



Annual review

2020



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TESI ANNUAL REVIEW

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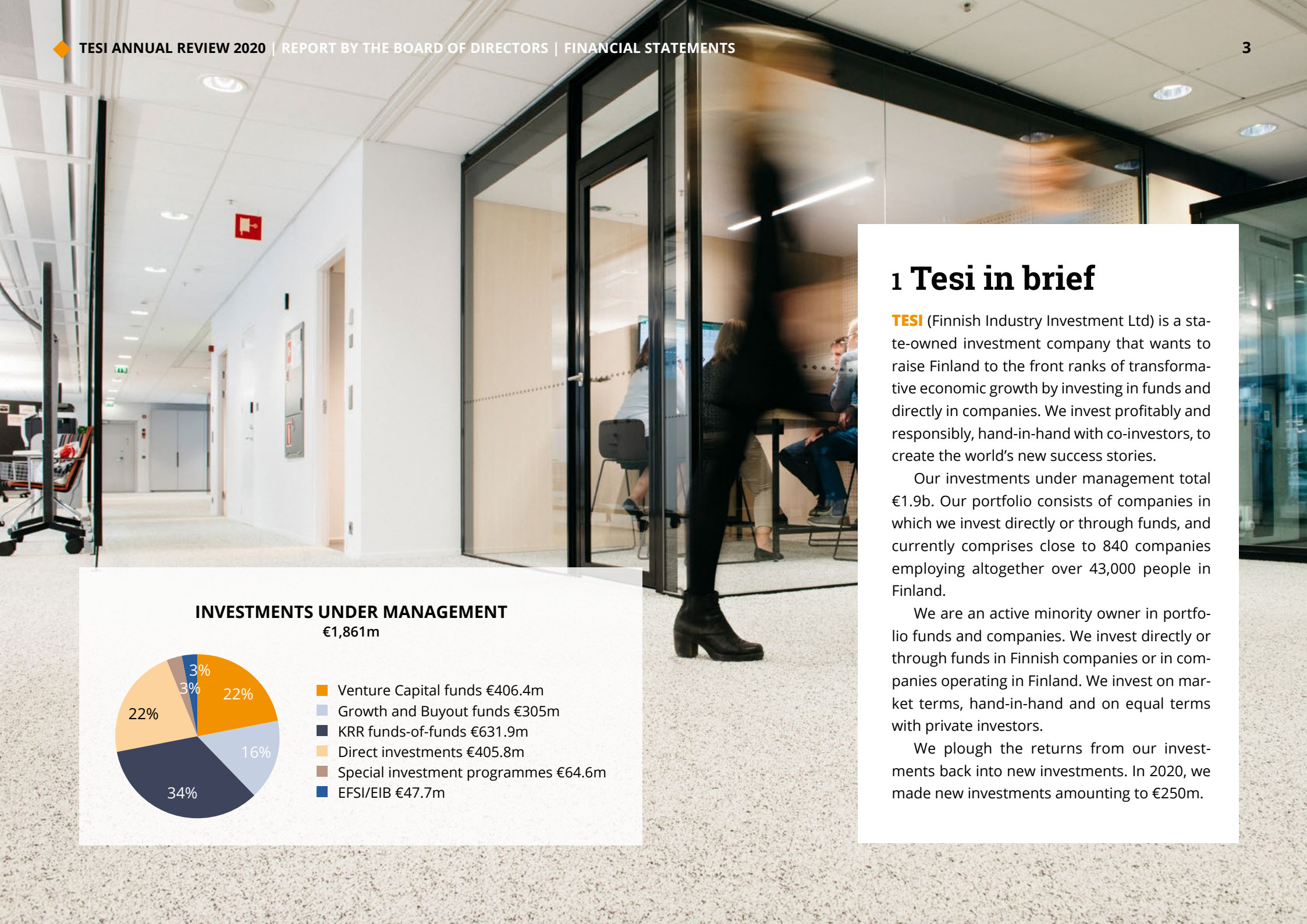
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1 Tesi in brief

TESI (Finnish Industry Investment Ltd) is a state-owned investment company that wants to raise Finland to the front ranks of transformative economic growth by investing in funds and directly in companies. We invest profitably and responsibly, hand-in-hand with co-investors, to create the world's new success stories.

