ a lot of people," Parkkali points out.

> **The circular economy typically functions in chains.**

"Doing good deeds is not a privilege of charitable organisations; companies can also promote sustainable values. Because an activity is profitable doesn't mean that it's bad. The development work Uusioaines did is unique and we've every reason to be proud of it," says Parkkali, who became Managing Director of Uusioaines in 2017.

FULL RE-USE

"Many people like to believe that glass recycling is an endless loop, in which used glass is melted and reused over and over again. This is not, however, completely accurate. About 20 per cent of the glass to be fed into the cleaning process breaks down during collection, transportation and processing and becomes so fine that full cleaning and colour sorting of it is not viable. Uusioaines uses this fine material to manufacture Foamit foam glass aggregate, an earthworks product competing with expanded clay aggregate," explains Parkkali.

"The manufacture of foam glass and the glass grades for industry supplement each other. We manage to recycle one hundred per cent of the glass we receive," adds Development Manager **Jari Pennanen**.

Some
80,000
tonnes a year of collected glass pass through the Uusioaines plant.

"Foamit foam glass is lightweight, non-combustible, frost-resistant and thermally insulating. It has better bearing strength than competing materials, and its high friction coefficient makes it easy to handle. In infrastructure construction, foam glass is ideal as frost-heave insulation as well as a bulk lightening material. In house-building, it is suitable as a filler for floors and roofs and also cellar wall footings," lists Pennanen.

IMPETUS FOR GROWTH

Last autumn Uusioaines received new owners when the Oulu-based investment company Partnera acquired a 58 per cent holding. Tesi also became an owner of the company by buying a 30 per cent share. With the new owners' support, Uusioaines intends to continue as a pioneer of the circular economy, as well as to grow and internationalise. Parkkali reports there are a number of growth and development plans in progress. The company will use Foamit as a springboard for internationalisation.

"One opportunity is to duplicate our operating model in a European country lacking foam glass manufacturing capacity. We've looked at the Netherlands, whose exceptionally strict environmental requirements Foamit already meets. Another option is to expand through acquisitions," Parkkali explains.

The initial sorting of recycled glass is still a manual process. Jari Pennanen, Janne Tikka and Mikko Anttila were pictured in the sorting room.

In Finland, Uusioaines envisages growth opportunities with glass sand, as well as with Foamit, because sandblasting with glass sand is safer than with quartz sand. Glass sandblasting is a milder technique than blasting with metal shot or quartz sand, but is more effective than sodablasting.

"We're also planning our own energy production. There's nothing to prevent us from gasifying the waste plastics we collect into fuel with which to heat our furnaces," Pennanen muses.

"Neither is developing new products ruled out, because our value added could be higher," adds Parkkali. |

Read more at Tesi's Dare to Grow -web site

UUSIOAINES OY

- **What it does: Cleans and processes recyclable glass. Also manufactures and sells foam glass, an ecofriendly insulating product and lightweight fill. Receives about 70 per cent of all Finland's recyclable glass. Exports some 34,000 tonnes of glass a year for the manufacture of recycled glass products. Saint-Gobain produces glass wool from 30,000 tonnes of this. Uusioaines produces foam glass from about 16,000 tonnes of the remainder, but it also imports raw material for foam glass.**
- **Where it is: Office in Jokioinen and plants in Forssa, Finland.**
- **Net sales: EUR 15 million.**
- **Personnel: 33.**
- **Owners: Investment company Partnera Oy, Tesi, Jarkir Oy and Jussi Parkkali.**
- **Websites: uusioaines.com, foamit.fi**

Focus areas change over time

Developing the market and new solutions are closely interlinked. Market development for us often means advancements made by investing in funds. In this context, though, we focus more on solutions through direct investment.

PHOTO **JUNNU LUSA**

OUR activities as a VC/PE investor must resolve issues — make the existing better. Renewal and new solutions give us the means to eliminate **market bottlenecks** that would otherwise restrict financing. Finance providers have, for instance, paid less attention to longer-term investments, to growing family firms, to change-of-generation arrangements and to Greenfield / Brownfield projects.

We have created **strategic objectives** to guide our investment operations. One practical example is our last investment in 2018 in glass foam manufacturer Uusioaines, which fits neatly into the circular economy and positive impact domain. GRK Infra can be regarded as a Mittelstand company. Smart ring manufacturer Oura Health and health technology company Kaiku Health fall within our strategic objective of the health industry.

As a new operational format, we started anchor investing to support growth companies planning an IPO. We channel **anchor investments** to companies whose size, sector or development stage makes an IPO challenging. In 2018, we made our first anchor investment in the First North listing of industrial maintenance specialist Viafin Service.

In 2018 we agreed a **co-investment programme with the European Investment Bank (EIB)** that will channel altogether MEUR 100 of financing to promote the growth of innovative SMEs and midcap companies. In each financing round, private investors will provide at least the same amount of capital as the EIB and Tesi. In this way we support the larger financing requirements of Finnish companies as well as the larger (co-) investments that funds make in growth companies.

Investment programmes, market bottlenecks and strategic objectives change over time. We closely monitor the finance market, analyse its development and continuously interact with both our partners and companies. This enables us to target our development activities and focus our investments so that they supplement the market and assist its smooth functioning.

Partnership for companies planning for an IPO

Tesi is prepared to support all types of growth companies in listing where the purpose of the IPO is to acquire financing for growth. We made our first anchor investment in October.

PHOTO **JUNNU LUSA**

LISTING on the stock exchange is a good option for a company seeking to raise capital for growth and internationalisation. Finnish growth companies use this opportunity relatively infrequently, however. Only one Finnish company has listed on Finland's Nasdaq First North since it was established in 2007 for every ten companies listing in Sweden – but Sweden's national economy is not ten times the size of Finland's.

At Tesi, we started to question what is holding Finnish companies back.

NARROW INVESTOR BASE

The investor base in Finland is narrower than in Sweden. Here in Finland, large institutional investors, such as pension companies, predominate. They do important work developing Finnish companies also by investing in companies listing on First North, but the sums they invest are often rather small. These investors do not generally want a holding exceeding 20 per cent due to accounting and other regulatory burdens, and for similar reasons they often avoid ownership exceeding even 5 per cent.

Because the investor base is so narrow, a company seeking growth can have difficulties finding enough anchor investors to make a commitment (i.e. a promise to buy a certain amount of shares in the IPO). This is a bottleneck that prevents the investment market functioning as well as it could.

We started wondering what is holding Finnish companies back.
MIIKKA SALMINEN / INVESTMENT MANAGER, TESI

TESI AS AN ANCHOR INVESTOR

The idea emerged of providing advice and capital to support companies considering an IPO. Tesi's anchor investment would function as a guarantee of quality that would help to enable an IPO and accelerate a company's growth.

One of our most import tasks is to accelerate companies' growth and develop them into domestically important economic entities. The primary focus of our investment operations is venture capital investment, but the technical format of the financing can vary according to the situation.

A company planning an IPO can lack sufficient anchor investors.

MATTI KANGAS / INVESTMENT MANAGER, TESI

WHY TESI IN PARTICULAR?

Active ownership is our core activity. Tesi's mission is to help companies grow, especially if there are constrictions or bottlenecks in the market. Alongside anchor investing, we also offer sparring to a growth company considering an IPO. The company can obtain advice about the technical details of listing publicly from its own consultants, but Tesi possesses expert knowledge of what investors expect from a listing company and how they perceive the company. This kind of support is hard to find elsewhere.

We will happily start discussions with a company at a rather early stage, when it first starts considering an IPO. We require communication with the company while we discuss various financing options, to determine whether an IPO is the best solution. We do not make a decision based solely on the listing prospectus.

LONG-TERM SUPPORT

If, during our discussions, we see that the company has good prospects but is not yet ready for an IPO, we can assist the company in making the right preparations. If necessary, we can be involved in a pre-IPO financing round to buy time for making changes.

We are a patient investor. We can support a company's operations over the long-term also with our anchor investing to ensure a smooth transition to becoming a listed company.

We are open to partnership with all types of growth companies in listing where the purpose of the IPO is to acquire financing for growth. We made our first anchor investment in October in Viafin, a specialist in industrial maintenance and servicing.

Growth financing for ambitious projects

The EU's new financial mechanism for investment funding will increase the size of financing rounds for venture capital in Finland, paving the way for large investments in growth companies.

TEXT **JARNO FORSSELL** PHOTO **JUNNU LUSA**

THE NEW financial mechanism, wherein investments are split equally between the European Fund for Strategic Investments (EFSI) and Tesi, will supplement the options currently available. The financing – consisting of EUR 15–30 million per company – is targeted at growth-oriented SMEs and innovative midcap companies. The funding is structured to be complemented by private sector co-investments of equal amount.

"This is precision investment in selected companies. It will diversify and supplement both the available sources of financing and companies' financing structures," says Tesi's Development Director **Henri Grundstén**.

The financing is targeted primarily at young, venture-stage growth companies that are internationalising as well as at established midcap companies.

"Venture-stage companies could be, for instance, enterprises with business operations driven by technology development, intensive R&D and a high risk level. Such companies are likely to be found in the material technology and life science sectors," posits Tesi's Investment Manager **Miikka Salminen**.

The new financing programme is a part of the Investment Plan for Europe, which aims to boost the investment and competitiveness of European SMEs. The EFSI financing will be channelled through the European Investment Bank (EIB).

"Now there's financing available for ambitious projects. We look forward to hearing some bold ideas from growth companies," says Miikka Salminen.

FINANCING FOR A LEAP IN GROWTH

Tesi will partner with the European Investment Bank to channel MEUR 100 in EFSI financing to Finnish companies over the next eight years. Each financing round will additionally include at least the same amount of private sector co-investment, so the total sum will rise to MEUR 200.

"Tesi will apply the same criteria and operating principles in these investments as in its other investments. The targets for returns will comply with market practice because we always invest hand-in-hand and on the same terms with private investors," says Salminen.

The size of an individual investment will be in the range of MEUR 30-60, depending on the fund. Such large financing rounds have never been seen in Finland until now. Although the full sum of MEUR 200 is a good size, it will be sufficient for less than ten companies due to the large investment sums.

Grundstén and Salminen estimate that there are a limited number of companies meeting the financing conditions in Finland; perhaps a few dozen.

"Nevertheless, there's been a satisfying increase in the appetite for growth, so we hope Tesi can serve companies now seeking really bold growth," says Salminen.

"Companies can themselves choose their most suitable financing partners from a number of candidates. Here we're offering international-scale financing rounds with domestic ownership," adds Grundstén.

"The new financial model enables larger investments than before also in higher-risk, early-stage companies that are capital-intensive or R&D-intensive," says Henri Grundstén.

TESI TO PREPARE AND MANAGE

Companies can use ESFI financing for many different investments: to expand production, widen a sales network, or for an acquisition. The financing is, however, conditional on the company itself investing an equivalent sum over seven years in factors accelerating growth, such as product development or marketing.

Tesi will collaborate with the company, the company's advisors and private co-investors in preparing investment decisions and making investments. First-round investments meeting the criteria are presented in the initial stage to the European Investment Bank, which has the right to veto them.

"We'll make first-round investments for three years and after that we can make follow-on investments for five years," explains Miikka Salminen.

The EIB becomes operatively involved after the first-round investment decision. Tesi operates as an active owner in developing portfolio companies, makes follow-on investment in them if necessary, and decides on exiting in cooperation with private investors. |

EIB AND TESI CO-INVESTMENT PROGRAMME

- **What it is: A programme for growth-oriented SMEs and innovative midcap companies to boost growth, internationalisation and product development. Tesi will manage the investments as an active owner, hand-in-hand with private investors.**
- **Total amount MEUR 100 (EFSI 50 + Tesi 50).**
- **First-round investment 3 years, follow-on investment 5 years.**
- **Total investment MEUR 30-60 per company (includes 25% Tesi, 25% EFSI and 50% private sector co-investment).**

Report by the Board of Directors 2018

BUSINESS ENVIRONMENT

Finland's economy continued to be buoyant in 2018, enjoying in particular a clear improvement in employment rate. At the end of the year, the market sentiment was, however, depressed by a marked decline in many key indicators: consumer confidence, exports, industrial investment, new building permits, and both household and corporate demand for credit. Consequently, economists lowered Finland's expected growth rate over the next few years to be substantially below the figures published in summer 2018.

Confidence in the global economy was hit in the last quarter of the year. This was reflected particularly on the stock markets, reacting strongly to the accumulating concerns. The main issues were: escalation of trade war; a slowdown in China's and Europe's economic growth; uncertainty about the true figures for China's growth rate and debt level and, finally, the increased political uncertainty in Europe (the economic and budgetary situation in Italy, Brexit, social unrest and the demonstrations generated by it).

A particularly noteworthy feature of the European investment market was the continued positive development of the venture capital segment. A clear trend in fund-raising has been increasing average sizes of venture capital funds, which in turn has resulted in larger financing rounds and partly also in rising valuation of portfolio companies. The overheating of the venture capital market has been also fuelled by a constantly increasing supply of funds from corporate venture capital, a trend that has been visible in financing rounds for Finnish, as well as other European, companies. In most cases, the objective of corporate venturing is to support the renewal and innovation activities of the industrial parent company.

The highlight of the year for Nordic VC/PE investment was Spotify's successful listing on the New York stock exchange at a market value of over €20 billion. The continuation of exit activity is, however, very dependent on the general risk sentiment of global capital markets.

Finnish growth companies again set a record in raising venture financing from investors. According to our preliminary estimates, the total sum raised in 2018 exceeded €350m. Some €240m of this comprised large (over €10m) rounds, of which there were altogether nine. Between 2013 and 2018, there were altogether 27 financing rounds exceeding €10m in Finland, in out of which Tesi was involved in 20 either directly or through its portfolio funds.

Finnish buyout funds, investing in companies in a later stage of development, still have abundant capital for new investments. This investment capacity plays an important role for Finland's business structure – the growth and internationalisation of medium-sized companies, an increase in their numbers, and buyouts. The SME segment has also seen increasing demand for minority investments. The proportion of minority investments has varied over the last three years, accounting for 10-14 per cent of total investments.

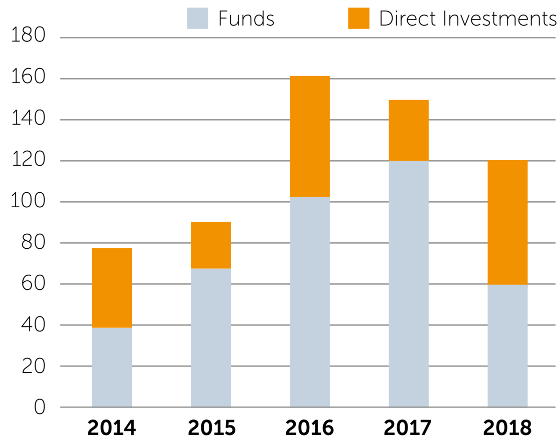
During the year, there was further evidence of radical transformation within traditional business sectors, caused by changes in consumer behaviour and the effect of digitalisation. Growth companies supported by VC/PE investors are often driving these inevitable changes in the market economy with their disruptive and commercially successful innovations.

INVESTMENT OPERATIONS

Tesi's objective is to make responsible venture capital and private equity investments that are profitable and create positive socio-economic impact. This impact is, in addition to the financial growth of the portfolio companies, manifested through the development of the private equity and venture capital market in Finland and through active ownership. Tesi's vision is to raise Finland to the next level of growth and internationalisation, and Tesi's mission is to operate in support of this goal.

During 2018, Tesi signed new commitments to venture capital and private equity funds and made new investments in companies amounting to €121m (€149m in 2017).

NEW INVESTMENTS, €M



Commitments totalling €59m (€60m) were made to eight venture capital and private equity funds, of which five commitments were to venture capital funds and three commitments to growth and buyout funds.

Other capital amounting to €195m was also invested in Finnish funds in which Tesi invested, representing roughly 6 times the amount of Tesi's commitment. Tesi made four commitments to international funds that complement the Finnish VC/PE market with their special focus or expertise.

Tesi paid out altogether €84m (€59m) to funds in capital calls. Correspondingly, the funds returned a total of €156m (€77m) to the company.

Altogether €62m (€29m) was invested in 26 companies during 2018. Tesi made initial investments totalling €52m in altogether 13 companies and follow-on investments totalling €10m in 13 companies. Initial investments included Nosto, Oura Ring and Kaiku Health in scale-up phase. Science-based high technology investments include Dispelix and ICEYE. Tesi and Sentica completed a buyout of SuperPark Oy. Conventional growth and minority investments included Zsar, Uusioaines and GRK. Viafin Services was a new initiative for assisting the IPO of a growth company.

Overall, a total of almost €250m in new risk capital was channelled into these portfolio companies, representing over four times the amount invested by Tesi. Of this total amount, some €61m came from international investors. Investment programmes promoting growth and the renewal of industrial structures form the core for Tesi's direct investments.

The €75m **Circular Economy** investment programme was launched at the end of 2018. One direct investment, Uusioaines Oy, and one fund investment, Environmental Technologies Fund III, were made from the programme.

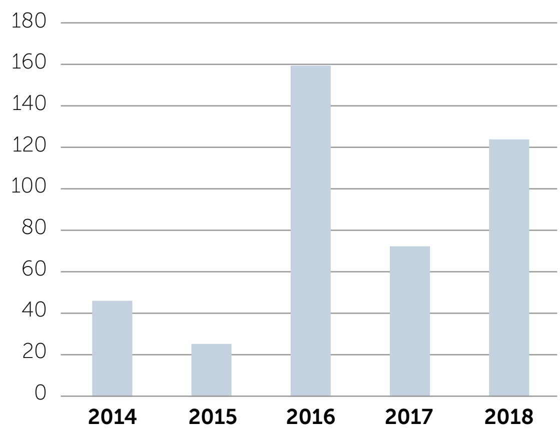
The strategic priorities for the **Industrial Renewal** investment programme are cleantech, bioeconomy, health technology and digitisation. Investments amounting to over €17.5m were made in 14 companies through the Industrial Renewal investment programme. The largest investments were in Kotkamills, Rauma Marine Constructions and Viria Plc. Altogether, investments totalling €96m have been made in 24 companies within the programme.

Through Tesi, the **International Co-investors** investment programme acts as a catalyst in attracting international capital and expertise into Finnish growth companies. In 2018, some €21m was invested in 10 companies through the programme. Investment targets in the programme included companies such as BCB Medical, MariaDB Corporation and ICEYE. At year's end, investments amounting to over €40m had been made in altogether 14 companies. These companies have raised a total of €216m in capital from investors, of which €144m came from international investors. The programme was fully invested in 2018.

The **Mining Cluster** investment programme ended during the financial year and the portfolio companies were transferred to the Finnish Minerals Group.

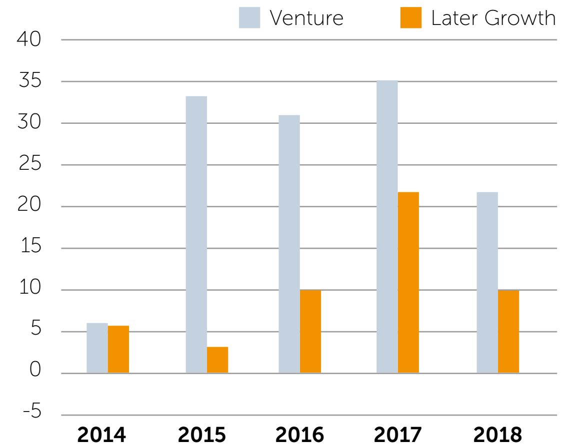
Tesi's objective is to internationalise Finland's venture capital and private equity market. In 2018, Tesi's international investor network invested altogether €123m in Finnish growth companies, of which €63m came from Tesi's international portfolio funds. Investors also provided Finnish companies with highly valuable international business management expertise as well as contact networks, in addition to investment capital.

CHANNELLING OF INTERNATIONAL CAPITAL, €M



Tesi focuses attention on active ownership and portfolio companies' growth. The aggregated net sales of direct portfolio companies grew on average by 19% (median) during the financial year. The aggregated net sales of venture-capital phase companies grew in general by 22% (median), and of later-stage companies by 10% (median).

GROWTH IN DIRECT INVESTMENTS, % (MEDIAN)



Exits reached record levels in 2018, especially in the venture capital segment. Altogether €165m was returned from investments during the year, of which €155m was from funds and €10m from direct investments.

Tesi exited from six direct investments. In the exit market, industrial buyers were particularly prominent. Tesi also exited from four fund investments that had reached the end of their term, and from eight fund investments by selling the fund interests in the secondary market.

In addition to the Group's own investment operations, Tesi manages the FoF Growth I, II and III funds. The investment operations of FoF Growth III started in 2018 as planned, and investments were made in four funds during the year. The FoF Growth funds' portfolio now comprises 24 funds, both venture capital and growth & buyout.

The model for the FoF Growth concept has over the last ten years proven to be very successful, while also having a positive impact on Finland's economy. FoF Growth has already accelerated the growth of over 150 companies, and future investments by FoF Growth II and FoF Growth III will raise this figure to 300.

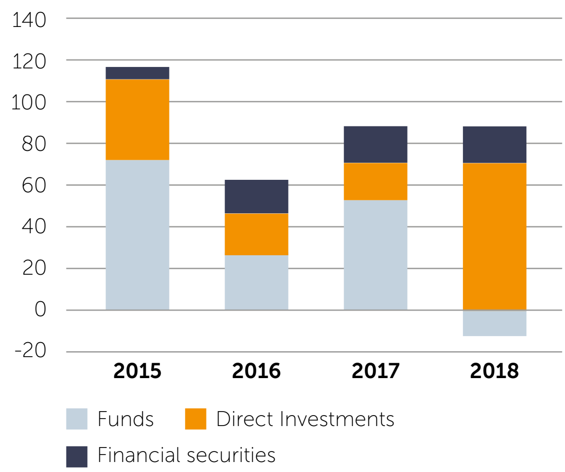
The European Investment Bank (EIB) and Tesi agreed upon a programme for channelling financing from the EU's European Fund for Strategic Investment (EFSI) into Finnish companies' growth. Managed by Tesi, total financing of €100m will be targeted at promising companies. In each financing round, private investors will provide at least the same amount of capital as EIB and Tesi.

FINANCIAL PERFORMANCE

Consolidated profit/loss

Despite the increasingly uncertain outlook for the global economy at the end of the year, 2018 was yet one year of strong financial performance. Profits were especially boosted by realised gains from VC/PE investments. Consolidated profit for the financial year declined slightly compared to the previous year, amounting to €55m (€66m in 2017).

NET GAINS, €M



The Group's net gains from private equity and venture capital investments totalled €90m (€69m). Net gains from private equity and venture capital funds were €72m (€53m). The increase in net gains was largely owing to numerous successful exits from fund portfolio companies (such as Spotify, iZettle, Ekahau, Solita) and a general rise in valuation levels.

Net gains from direct investments amounted to €18m (€15m). Net gains comprised exits from investments, of which there were 7 during the financial year. Overall, portfolio companies enjoyed favourable growth and profitability development. The weakening economic outlook at the end of 2018 have been considered as far as possible, when estimating the fair value of unrealised investments.

Other operating income includes net losses (gains) from financial securities, amounting to €-14m (€+18m). The last quarter of 2018 was globally difficult for both listed equities and fixed income investments. The major part of the financial securities consisted of fixed income investments.

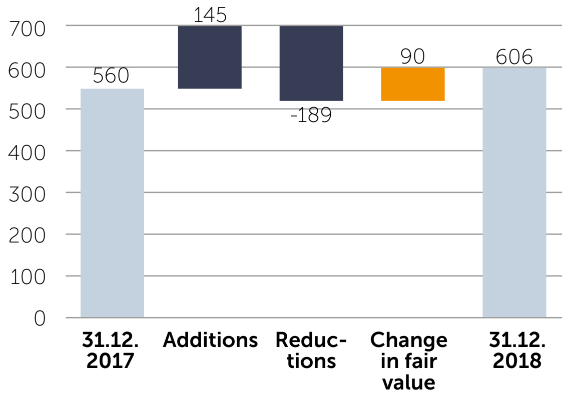
Operating expenses were €8m (€7m). The higher expenses can largely be explained by the upgrading of information systems and of one-off advisory fees relating to the sale of a fund interests. Expenses per balance sheet total were 0.7% (0.6%). The operating profit amounted to €68m (€80m).

Balance sheet and financial position

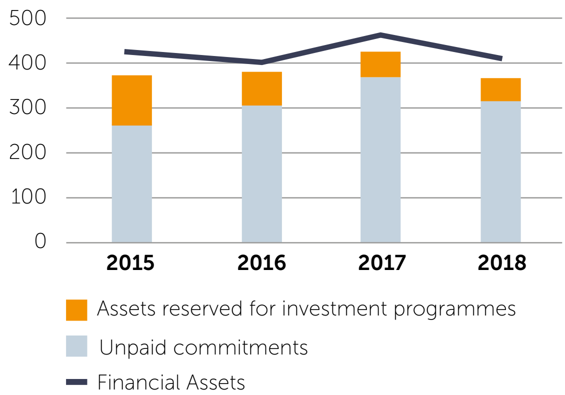
Non-current assets were €646m (€569m) at the end of the year, of which €606m (€560m) consisted of private equity and venture capital investments recognised at fair value in the statement of comprehensive income. Volumes of private equity and venture capital investment grew by €46m during 2018. Of the venture capital and private equity investments at the end of the year, €371m (€372m) was invested in VC/PE funds and €235m (€189m) in direct investments.

Financial securities safeguard the continuity in the company's investment operations and its ability to meet unpaid commitments. At the end of 2018 unpaid commitments totalled €316m (€367m). Unpaid commitments consist almost entirely of commitments given to venture capital and private equity funds with an average expected maturity of four years. In addition to unpaid commitments to funds, some €121m has been reserved for implementing the company's ongoing investment programmes.

CHANGE IN VC & PE INVESTMENTS, €M



FINANCIAL ASSETS AND UNPAID COMMITMENTS, €M



More detailed information about the determination of fair value is given in note 4 of the Notes to the Accounts.

The figure for current assets, €385m (€452m), includes €378m (€445m) of financial securities recognised at fair value in the statement of comprehensive income. The figure for non-current assets also includes €25m (€0m) of financial securities recognised at fair value in the statement of comprehensive income.

The Group's balance sheet totalled €1,031m (€1,020m) on 31 December 2018. Shareholders' equity grew to €996m as a result of the net profit of €55m for the financial year. The Group's equity ratio was 96.6% (95.9%). The Group did not hold any interest-bearing liabilities at the end of 2018.

RISKS AND RISK MANAGEMENT

Tesi's operations are governed by a special law and a government decree relating to it, which define the company's main principles for risk-taking. Tesi promotes the development of Finnish private equity and venture capital market as well as the growth and internationalisation of Finnish companies. The company's operations therefore involve bearing higher than usual risks in certain geographic areas and specific sectors. The company's investment activities must nevertheless be managed as a whole in a way that ensures investments are adequately diversified and that the primary legal obligation for profitable operation over the long term is met.

Tesi has a risk management policy, confirmed by the Board of Directors. The policy sets out the principles for risk management, specifies risk definitions and risk classifications and also defines the main roles and divisions of responsibilities as well as the monitoring and reporting procedures. The goal for risk management is to ensure that risks borne by the company are commensurate with its risk taking capacity. The aim is to ensure that the risks attached to the company's business operations are identified and assessed, that the company responds to those risks, and that they are managed and monitored.

The Board of Directors confirms the company's strategy and action plan, in which the targets for different investment allocations are prioritised and specified. In order to reduce risks, investments are diversified to different allocation classes, different industries, and also geographically, while taking into account the company's mission. The Board makes the company's investment decisions and supervises the implementation of investments.

Risk management supports achievement of the goals set in the company's strategy and action plan by monitoring that the risks taken are commensurate with risk-taking capacity. Risk-taking capacity is managed through carefully planned investment operations and by managing investments with the aim of assuring achievement of the targets set for return on capital and profitability.

Tesi's main risks are related to venture capital and private equity investments, and to investments in financial securities. Both involve various investment risks, including valuation risks, market risks, liquidity risks, financing risks, credit risks, currency risks, interest risks, et cetera.

A higher business risk is associated with direct industrial investments used as a tool to deploy the industrial policy set by the Government of Finland. Direct industrial investments represent about one-third of the entire portfolio of direct investments and 10% of the whole VC/PE investment portfolio.

The value of private equity and venture capital investments at the end of the financial year amounted to €606m. Investments are subject to the risks stated above that, if they were realised, could substantially affect the future value of the investments. The table below presents the possible euro-denominated impacts of relative changes in valuations on the value of the private equity and venture capital investment portfolio.

The risks related to each private equity and/or venture capital investment are managed by predictive generation of the deal flow, careful analysis in the screening phase, participating through board work in the business development of portfolio companies, proactive interaction with managers of private equity and venture capital funds, and positive action in the exit stage.

Managing financing risks ensures that the company always has adequate financing available for its business operations (unpaid investment commitments). The company's liquidity and cash flows are continuously monitored. When preparing new investments, the effect of the investments on liquidity and financial position is taken into account. Most of the company's cash flows and investments are denominated in euros.

Investments in financial securities are made at the selected risk level in compliance with the investment policy confirmed by the company's Board of Directors. Investments in financial securities aim to ensure the company has adequate assets for private equity investing and other payment transactions. Investments in financial securities are spread mainly between investments in bond funds, investments in equity funds, and alternative investments. The market volatility of financial securities is regularly monitored. The counterparty risk attached to investing in financial securities is managed with a thorough partner selection procedure.

Other risks to which Tesi is exposed include strategic risks, operational risks, risks of loss or damage, and risks for reputation. Strategic risks are managed by regularly evaluating the company's operations and operating environment. Operational risks are managed by good corporate governance and internal instructions, and these risks are covered by insurances.

At the end of 2018 the ratio of the company's total investments (fair value) and investment commitments to shareholders' equity was 93%.

More detailed information about risks and risk management is given in note 3 of the Notes to the Accounts.

IMPACT OF CHANGES IN VALUE OF VC & PE INVESTMENTS ON INVESTMENT PORTFOLIO (€606M), €M

	Fund Investments (fair value €370,5m)				
Direct investments (fair value €235m)	**0 %**	**-5 %**	**-10 %**	**-15 %**	**-20 %**
0 %	0	-19	-37	-56	-74
-10 %	-24	-42	-61	-79	-98
-20 %	-47	-66	-84	-103	-121
-30 %	-71	-89	-108	-126	-145
-40 %	-94	-113	-131	-150	-168

CORPORATE GOVERNANCE

Group structure

The Group's subsidiaries are FEFSI Management Oy (parent company's ownership 100%), Tesi Fund Management Oy (parent company's ownership 100%), Tesi Industrial Management Oy (parent company's ownership 100%) and Aker Arctic Technology Oy (ownership 66.4%).

Organisation and development of operations

At Tesi's Annual General Meeting on 6 March 2018, the following members were elected to the Board of Directors: Board Chairman, Esa Lager (LL.M., M.Sc. (Econ), born 1959); Marika af Enehjelm (Doctor of Technology, M.Sc. (Econ), born 1974); Pauli Kariniemi (Lic.Sc. (Econ), born 1970); Kimmo Jyllilä (M.Sc. (Econ), born 1972); Mika Niemelä, (M.Pol. Sc., born 1975); Annamarja Paloheimo, (Senior Lawyer, LL.M., born 1964), and Riitta Tiuraniemi (M.Sc. (Tech), born 1962). In 2018 the Board of Directors convened altogether 15 times and average attendance at the meetings was 95.2%.

The company's CEO was Jan Sasse (M.Sc. (Econ.), born 1967). The parent company employed an average 34 people during the year. Four new employees were recruited to permanent positions during the financial year. One person resigned from the company. At year's end 13 women and 23 men were permanent employees of the company.

Goal-setting and feedback discussions were held twice in 2018. The discussions help disseminate strategic targets to the team and individual level, and these targets are supported and monitored. In Tesi, personnel commitment and motivation strongly depend on employees being able to use and develop their skills and expertise in a versatile way. Skills development in 2018 focused on self-awareness and self-management, team dynamics and project management.

Personnel surveys are conducted regularly to monitor personnel motivation and job satisfaction. The survey enquired into the implementation of Tesi's values, the flow of one's own work and of cooperation, supervisory work, and Tesi as an employer. The overall index was higher than for 2017.

Tesi follows the guidelines issued by the Prime Minister's Office regarding remuneration in state-owned companies. Salaries and remunerations in 2018 totalled €3.9m (€3.7m). The remuneration system is developed in line with evolving company objectives, in order to effectively support the company's business operations. More details about remuneration practices are given in the company's Corporate Responsibility Report.

A strategy project was launched in Tesi in autumn 2018 that still continues into early 2019. The entire organisation has participated in the project through various workshops and surveys.

Shares and share capital

The company has one class of shares and 41,710 shares. The share capital is €438,992,200.

Board's proposal for the distribution of profit

The parent company's distributable earnings (according to FAS financial statements) on 31 December 2018 amounted to €223,141,002. No significant changes in the company's financial position have occurred since the end of the financial year. The Board proposes to the Annual General Meeting that no dividend be distributed for the financial year 2018. The company's financial resources will be targeted for private equity and venture capital investments that promote the growth and internationalisation of Finnish companies and the development of Finland's venture capital and private equity market.

EVENTS AFTER THE FINANCIAL YEAR

After the end of the financial year, Tesi gave one investment commitment to a Finnish growth fund (details to be published later) and also participated in LeadDesk's successful listing on Helsinki's First North exchange.

PROSPECTS

The partially conflicting forecasts for the global economy during the last quarter and the uncertainty stemming from the outlook is affecting the market sentiment at the start of 2019. Corporate profitability development is still expected to remain buoyant, but it is difficult to predict what effect, for instance, trade disputes and Brexit will have on companies operating in the EU. Fixed income market is influenced by the question of when the prevailing historically low interest rates will start to steadily rise. Increasing uncertainty could well slow down the M&A market, as the gap between buyers' and sellers' price expectations increases.

In 2018, Tesi launched a process for updating its strategy and its implementation is scheduled for the spring 2019. The key strategic themes relate to active and responsible ownership; socio-economic impact; producing insights through data; and promoting companies' growth and internationalisation.

Tesi's mission is to help Finnish companies grow and internationalise through VC/PE investments and to support the further development of Finnish VC/PE market. The objective of the strategy is to define the market bottlenecks where Tesi´s presence is most needed, and then to identify and develop ways in which Tesi can most efficiently and effectively speed up the expansion and internationalisation of growth companies. Through development of the VC/PE market, Tesi plays a role that serves and supplements the market, and Tesi can fulfil that role by, for instance, producing useful market data. Tesi is also guided by its role in the market to invest with highest possible socio-economic impact in a profitable manner. Strategy process will result in a view of how Tesi can best fulfil its task over a 3-4-year cycle, as well as a vision of what the VC/PE market will look like over the next ten years.

Tesi will focus on broadening both the local and the international investor base on the Finnish market. This will provide VC/PE funds with more private capital and, hence, larger funds, allowing them to support their future target companies further down the life cycle of the companies. Several Finnish fund manageres are currently in the process of fund-raising, and expected realise as new commitments during 2019.

In line with its current investment focus, Tesi will continue direct minority investments in SMEs seeking growth and in industrial investments. The Circular Economy will remain a key investment programme also in 2019.

Close cooperation with private players, the EIF and the EIB, in channelling EU funds into Finnish venture capital funds and growth companies, will continue in 2019.

As we enter a new financial year, Tesi has strong resources for long-term investment operations that promote the growth of Finnish companies.

Key figures

KEY FIGURES, GROUP	IFRS 2018	IFRS 2017	IFRS 2016	IFRS 2015	FAS 2014
Profit/loss for the financial year, €m	54,6	65,7	44,6	86,4	-25,7
Shareholders' equity, €m	996,0	978,2	912,5	867,9	676,5
Balance sheet total, €m	1030,5	1020,3	943,0	895,3	694,5
Unpaid commitments, €m	316,0	367,4	305,5	265,0	256,0
Investments at acquisition price, €m	545,1	496,0	526,2	503,4	528,6
Investments at acquisition price and commitments, €m	861,1	863,4	831,7	768,4	784,6
Investments at book value, €m	605,6	560,1	525,2	459,8	414,2
Ratio of investments and commitments to shareholder's equity	0,9	0,9	0,9	0,8	1,0
New commitments during financial year, €m	120,8	148,8	164,6	93,0	81,5
Return on equity	5,5 %	6,9 %	5,0 %	11,2 %	-4,2 %
Equity ratio	96,6 %	95,9 %	96,8 %	96,9 %	97,4 %
Expenses per investments under management	0,8 %	0,6 %	0,8 %	0,8 %	0,8 %
Personnel, average	36	32	34	31	31
Salaries and fees for the financial year, €m	3,9	3,7	3,9	3,6	3,2
Fund investments, total number	87	91	93	91	90
Funds, number of portfolio companies	712	660	677	617	544
Parent company, number of portfolio companies	45	37	36	37	42
Start Fund I Ky, number of portfolio companies	0	0	6	14	22
Tesi Industrial Management Oy, number of portfolio companies	3	5	4	2	2
Portfolio companies, total number	760	702	723	670	610

Consolidated statement of comprehensive income

EUR THOUSANDS	NOTE	2018	2017
Net gains from venture capital/private equity funds	5	71 717	53 363
Net gains from direct investments	5	17 947	15 386
Net gains from investments, total		**89 664**	**68 748**
Net gains from financial securities		-14 305	18 282
Income from fund management		938	372
Other operating income, total		**-13 367**	**18 654**
Employee benefit costs	6	-4 689	-4 470
Depreciation and impairment		-213	-228
Other operating expenses	7	-3 649	-2 519
Operating profit / loss		**67 748**	**80 185**
Financial income		181	80
Financial expenses		-250	**-209**
Profit / loss before income tax		**67 678**	**80 056**
Income tax	8	-13 066	-14 387
Profit / loss for the financial year		**54 613**	**65 669**
Total comprehensive income for the financial year		**54 613**	**65 669**
Profit for the financial year attributable to:			
Shareholders of the parent company		54 613	65 669

Consolidated statement of financial position

EUR THOUSANDS	NOTE	31.12.2018	31.12.2017
ASSETS			
Non-current assets			
Venture capital and private equity investments			
Fund investments	4	370 529	371 500
Direct investments	4	235 118	188 558
Venture capital and private equity investments, total		605 647	560 058
Tangible and intangible assets	9	644	817
Deferred tax assets	11	14 460	7 672
Financial securities	4	25 010	0
Non-current assets, total		645 761	568 547
Current assets			
Receivables		2 237	287
Financial securities	4	378 455	445 289
Cash and cash equivalents		4 089	6 198
Current assets, total		384 781	451 774
Assets, total		**1 030 542**	**1 020 321**
EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the parent company			
Equity			
Share capital		438 992	438 992
Share premium account		215 855	215 855
Retained earnings		286 499	257 638
Profit for the financial year		54 613	65 669
Shareholders' equity, total		995 959	978 155
Liabilities			
Non-current liabilities			
Deferred tax liabilities	11	28 092	30 578
Non-current liabilities, total		28 092	30 578
Current liabilities			
Accounts payable and other liabilities	10	6 491	11 588
Current liabilities, total		6 491	11 588
Liabilities, total		34 583	42 166
Equity and liabilities, total		**1 030 542**	**1 020 321**

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Retained earnings	Shareholders' equity, total
1.1.2017	**438 992**	**215 855**	**257 638**	**912 485**
Profit for the financial year			65 669	65 669
Total comprehensive income for the financial year			65 669	65 669
Shareholders' equity 31.12.2017	**438 992**	**215 855**	**323 307**	**978 155**

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Retained earnings	Shareholders' equity, total
1.1.2018	**438 992**	**215 855**	**323 307**	**978 155**
Profit for the financial year			54 613	54 613
Total comprehensive income for the financial year			54 613	54 613
Distribution of dividend			-36 808	-36 808
Shareholders' equity 31.12.2018	**438 992**	**215 855**	**341 112**	**995 959**

Consolidated statement of cash flows

EUR THOUSANDS	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Capital calls paid to funds	-83 440	-59 399
Cash flows received from funds	155 228	76 997
Direct investments paid	-63 125	-28 798
Repayments of and sales proceeds from direct investments	10 443	41 390
Interest from venture capital/private equity investments	270	2 047
Dividends from venture capital/private equity investments	1 306	1 604
Cash flow from venture capital and private equity investments, total	**20 682**	**33 841**
Payments for financial securities	-132 550	-235 356
Sales proceeds from financial securities	160 121	211 993
Payments received from other operating income	938	385
Payments made for operating expenses	-7 827	-8 204
Cash flow from operating activities before taxes	**41 365**	**2 660**
Direct taxes paid	-27 474	-2 216
Cash flow from operations (A)	**13 891**	**443**
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for tangible and intangible assets	0	-528
Cash flow from investing activities (B)	**0**	**-528**
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	-16 000	0
Cash flow from financing activities (C)	**-16 000**	**0**
Change in cash & cash equivalents (A+B+C) increase (+)/decrease (-)	-2 109	-84
Cash and cash equivalents at beginning of period	6 198	6 282
Cash and cash equivalents at end of period	4 089	6 198

1. Summary of significant accounting policies

GENERAL INFORMATION ABOUT THE GROUP

Finnish Industry Investment Ltd ("Tesi", "the Company") is a state-owned investment company. Tesi's mission is not only to be commercially profitable but also to develop Finland's venture capital and private equity market as well as to promote Finnish business and Finland's economic growth.

Tesi is domiciled in Helsinki, and the address of its registered office is Porkkalankatu 1, 00180 Helsinki, Finland. Copies of the consolidated financial statements are available at the address mentioned above, as well as on the website www.tesi.fi/. Tesi's Board of Directors, at their meeting on 1 March 2019, authorised these financial statements for issue. According to Finland's Limited Liability Companies Act, the Annual General Meeting has the power to amend the financial statements.

Tesi invests in Finnish companies both directly and through private equity and venture capital funds. The investments are focused on rapid growth, internationalisation, spin-offs and major industrial investments, as well as on sectoral, corporate and ownership restructurings.

Tesi is a part of a national innovation system that seeks to stimulate Finnish industry and promote the development and deployment of new technology while creating new growth companies, jobs and wellbeing. Tesi contributes to the innovation system services by providing venture capital and private equity financing to companies. Its key principle is to conduct its operations on market terms, together with Finnish and foreign investors and to increase their ability to take risks, while also boosting the availability of funding, investment expertise and networks.

Since 1995, Tesi has made venture capital and private equity investments amounting to approximately one billion euros in total. Currently, Tesi has investments in 769 companies, directly or through investment funds. The continuity and growth of our investment operations have been secured with government capitalisation as well as with financing from the company's own income.

Tesi's operations are regulated by legislation (Act on State-Owned Company Suomen Teollisuussijoitus Oy) and government decree (Government Decree on State-Owned Company Suomen Teollisuussijoitus Oy). The law allows Tesi to accept a higher risk or a lower expected return when making individual investment decisions, in order to pursue the Company's mission in terms of trade and industrial policy. By law, the Company's operations must be profitable over the long term.

ACCOUNTING POLICIES

Tesi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and they comply with IAS and IFRS standards, as well as SIC and IFRIC interpretations, that are effective as at 31 December 2018 and are endorsed for application in the European Union. In the Finnish Accounting Act and therewith related regulations, "IFRS" refers to standards and interpretations that have been endorsed by the EU in accordance with the procedure defined in the EU regulation (EY) No 1606/2002. The notes to the financial statements also meet the requirements of the Finnish accounting legislation and company law that are complementary to the requirements in the IFRS.

The primary measurement basis applied in the preparation of the financial statements is fair value, as almost all financial assets are measured at fair value. Other items are measured at cost or at amortised cost. The figures in the accounts are presented in euros, which is Tesi's operational currency. The figures are given in thousands of euros, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The most significant estimates and judgments are disclosed under accounting policies, in Note 2. Critical accounting estimates and judgments.

STANDARDS ENTERING INTO FORCE OR UPDATED SINCE THE START OF 2018

Tesi has adopted the following standards published by the International Accounting Standards Board (IASB): IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, which entered into force on 1 January 2018. Neither of the updated standards adopted have had a significant effect on Tesi's consolidated financial statements.

IFRS 9 *Financial Instruments*
IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new requirements for general hedge accounting. Adopting IFRS 9 broadens the scope of the notes to the accounts regarding financial instruments.

Financial assets are classified in compliance with IFRS 9 into the following categories: financial assets measured at amortised cost, financial assets at fair value recognised in other items of comprehensive income, and financial assets recognised at fair value through profit or loss. The standard removed the old IAS 39 classification: held-to-maturity financial assets, loans and receivables, and investments available for sale. Tesi's financial assets are mainly classified as financial assets recognised at fair value through profit or loss. Adoption of the new standard has not therefore changed the accounting practices Tesi applied earlier.

IFRS 9 includes a new model for impairing financial instruments, based on which expected credit losses are measured at amortised cost and financial assets at fair value recognised in other items of comprehensive income. Expected credit losses are determined on the basis of historical credit loss amounts, taking into account forecasting information and the range of possible outcomes. Tesi's credit risk mainly relates to venture capital and private equity investment and to financial securities, which are measured at fair value through profit or loss in the financial statements. The Company's income from fund management does not include any variable remuneration or special payment obligations to which a credit loss risk is attached. so Tesi does not have any financial instrument to which a calculation of expected credit losses would be applicable in the 2018 consolidated financial statements. The Group's exposure to credit risk is specified in more detail in Note 3. Financial risk management.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 includes a five-step guide for recognising revenue from contracts with customers. An entity should recognise sales proceeds when the customer receives control of a product or service to the extent that the Company expects to be entitled to those products or services. IFRS 15 has also broadened the scope of the notes to the accounts presented in the financial statements.

Tesi's income flows are derived mainly from realised and unrealised changes in the fair value of venture capital and private equity funds and from direct VC/PE investments, as well as from interest and dividends from direct investments. These do not fall within the scope of IFRS 15, so the scope of the new standard has no effect on Tesi's consolidated financial statements.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries are companies in which the group has control. Control arises when the Group has existing rights, from its involvement with the investee, that give it the ability to direct the activities that affect the investee's returns or is entitled to variable returns and has the ability to use its power over the investee to affect the amount of the investee's returns. Acquired subsidiaries are combined with the consolidated financial statements on the date the Group receives control, and the assigned subsidiaries, until the date that control ceases. All the Group's internal transactions, receivables, liabilities and unrealised gains, as well as its internal distribution of profit, are eliminated in the consolidated financial statements.

ACCOUNTING POLICY FOR INVESTMENT ENTITIES

Tesi's management has determined that Tesi meets the definition of investment entity in IFRS 10 Consolidated Financial Statements. Therefore, Tesi records the investees under its control at fair value through profit or loss, except for operating subsidiaries whose operations relate to investment activities or which provide investment management services, unless those subsidiaries themselves meet the criteria for an investment entity.

In other words, the subsidiaries combined with the consolidated financial statements are companies that produce fund management services, and which are regarded as an extension of the parent company's business operations. Investment entities to be recognised at fair value through profit or loss are subsidiaries through which Tesi makes its own investments. The Group's Subsidiaries and their treatment in consolidated financial statements are specified in more detail in Note 15.

Tesi also recognises investees in which it has significant influence at fair value through profit or loss.

ITEMS DENOMINATED IN FOREIGN CURRENCY

Business transactions in foreign currencies are recorded at the equivalent amounts of the operational currency at the rates of exchange valid on the transaction date. Exchange rate differences are charged or credited to the income statement. For financing, exchange rate differences are presented as net amounts in financial income and financial expenses.

FINANCIAL ASSETS

RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

Tesi's financial assets comprise venture capital and private equity investments, financial securities and cash & cash equivalents. Financial assets are classified, according to the business model followed in the management of the Group's financial assets and based on their contractual cash flow attributes, into groups that determine their valuation principles. Financial assets are classified into financial assets recognised at fair value through profit or loss, financial assets at fair value recognised in other items of comprehensive income, and financial assets measured at amortised cost. At the time of publication, the Group only had financial assets recognisable at fair value through profit or loss. All purchases and sales of financial assets are recognised on the transaction date.

Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or have been transferred to another party so that the risks and rewards have been transferred.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Venture capital and private equity investments as well as financial securities are classified at initial recognition explicitly as financial assets to be recognised at fair value through profit or loss, because they are managed and their performance is monitored by Tesi on the basis of fair value (application of the 'fair value option'). Venture capital and private equity investments are in most cases non-current investments and are presented in the statement of financial position under non-current assets. Financial securities consist mainly of investments in bond funds and equity funds, which are presented under current assets because of their nature and purpose.

Financial assets are initially recognised at fair value. Transaction costs are recorded as expenses immediately. After initial recognition, financial assets are measured at fair value at each reporting date, and both realised and unrealised changes in fair value are recognised in profit or loss in the period in which they arise. The net movements in the fair value of venture capital and private equity investments are presented in the income statement under "Net gains from venture capital and private equity investments", and the movements in the fair value of financial securities are presented under "Net gains from financial securities". Interest income and dividend income are included in the net movement in fair value. The basis for the determination of fair value is disclosed in Note 4. Determination of fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and demand deposits.

FINANCIAL LIABILITIES

Tesi has minor amounts of current financial liabilities (accounts payable), which are classified for measurement at amortised cost. Financial liabilities are presented in the statement of financial position as current liabilities if they fall due within 12 months from the last day of the reporting period.

TANGIBLE AND INTANGIBLE ASSETS

Tangible assets comprise machinery and equipment as well as leasehold improvements, and they are carried in the balance sheet at cost less accumulated depreciation with any impairment losses. Tangible assets are depreciated over their useful lives using the straight-line method. The estimated useful lives by class of assets are as follows:

- Machinery and equipment 3-5 years
- Leasehold improvements 5-10 years

Intangible assets include intangible rights consisting of computer software. Intangible assets with a definite useful life are recognised at cost less accumulated amortisation. Intangible assets are amortised over their useful lives on a straight-line basis. The estimated useful life of software is five years.

Impairment of tangible and intangible assets

The Group assesses on the final date of each reporting period whether there are indications of impairment on any asset. If indications are detected, the amount recoverable from that asset is estimated. An impairment loss is charged when the carrying amount of an individual asset is higher than the amount recoverable from it. An impairment loss is charged to the income statement.

RECEIVABLES

Receivables consist mainly of deferred expenses and accrued income.

LEASES

Leases are classified at their inception as finance leases or operating leases, based on whether the lease transfers substantially all the risks and rewards of ownership.

Leases that transfer to the lessee substantially all the risks and rewards incidental to the ownership of the asset are classified as finance leases.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases, and they are included in the balance sheet of the lessor. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Tesi's leases are classified as operating leases.

EMPLOYEE BENEFIT COSTS

Tesi's pension plans are classified as defined contribution plans. Under a defined contribution plan, the Company pays, into publicly or privately administered pension insurances, contributions that may be mandatory and contractual. Tesi has no obligations to make any payments apart from these contributions. The contributions paid are recorded as employee benefits when they are due. Contributions paid in advance are recognised as an asset to the extent that a cash refund or a reduction of future payments is available.

All the personnel of the Company are covered by an annual bonus scheme. The annual bonus is determined based on performance both on company level and on a personal level. The Board of Directors sets the targets beforehand and subsequently assesses the achievement of the targets.

INCOME TAX

The income tax charge in the income statement includes both current and deferred tax. The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the balance sheet date. The amount is adjusted by any taxes relating to prior periods.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that are enacted or substantively enacted at the balance sheet date and that are expected to be applied when the related deferred tax asset is realised, or the deferred tax liability settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed annually and assessed in relation to the group's ability to generate sufficient taxable profit in the future. Deferred tax liabilities are entered in full.

NEW AND UPDATED STANDARDS APPLICABLE IN FUTURE YEARS

Tesi has not yet applied the following new or updated standards and interpretations already published by IASB. The Group will start to apply each standard and interpretation as from the date it enters into force or, if the date of entry into force is other than the first day of a financial year, as from the start of the following financial year.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019). The new standard will replace the existing specifications in the IAS 17 standard. IFRS 16 requires lessees to recognise the lease agreements on the balance sheet as lease liabilities and right-of-use assets related to them. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5,000 or less. Tesi applies the latter exception.

Tesi's lease liabilities at 31 December 2018 amounted to some €1.6m. Of these, the leases meeting the criteria of the new standard will be recognised on the balance sheet as a lease obligation and as a corresponding asset. The amount of the lease obligation and corresponding asset is preliminarily €1.5m. The rents to be paid under these lease contracts are presented as a reduction of the lease liability and as interest on the liability. The assets are depreciated over their useful lives. The effects are seen as reductions in other operating income and as increases in depreciation. These entries also increase the cash flow from business operations presented in the cash flow statement, because rent payments must be presented in the cash flow from financing in respect of the reduction in lease liability.

IFRIC 23 *Uncertainty over Income Tax Treatments* (applicable on 1 January 2019 or in the financial year following that date). The IFRIC interpretation supplements the requirements of IAS 12 *Income Taxes* by defining more precisely how the effect of uncertainty is addressed in preparing accounts. The interpretation is not expected to have any effect on Tesi's consolidated financial statements.

Other amendments to standards have no impact on Tesi's consolidated financial statements.

2. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that have an effect on the amounts reported in the consolidated financial statements and in the notes. Actual outcomes may differ from these estimates. Furthermore, judgment is needed in the application of accounting policies. Estimates and assumptions made by management are based on historical experience and forecasts for the future and are continually evaluated.

APPLICATION OF THE INVESTMENT ENTITY EXCEPTION

Tesi's management has determined that Tesi is an investment entity as defined in IFRS 10, because it meets the criteria of an investment entity. Tesi's business mission is to invest solely for returns from capital appreciation and investment income. Although the objective of Tesi's operations is also the development of and support for business activity in Finland, this objective is pursued solely by means of investing in venture capital and private equity, and thus the Company's earnings are obtained from capital appreciation and other investment income. Venture capital and private equity funds have, by nature of the funds and the life cycle model, an exit strategy for their investments. There is also a documented exit strategy for each direct investment. Management monitors the development of investments based on fair values, and fair values are determined at least once in every six months. According to assessment by the management, the following characteristics support the classification of Tesi as an investment entity: It has more than one investment, and its ownership interests are in the form of equity interests. An investment entity ordinarily has more than one investor. Tesi's principal investor is the Finnish state, representing the interests of a wider group of investors.

Furthermore, Tesi manages funds in which pension funds are acting as investors. The pension funds are unrelated to Tesi, which is also one of the typical characteristics of an investment entity.

DETERMINATION OF FAIR VALUE

The most critical area in the financial statements that involves uncertainty relating to estimates and assumptions is the determination of the fair value of venture capital and private equity investments. Because of the degree of uncertainty involved in the measurement and the stability of values of non-liquid venture capital and private equity investments, the fair values of those investments are not necessarily representative of the price that would be obtained from the realisation of the investments. The fair values of venture capital and private equity investments are described in more detail in Note 4. Determination of fair value.

INCOME TAX

Deferred tax assets and liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and their tax bases. The most significant temporary differences relate to the difference between the fair value and tax bases of venture capital and private equity investments and financial securities. Other temporary differences arise, for example, from tax losses carried forward, for which the Company assesses opportunities for setting them off against future taxable profits. Assumptions about the future used in this assessment involve uncertainty relating to matters such as the exit values of investments, the timing of the exits and final tax impacts. More information is presented in Note 9. Income tax and in Note 13. Deferred taxes.

3. Financial risk management

GENERAL INFORMATION AND AREAS OF RISK

The Company has a risk management policy, confirmed by the Board of Directors, which sets out the principles for the Company's risk management, risk definitions and risk classifications, as well as defining the main roles and divisions of responsibilities and the monitoring and reporting procedures. The goal for risk management is to ensure that risks borne by the Company are commensurate with its risk-bearing capability. Exposure to risk is managed by carefully planning investment operations and by managing investments. The objective of risk management is to ensure that the risks attached to the Company's business operations are identified and assessed, that the Company responds to those risks, and that they are managed and monitored. Risk management supports achievement of the goals set for profitability in the Company's strategy and action plan.

The Company's Board of Directors confirms the Company's strategy and action plan, in which the targets for different investment allocation classes are specified. In order to reduce risks, investments are deconcentrated to different allocation classes, different industries, different stages of development of investees, different time perspectives and also geographically, particularly with regard to investments in financial securities. Operative management is responsible for preparing and implementing investments. The Board makes investment decisions and supervises the implementation of investments.

Tesi's main risks are related to private equity and venture capital investments, and to financial securities. Both involve various investment risks, including business risks attached to venture capital and private equity investments, liquidity risks, market risks and credit risks. The most significant uncertainty regarding the accuracy of the Company's financial statements relates to the inclusion of different investment risks in the measurement of venture capital and private equity investments (valuation risk). The process for the determination of fair values of venture capital and private equity investments is described in Note 4. Determination of fair value. The table below shows the fair values of the Company's investment allocation at 31 December 2018 and 31 December 2017.

DISTRIBUTION OF FAIR VALUES OF FINANCIAL ASSETS AND CASH & CASH EQUIVALENTS

€M	31.12.2018	%	31.12.2017	%
Venture capital & private equity funds	**371**	**37 %**	**372**	**37 %**
Venture capital	177	17 %	162	16 %
Later stage	122	12 %	147	15 %
Funds-of-funds	72	7 %	62	6 %
Direct investments	**235**	**23 %**	**189**	**19 %**
Venture capital	82	8 %	55	5 %
Later stage	154	15 %	134	13 %
Financial securities	**403**	**40 %**	**445**	**44 %**
Bond funds	227	22 %	299	30 %
Equity funds	100	10 %	110	11 %
Other investments	76	8 %	36	4 %
Cash & cash equivalents	**4**	**0 %**	**6**	**1 %**
Total	**1013**	**100 %**	**1012**	**100 %**

Other risks to which Tesi is exposed include strategic risks, operational risks, risks of loss or damage, and reputational risk. Strategic risks are managed by regularly evaluating the Company's operations in relation to the business environment and to stakeholders' expectations. Operational risks are managed by good corporate governance and internal instructions, and these risks are covered by insurances.

BUSINESS RISK ATTACHED TO VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

The Company's venture capital and private equity investments, whether through venture capital or private equity funds or as direct investments, are mainly made in unquoted companies in the starting phase or in growth companies. The development of the value of these small and medium-sized portfolio companies is often affected by company-specific risks rather than by the general market risk described in the following paragraph.

The operations of companies that are in the starting phase, so-called venture capital allocation companies, typically generate negative cash flows. These companies often pursue strong international growth based on new innovations and/or revenue generation models and enabled by risk capital financing from venture capital and private equity investors. It is characteristic of high-risk venture capital investments that not all starting-phase portfolio companies succeed because of the realisation of risks relating to technology, business models, strategies, commercialisation, competitors, key personnel or obtaining further financing.

Companies in the growth phase allocation have normally achieved positive profitability, and the aforementioned risks relating to the venture phase are typically lower. However, active ownership by venture capital and private equity investors clearly raises the target level of business growth strategies of these companies through, for example, stronger internationalisation, structural arrangements, new capital investments or well-considered utilisation of debt leverage and thus increases the companies' overall risk profile. Furthermore, the development of the macroeconomic environment has, on average, a more direct impact on the business activities of more mature companies.

Business risks also comprise the counterparty risk for Tesi's co-investors, which refers to uncertainties relating to individual co-investors in situations such as follow-on financing of portfolio companies. The management of this co-investor risk is emphasised in Tesi's operating model as it always co-operates with private investors such that in any individual financing case, private investments cover at least 50% of the financing.

Tesi manages the investment-specific risks relating to its venture capital and private equity investment targets through predictive generation of deal flow, careful analysis in the screening phase, selective choosing of investees and co-investors, monitoring of investments, active interaction towards managers of venture capital and private equity funds, administrative participation in the development of the business activities of direct portfolio companies, and active participation in the exit phase of investments.

LIQUIDITY RISK

Liquidity risk management ensures that the Company has adequate funding available for its venture capital and private equity investment activities (unpaid commitments). The development of cash flows related to the Company's liquidity, financial securities and venture capital and private equity investments is continuously monitored. When preparing new investments, the effect of the investments on liquidity and financial position is addressed. Most of the Company's cash flows and investments are denominated in euros.

Investments in financial securities are made at the selected risk level in compliance with the investment policy confirmed by the company's Board of Directors. Investments in financial securities aim to ensure adequate assets for private equity investing and other payment transactions. Operative management is responsible for investment operations within limits set by the existing investment plans.

Investments in financial securities are spread mainly between investments in bond funds, investments in equity funds, and investments on the financial market. The market volatility of financial securities is regularly monitored. Investing activities relating to financial securities have mostly been outsourced with a discretionary mandate to asset managers supervised by Finland's Financial Supervisory Authority. The counterparty risk attached to investing in financial securities is managed with a thorough partner selection procedure.

On 31 December 2018, the fair value of the Company's cash and cash equivalents and financial securities amounted to €407.6m (€451.5m) and the amount of unpaid investment commitments was €316.4m (€367.4m). Unpaid investment commitments consist almost entirely of commitments given to venture capital and private equity funds with an average payment period of over four years. The Company also has ongoing strategic investment programmes. Altogether €121.1m of unpaid capital remained for these investment programmes as at 31 December 2018.

MARKET RISK

Market risk refers to the impact of general market fluctuations (such as stock market, bond market and currency market fluctuations) in the value and value trends of investments. Besides the direct exposure to market risk relating to the Company's investments in financial securities, general market fluctuations may also have an indirect impact on the fair values of direct portfolio companies and funds in the Company's venture capital and private equity allocation.

Market risks are mitigated by spreading the investments between different allocation classes (different market risk categories) for both the Company's financial securities and venture capital and private equity investments. Furthermore, important methods of risk management to mitigate general cyclical fluctuations for venture capital and private equity investments include a time-driven diversification of investments, acquisition of non-cyclic portfolio companies, avoidance of over-aggressive debt structures and the continuing development of portfolio companies.

The Company's fixed-interest investments had a fair value of €227m as at 31 December 2018, representing the largest portion of the Company's €403m financial securities portfolio. The market risks that affect the value of fixed income investments consist of the risks associated with changes in general market interest rates and of the spread risk. The computational weighted duration of the Company's fixed-interest investment portfolio at 31 December 2018 was 3 years, and a hypothetical increase in the general interest rate level by one percentage point would decrease the fair value of the Company's fixed income investments by an estimated amount of €7m.

The fair value of equity investments included in financial securities as at 31 December 2018 was €100m. A decrease of 10% in share prices would decrease the value of equity investments by €10 m.

Most of the Company's cash flows and investments are denominated in euros. The Company does not hedge its currency risks.

The table presents the distribution of venture capital and private equity investments, financial securities and cash & cash equivalents by currency, and a sensitivity analysis of the currency risk if a currency were to change by 10% against the euro. When examining the sensitivity analysis, it should be noted that currency-denominated fair values of venture capital and private equity funds are presented in euro amounts equivalent to the reporting currency of the fund. The direct effect on profit or loss caused by a change in the exchange rate is calculated based on these, assuming no variation in other factors. Funds can also make investments denominated in other currencies than the reporting currency. Furthermore, variations in exchange rates can also have an effect on the fair value of fund investments if exchange rates impact the profit or loss of portfolio companies and their valuations.

Additionally, when examining the Company's currency risks, the Company's unpaid currency-denominated investment commitments to venture capital and private equity funds should be taken into account.

31.12.2018 €M	EURO M€	USD M€	SEK M€	DKK M€	NOK M€	GBP M€	OTHERS €M	TOTAL €M
VC & PE funds	304	33	28	4	0	1		**371**
Financial securities and cash & cash equivalents	320	41	4	1	2	6	34	**408**
Direct investments	231						3	**234**
Total	**855**	**74**	**32**	**5**	**2**	**6**	**37**	**1 012**
Sensitivity analysis Impact of 10% change in exchange rate on profit		7	3	0	0	1	3	**14**
Unpaid commitments to venture capital and private equity funds	275	8	27	0	0	6		**315**

CREDIT RISK

The Company's objective is to manage credit risk by actively monitoring the risk/reward ratio and to ensure through regular reporting that the risk management policy is adhered to.

The credit risk for the Company's venture capital and private equity investments is mainly related to direct investments made in portfolio companies by using debt instruments. These are typically fixed-interest mezzanine instruments. The fair value of debt instruments included in direct venture capital and private equity investments at 31 December 2018 was €36m, representing some 5% of the total fair value of venture capital and private equity investments.

The Company's objective is to manage the aforementioned risk/reward ratio of credit risks through active monitoring of investments and by participating in boardwork to develop the business of direct portfolio companies. The Company's risks are reported regularly to the auditing committee and to the Board of Directors.

Correspondingly, credit risk relating to financial securities arises from investments in publicly-quoted bond funds, such as government and corporate bonds.

As the Company's objective is to manage the credit risk of financial securities by investing in very dispersed bond fund portfolios, the credit risk relating to individual governments, industries or enterprises is relatively small. The asset management of financial securities is outsourced to asset managers whose performance is evaluated monthly. Asset management contracts are subjected to competitive bidding on a regular basis.

CAPITAL MANAGEMENT AND INVESTMENT RETURNS

The Company is financed by equity, and it has no formal dividend policy. Debt leverage is used in the financing structures of some portfolio companies but not in the Company's venture capital and private equity funds at fund level. The Company is not subject to any specific solvency requirements, but it has internally set risk limits for the ratio of the total portfolio of venture capital and private equity investments to the total equity of the Company, as well as for the ratio of unpaid commitments to liquid assets.

The statutory objective of the Company is to be commercially profitable over the long-term, taking into account the imposed economic and social impact goals. The table below contains the Company's investment returns (fair value changes) before taxes and operating costs from its venture capital & private equity and financial securities allocations for the financial years 2013-2018. As the Company's venture capital and private equity investments are long-term by nature, the Company's financial performance is also better evaluated over a longer time period.

GAINS BEFORE TAXES FROM TESI'S INVESTMENT ACTIVITIES AND COMPANY'S EXPENSES 2013–2018 (GAINS = CHANGES IN FAIR VALUE)

ALLOCATION / FINANCIAL YEAR	2013*	2014	2015	2016	2017	2018	Yhteensä 2013–2018
Gains from VC & PE investments (€M)	-9	-40	109	46	69	90	**264**
Gains from financial securities (€M)	11	14	6	17	18	-14	**53**
Total (€M)	**2**	**-25**	**115**	**63**	**87**	**75**	**317**
Gains from VC & PE investments (%)**	-2,2 %	-9,5 %	24,9 %	9,3 %	12,7 %	15,4 %	**8,1 %**
Gains from financial securities (%)**	5,4 %	6,4 %	1,9 %	4,1 %	4,2 %	-3,3 %	**2,4 %**
Total	**0,3 %**	**-3,9 %**	**14,9 %**	**6,9 %**	**9,0 %**	**7,4 %**	**5,7 %**

* Figures for 2013 are not audited.
** Percentages for gains of allocations are calculated by dividing the gain for the year by the average capital invested. Capital invested is calculated as an average of the fair values at the start and end of the year.

The state's investment in the Company's shareholders' equity amounted to €654.8m at the end of 2018. Consolidated shareholders' equity at the end of 2018 totalled €996m. The Company's cumulative profit from operations, including the figure for 2018, amounted to €341.1m.

4. Determination of fair value

BASIS FOR DETERMINATION OF FAIR VALUE FOR VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

The determination of the fair value of the Company's venture capital and private equity investments is, in accordance with industry practice, based on Private Equity and Venture Capital Valuation Guidelines (IPEVG). Due to the nature of typically illiquid venture capital and private equity investments, the determination of the fair value of investments requires Tesi's management to use consideration and estimates.

According to the fundamental principle of IPEVG, fair value reflects the price that would be received in an orderly arm's length transaction on an active market between hypothetical participants on the measurement date. Accordingly, fair value does not reflect the price that would be received in a so-called forced sale. Fair value measurement uses either one most suitable valuation technique or several complementary methods that are widely recognised in the industry. When determining fair values, the Company pays special attention to the estimated future profitability and business risks attached to the portfolio companies, especially relating to the financial condition of the companies.

INVESTMENTS IN VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

The starting point for the determination of the fair values of the Company's investments in venture capital and private equity funds, i.e. the fair values of the holdings in the funds, are the latest available values reported by fund managers (so-called net asset value or NAV). Fund managers derive the values for the holdings from the fair values determined by the fund in accordance with IPEVG for its investments in target companies, adding/deducting any other assets/liabilities of the fund. The determination of the fair values of holdings in the funds excludes unpaid fund commitments relating to the holdings, to which the Company is legally committed together with other investors of the funds.

Holdings in funds are typically more illiquid instruments than direct venture capital of private equity investments. The Company's fundamental investment strategy is not to buy or sell holdings in funds during the term of the funds.

The determined value of the holdings in funds may deviate from the values reported by fund managers, if the fair value reported by the managers is not considered to reflect the real fair value of the investments or if the reported fair value refers to a different point of time. Deviation from the value reported by the fund manager is always based on fair value testing performed by the Company. Fair value is always tested for funds classified to a risk listing determined by the Company. The risk listing comprises those funds whose investment operations have, according to a risk review performed, not developed as originally determined and the results of whose investment operations are expected to clearly fall short of the targets previously set.

DIRECT VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

Depending on the varying overall status of the portfolio companies, the determination of fair value of the Company's direct venture capital and private equity investments is based on either on the one most suitable valuation techniques or on a combination of several complementary methods. The techniques applied comply with IPEVG and include recent transactions in the portfolio companies' own instruments, valuation multiples of peer companies and discounted cash flows. Both the selection of techniques and the actual valuation performed by using the techniques requires substantial use of estimates and judgment by the management of the Company.

The fair values of the Company's investments in debt instruments are typically estimated through the viewpoint of the value of the portfolio companies' businesses (fair value without liabilities, i.e. enterprise value), because, in the Company's venture capital and private equity investments, debt instruments are often an integral part of the total investment in the portfolio companies together with the Company's investments in equity instruments.

THE FAIR VALUE DETERMINATION PROCESS FOR VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

Fair values of the Company's venture capital and private equity investments are determined by the responsible investment teams. Thereafter, valuation proposals prepared by investment teams are assessed within a separate risk management function before the valuations are introduced to the Management Group for approval. After the Management Group, the values are considered by the audit committee and finally approved by the Board of Directors.

FAIR VALUE HIERARCHY FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE

Tesi's venture capital and private equity investments include a minor amount of quoted equity securities. Investments in venture capital and private equity funds classified as financial securities are quoted, their market prices are observable and there is an active secondary market for the fund units. The fair values of all other equity and debt investments as well as investments in venture capital and private equity funds are determined using valuation techniques that to a significant degree rely on company-specific, unobservable inputs.

Fair value hierarchy and related input levels are defined by IFRS 13 as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

On the highest level in the fair value hierarchy are quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs), and on the lowest level are unobservable inputs (level 3 inputs). A quoted price in an active market is the most reliable evidence of fair value and it shall, as a rule, be used in the determination of fair value whenever available.

When the inputs to be used to measure the fair value of an asset or a liability are categorised within different levels of the fair value hierarchy, the item is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The tables below show an analysis of the hierarchy of fair value measurements.

The tables below show an analysis of the hierarchy of fair value measurements.

EUR THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2018				
Venture capital and private equity funds				
Venture capital			176 830	176 830
Later stage			121 624	121 624
Funds of funds			72 075	72 075
Direct investments				
Venture capital			81 581	81 581
Later stage	1 457		152 080	153 537
Financial securities				
Bond funds	227 448			227 448
Equity funds	99 625			99 625
Other investments	76 393			76 393
Total	**404 922**	**0**	**604 190**	**1 009 112**

Direct investments include share investments €200m and debt investments €37 m

EUR THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2017				
Venture capital and private equity funds				
Venture capital			162 453	162 453
Later stage			147 164	147 164
Funds of funds			61 883	61 883
Direct investments				
Venture capital			54 750	54 750
Later stage	5 399		128 408	133 807
Financial securities				
Bond funds	299 479			299 479
Equity funds	109 876			109 876
Other investments	35 935			35 935
Total	**450 689**	**0**	**554 659**	**1 005 347**

Direct investments include share investments €160.7m and debt investments €27.8m

The content of investments is specified in more detail in Note 3. Risk management

Changes in level 3 financial assets measured at fair value:

EUR THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2018
INVESTMENT CLASSIFICATION					
Venture capital and private equity funds					
Venture capital	162 453	35 596	29 683	-50 902	176 830
Later stage	147 164	29 524	37 686	-92 749	121 624
Funds of funds	61 883	6 598	15 755	-12 161	72 075
Direct investments					
Venture capital	54 750	9 701	24 345	-7 216	81 581
Later stage	128 408	9 072	38 933	-24 333	152 080
Total	**554 659**	**90 491**	**146 401**	**-187 361**	**604 190**
Change in unrealised gains and losses recognised in income statement under net gains from venture capital and private equity investments					-7 183

EUR THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2017
INVESTMENT CLASSIFICATION					
Venture capital and private equity funds					
Venture capital	140 888	26 995	23 705	-29 135	162 453
Later stage	141 478	21 407	25 975	-41 697	147 164
Funds of funds	53 370	4 960	9 719	-6 166	61 883
Direct investments					
Venture Capital	53 761	5 970	20 061	-25 043	54 750
Later stage	128 417	6 310	8 736	-15 054	128 408
Total	**517 914**	**65 642**	**88 197**	**-117 094**	**554 659**
Change in unrealised gains and losses recognised in income statement under net gains from venture capital and private equity investments					24 014

Sensitivity analysis for level 3 financial assets

INVESTMENT CLASSIFICATION	Fair value 31 December 2018 EUR thousands	Valuation model	Non-observable input or implicit valuation parameters	Applied input or implicit valuation parameters (weighted average)	Change in measurement if input changes +/- 20%
Venture capital and private equity funds					
Venture capital	176 830	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing made by the Company*		35 366
Later stage	121 624				24 325
Funds of funds	72 075				14 415
Direct investments					
Venture capital	81 581	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2018 (4,3x)	15 528
Later stage	152 080			EV/EBITDA 2018 (8,1x)	24 272

INVESTMENT CLASSIFICATION	Fair value 31 Dec 2017 EUR thousands	Valuation model	Non-observable input or implicit valuation parameters	Applied input or implicit valuation parameters (weighted average)	Change in measurement if input changes +/- 20%
Venture capital and private equity funds					
Venture capital	162 453	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing made by the Company*		32 491
Later stage	147 164				29 433
Funds of funds	61 883				12 377
Direct investments					
Venture capital	54 750	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2017 (3.4x)	10 950
Later stage	128 408			EV/EBITDA 2017 (7.9x)	25 682

* Fair value testing of venture capital and private equity funds performed by the Company resulted in a fair value that was, in total, 5 million euros lower than the values reported by fund management companies as at 31 December 2018.

** The weighted EV-based valuation multiple calculations include only the impact from those target companies to which applying multiples as a valuation metric is reasonable. For example, in the venture capital allocation, the impacts of those target companies which generate still only very limited net sales and of later-stage target companies with negative EBITDA are not included.

Note. EV = Enterprise Value; EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Aboa Venture II Ky	Turku	14,0 %	1 345 503
Aboa Venture III Ky	Turku	30,8 %	3 500 000
Alder II AB	Sweden	10,9 %	9 731 887
Armada Mezzanine Fund II Ky	Helsinki	11,5 %	5 000 000
Armada Mezzanine Fund III Ky	Helsinki	11,4 %	10 000 000
Armada Mezzanine Fund IV Ky	Helsinki	4,9 %	5 000 000
Atomico IV (Guernsey), L.P.	Guernsey	5,4 %	6 626 612
Balderton Capital V, L.P.	Delaware, USA	3,1 %	6 831 892
Balderton Capital VI, S.L.P.	Luxembourg	2,3 %	7 448 300
CapMan Buyout IX Fund A L.P.	Guernsey	3,4 %	10 000 000
CapMan Buyout VIII Fund A L.P.	Guernsey	2,8 %	10 000 000
CapMan Buyout X Fund B Ky	Helsinki	13,9 %	10 000 000
CapMan Equity VII A L.P.	Guernsey	6,4 %	10 000 000
CapMan Growth Equity Fund 2017 Ky	Helsinki	3,5 %	3 000 000
CapMan Life Science IV Fund L.P.	Guernsey	18,5 %	10 000 000
Capman Mezzanine V Fund FCP-SIF	Luxembourg	15,8 %	15 000 000
CapMan Technology Fund 2007 L.P.	Guernsey	10,3 %	10 000 000
Conor Technology Fund I Ky	Espoo	40,0 %	8 000 000
Conor Technology Fund II Ky	Espoo	20,0 %	10 000 000
Creandum II LP	Guernsey	10,4 %	5 000 277
Creandum III LP	Guernsey	5,6 %	7 500 000
Creandum IV, L.P.	Guernsey	4,4 %	8 000 000
DN Capital - Global Venture Capital III LP	Jersey	2,1 %	3 000 000
Environmental Technologies Fund 3, L.P.	United Kingdom	3,9 %	5 547 235
EQT Ventures (No. 1) SCSp	Luxembourg	1,8 %	7 500 000
Finnmezzanine Rahasto III A Ky	Helsinki	9,9 %	10 000 000
MB Equity Fund II Ky	Helsinki	16,1 %	10 000 000
Holtron Capital Fund II Ky	Helsinki	29,5 %	2 000 000
Industri Kapital 2000 Limited Partnership VII	Jersey	5,7 %	10 000 000
Intera Fund I Ky	Helsinki	8,0 %	10 000 000
Intera Fund III Ky	Helsinki	8,0 %	20 000 000
Inveni Life Sciences Fund I Ky	Helsinki	33,7 %	10 000 000
Inventure Fund II Ky	Helsinki	11,5 %	8 000 000
Inventure Fund III Ky	Helsinki	8,6 %	10 000 000
Inventure Fund Ky	Helsinki	24,2 %	9 850 000
IPR.VC Fund II Ky	*	*	10 000 000
Juuri Rahasto I Ky	Helsinki	6,1 %	5 000 000
FoF Growth II	Helsinki	46,2 %	60 000 000

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
FoF Growth III	Helsinki	40,0 %	60 000 000
FoF Growth	Helsinki	40,0 %	54 000 000
Life Sciences Partners 6 C.V.	Netherlands	1,7 %	5 000 000
Life Sciences Partners III B.V.	Netherlands	13,8 %	10 000 000
Life Sciences Partners IV B.V.	Netherlands	21,8 %	10 000 000
Life Sciences Partners V C.V.	Netherlands	2,0 %	5 000 000
Lifeline Ventures Fund I Ky	Helsinki	10,4 %	3 000 000
Lifeline Ventures Fund III Ky	Helsinki	17,5 %	10 000 000
LSP Health Economics Fund 2 C.V.	Netherlands	5,5 %	10 000 000
MAKI.VC Fund I Ky	Helsinki	12,5 %	10 000 000
MB Equity Fund IV Ky	Helsinki	3,9 %	10 000 000
MB Equity Fund Ky	Helsinki	17,4 %	2 522 819
MB Equity Fund V Ky	Helsinki	6,3 %	15 000 000
Midinvest Fund II Ky	Jyväskylä	25,6 %	15 000 000
Midinvest Fund PH I Ky	Lahti	25,0 %	3 000 000
Midinvest Fund II Ky	Jyväskylä	25,6 %	15 000 000
Midinvest Fund PH I Ky	Lahti	25,0 %	3 000 000

* VC/PE fund currently being founded

MVM IV LP	United Kingdom	3,4 %	6 627 198
Nest Capital 2015 Fund Ky	Helsinki	10,0 %	10 000 000
NEXIT Infocom 2000 Fund LP	Guernsey	6,1 %	3 333 333
Nexit Infocom II L.P.	Guernsey	17,7 %	15 000 000
Northzone VI L.P.	Jersey	5,8 %	7 500 000
Northzone VII L.P.	Jersey	3,0 %	7 500 000
Northzone VIII L.P.	Jersey	2,9 %	10 000 000
Open Ocean Fund 2015 Ky	Espoo	6,3 %	5 000 000
Open Ocean Fund Three Ky	Espoo	11,2 %	5 000 000
Open Ocean Opportunity Fund I Ky	Helsinki	12,8 %	3 000 000
Power Fund I Ky	Vaasa	29,6 %	5 000 000
Power Fund II Ky	Vaasa	23,9 %	15 000 000
Power Fund III Ky	Vaasa	13,0 %	10 000 000
Saari I Ky	Helsinki	26,2 %	11 000 000
Sentica Buyout III Ky	Helsinki	13,0 %	15 000 000
Sentica Buyout IV Ky	Helsinki	8,0 %	10 000 000
Sentica Buyout V Ky	Helsinki	8,1 %	15 000 000
Sentica Kasvurahasto II Ky	Helsinki	23,7 %	10 000 000
Sponsor Fund III Ky	Helsinki	5,7 %	10 000 000
Sponsor Fund IV Ky	Helsinki	5,0 %	10 000 000
Sunstone Technology Ventures II K/S	Denmark	7,5 %	7 044 897

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Vaaka Partners Buyout Fund II Ky	Helsinki	6,7 %	10 000 000
Vaaka Partners Buyout Fund II Ky	Helsinki	5,3 %	12 000 000
Vaaka Partners Buyout I Ky	Helsinki	19,7 %	10 000 000
Wedeco Fund IV Ky	Vaasa	45,3 %	5 000 000
Vendep Capital Fund II Ky	Helsinki	20,9 %	7 500 000
Verdane Capital IX (E) AB	Sweden	5,7 %	9 797 657
Verdane Capital VII K/S	Denmark	7,2 %	9 963 317
Verdane Capital VIII K/S	Denmark	3,0 %	6 860 750
Verdane Capital X (E) AB	Sweden	4,4 %	4 787 209
Verdane Edda (E) AB	Sweden	11,5 %	10 015 624
Verdane NVP II SPV K/S	Denmark	8,5 %	10 000 000
Verso Fund II Ky	Helsinki	9,9 %	5 000 000
VisionPlus Fund I Ky	Helsinki	9,9 %	5 000 000
			882 334 509

Under the provisions of paragraph 3 Chapter 2 Section 9 of Finland’s Accounting Ordinance, some of the information (funds’ financial statements) referred to in paragraph 1 of Chapter 2 Section 9 is not presented.

4.2 DIRECT INVESTMENTS

COMPANY	OWNERSHIP %
3 Step IT Group Oy	7,1 %
Aidon Oy	17,3 %
Aker Arctic Technology Inc. *	66,4 %
BC Platforms AG	13,7 %
BCBM Holding Oy	22,7 %
BMH Technology Oy	24,8 %
Bookit Oy	2,2 %
Boost NewCo Oy (SuperPark)	12,9 %
Coronaria Oy	6,6 %
Den Group Oy	10,0 %
Dispelix Oy	7,0 %
Enevo Oy	23,4 %
Forenom Group Oy	15,5 %
GRK Infra Oy	9,0 %
ICEYE Oy	7,5 %
Kaiku Health Oy	13,4 %
KotiCap Oy (Renoa Group Oy)	12,5 %
Kotkamills Group Oyj *	9,3 %
Lamor Corporation Ab	10,1 %
LeadDesk Oy	4,1 %
MariaDB Corporation Ab	5,3 %
Mekitec Oy	30,4 %
MetGen Oy	15,7 %
M-Files Oy	12,8 %
Midaxo Oy	20,4 %
MultiTaction Oy	33,2 %
NewIcon Oy	9,1 %
Nosto Solutions Oy	5,7 %
Onbone Oy	7,3 %
Optomed Oy	8,9 %
Oura Health Oy	6,3 %
Partnera Glass Recycling Oy	30,0 %
Pesmel Oy	4,9 %
Profit Holding Oy	30,1 %
Rauma Marine Constructions Oy *	20,5 %
Stella Care Oy	18,5 %
Suomen VAKA-palvelut I ja II Oy (Touhula)	3,6 %
Suomen VAKA-palvelut I ja II Oy (Touhula)	-
Thirdpresence Oy	11,0 %
Unisport-Saltex Group Oy	11,2 %
Ursviken Group Oy	24,6 %

COMPANY	OWNERSHIP %
Vaadin Oy	20,8 %
Valmet Automotive Oy	37,0 %
Verto Analytics Oy	12,1 %
Vexve Holding Oy	-
Viafin Service Oyj	7,9 %
Viria Oyj	5,1 %
Zervant Oy	9,4 %
Zsar Oy	6,9 %

* Ownership through Tesi Industrial Management Oy.

5. Net gains from venture capital and private equity investments

EUR THOUSANDS	2018	2017
Venture capital and private equity funds		
Venture capital	35 596	26 995
Later stage	29 524	21 407
Funds of funds	6 598	4 960
Direct venture capital and private equity investments		
Venture capital	9 701	4 254
Later stage	8 246	11 132
Total	**89 664**	**68 748**
Net gains from venture capital and private equity investments consist of changes in fair value:		
Realised	96 848	43 010
Unrealised	-7 183	25 738
Total	**89 664**	**68 748**

Net gains from venture capital and private equity investments comprise realised and unrealised changes in fair value,

6. Employee benefit costs

EUR THOUSANDS	2018	2017
Salaries and fees	3 891	3 662
Pension expenses	676	684
Other personnel expenses	122	124
Total	**4 689**	**4 470**
Average number of personnel employed by the company during the financial year	36	32
Salaries and other short-term employee benefits	1133	1 191
Total	**1 133**	**1 191**
CEO		
Salaries and other short-term employee benefits	294	315
Total	**294**	**315**
Emoluments for Board of Directors	**137**	**132**

The Board of Directors decides on the pay principles, total pay and bonus scheme for the CEO and other members of the parent company's Management Team. The Management Team comprised the CEO and on average five other members during the financial year. All the company's personnel were included in the bonus scheme during 2018.

The pension plan for the CEO complies with the Finnish Employee Pension Act. The CEO has a 6-month period of notice in addition to which the individual is, under certain conditions, entitled to a reimbursement equivalent to 6 months' salary.

7. Other operating expenses

EUR THOUSANDS	2018	2017
Other employee benefit costs	557	494
Premises expenses	417	195
Travel and hospitality expenses	168	144
External services	1 659	676
Other expenses	848	1 011
Total	**3 649**	**2 520**

Other operating expenses include auditors' fees by type of services provided:

EUR THOUSANDS	2018	2017
Audit fees	43	24
Tax advice	3	3
Other expenses	33	0
Total	**78**	**27**

8. Income tax

EUR THOUSANDS	2018	2017
Current income tax for the financial year	-22 604	-12 089
Adjustments relating to previous years	264	0
Deferred taxes *)		
Temporary differences originated and reversed	9 274	-2 297
Income tax presented in the income statement	**-13 066**	**-14 387**

*) A more detailed specification of deferred taxes is given in Note 12

Reconciliation between income tax expense and tax calculated at the domestic tax rate of 20%.

EUR THOUSANDS	2018	2017
Profit before taxes	67 678	80 056
Tax calculated at domestic tax rate	-13 536	-16 011
Income not subject to tax	391	1 472
Expenses not deductible for tax purposes	-65	-2
Difference between net income from venture capital and private equity funds and taxable income	-119	60
Use of losses not previously offset against taxes	0	94
Adjustments relating to previous years	264	0
Income tax presented in the income statement	**-13 066**	**-14 387**

9. Intangible and tangible assets

The carrying amount of tangible and intangible assets at 31 December 2018 was 643.9 thousand euros (2017: 816.6 thousand euros: No acquisitions were made during 2018. Depreciation and amortisation charged according to plan for 2018 was 212.6 thousand euros (2017: 227.6 thousand euros).

10. Notes concerning shareholders' equity

EUR THOUSANDS	Share capital (No.)	Share capital	Share premium account	Total
1.1.2017	41 710	438 992	215 855	654 848
31.12.2017	41 710	438 992	215 855	654 848
31.12.2018	41 710	438 992	215 855	654 848

Finnish Industry Investment Ltd has one share class. Each share carries entitlement to a dividend. Each share entitles the right to one vote at the Annual General Meeting. The shares have no nominal value. All the shares issued are fully paid up.

SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

The subscription price of new shares has been booked as share capital. Payments exceeding the par value of shares is entered in the share premium account.

11. Current liabilities

EUR THOUSANDS	2018	2017
Accounts payable	285	240
Accruals relating to employee benefits	1 483	1 358
Tax liabilities	4 535	9 873
Other	189	117
Total	**6 491**	**11 588**

12. Deferred taxes

EUR THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of finan-cial securities	Other items	Total
Deferred tax assets					
1.1.2017	**1 994**	**4 910**	**259**	**79**	**7 241**
Recognised in income statement	-638	1 324	-184	-71	431
31.12.2017	**1 356**	**6 234**	**75**	**8**	**7 672**
Recognised in income statement	276	4 324	2 188	0	6 788
31.12.2018	**1 631**	**10 558**	**2 263**	**8**	**14 460**

EUR THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of finan-cial securities	Total
Deferred tax liabilities				
1.1.2017	**14 179**	**10 047**	**3 624**	**27 849**
Recognised in income statement	3 583	-396	-459	2 729
31.12.2017	**17 761**	**9 651**	**3 165**	**30 578**
Recognised in income statement	-3 537	3 744	-2 693	-2 486
31.12.2018	**14 224**	**13 395**	**473**	**28 092**

13. Commitments

Minimum lease payments based on non-cancellable leases are as follows:

EUR THOUSANDS	2018	2017
During the year	367	311
Within 1-5 years	1 337	1 613
Later than 5 years	0	0
Total	**1 704**	**1 924**

Outstanding commitments at end of year

EUR THOUSANDS	2018	2017
PE&VC funds	314 988	357 265
Portfolio companies	1 410	10 166
Total	**316 398**	**367 431**

14. Related parties

Related parties of the Group comprise the parent company and its subsidiaries. Related parties also comprise the members of the Board of Directors, CEO and other members of the Management Team as well as their next of kin.

Salaries and fees of management are disclosed in note 6. Employee benefit costs.

Transactions with related parties:

Finnish Industry Investment Ltd charged a consulting fee from Tesi Fund Management Oy of 543.7 thousand euros in 2018 (2017: 319.4 thousand euros) and from FEFSI Management Oy 300.5 thousand euros (2017: 0 euros)

As at 31 December 2018, Finnish Industry Investment Ltd did not have any investment commitments to Tesi Industrial Management (2017: 1,667 thousand euros).

15. Subsidiaries

The following table presents the parent company and companies in which the Group had control at 31 December 2018:

PARENT	Country of registration	Nature of business	Holding by the parent (%)	Holding by the Group (%)	Treatment in consolidated financial statements
Finnish Industry Investment Ltd	Finland	Venture capital and private equity investment			
SUBSIDIARIES					
Start Fund Management Oy	Finland	1)	100 %	100 %	Consolidated
Tesi Fund Management Oy	Finland	Management company	100 %	100 %	Consolidated
FEFSI Management Oy	Finland	Management company	100 %	100 %	Consolidated
Tesi Industrial Management Oy	Finland	Venture capital and private equity investment	100 %	100 %	At fair value through profit or loss
Aker Arctic Technology Inc.	Finland	2)	66,4 %	66,4 %	At fair value through profit or loss
Aker Arctic Canada Inc	Canada	2)		66,4 %	At fair value through profit or loss
Aker Arctic Technology LLC	Russia	2)		66,4 %	At fair value through profit or loss

1) Dissolved during the financial year.
2) Company specialised in the design of and technical consultation for icebreakers and other ships operating in the Arctic areas.

16. Events after the financial year

After the end of the financial year, Tesi gave one investment commitment to a Finnish growth fund (details to be published later) and participated in LeadDesk Oy's share issue.

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF FINNISH INDUSTRY INVESTMENT LTD

Report on the Audit of the Financial Statements

OPINION

We have audited the financial statements of Finnish Industry Investment Ltd (business identity code 1007806-3) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit

evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS
Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

IIn our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 1 March 2019
KPMG OY AB

Juha-Pekka Mylén
Authorised Public Accountant, KHT