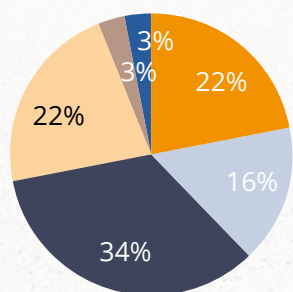
Our investments under management total €1.9b. Our portfolio consists of companies in which we invest directly or through funds, and currently comprises close to 840 companies employing altogether over 43,000 people in Finland.

We are an active minority owner in portfolio funds and companies. We invest directly or through funds in Finnish companies or in companies operating in Finland. We invest on market terms, hand-in-hand and on equal terms with private investors.

We plough the returns from our investments back into new investments. In 2020, we made new investments amounting to €250m.

INVESTMENTS UNDER MANAGEMENT

€1,861m



- Venture Capital funds €406.4m
- Growth and Buyout funds €305m
- KRR funds-of-funds €631.9m
- Direct investments €405.8m
- Special investment programmes €64.6m
- EFSI/EIB €47.7m

Tesi wants to raise Finland to the forefront of renewed economic growth



CREATING THE WORLD'S NEXT SUCCESS STORIES TOGETHER

We share financial risk and support companies and funds when they develop new solutions and utilise their full potential.



MAKING FINLAND ATTRACTIVE TO BOTH COMPANIES AND INVESTORS

Through our partnerships, international companies see growth opportunities in Finland. By fostering active ownership we generate new success.



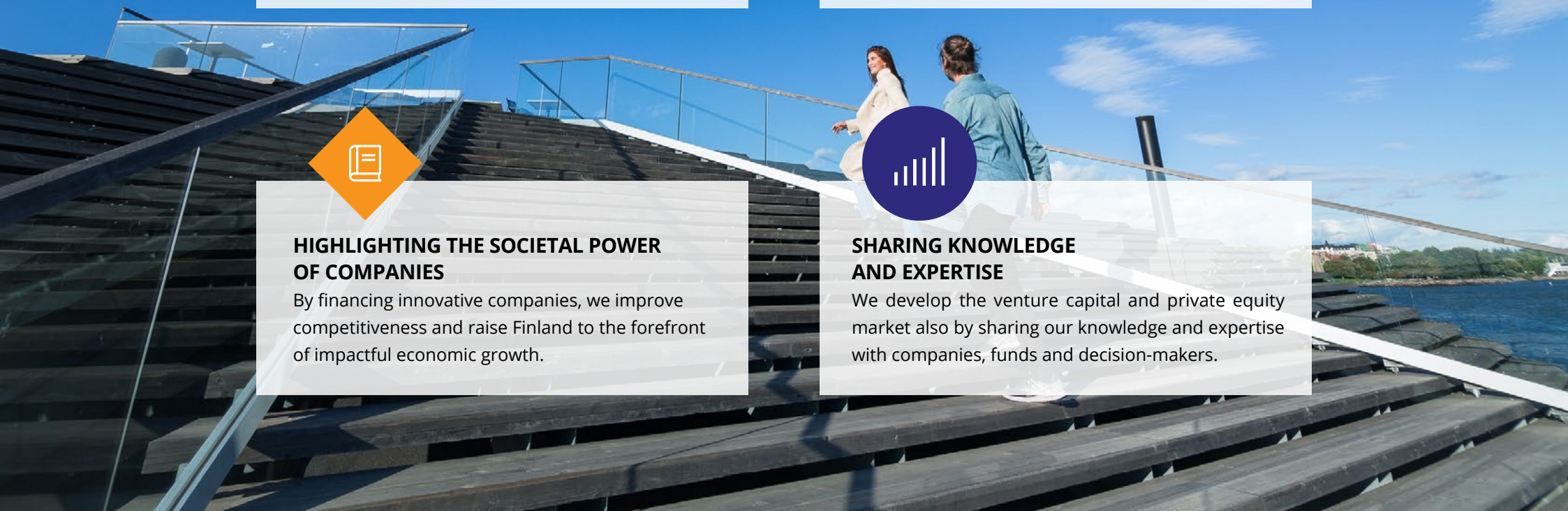
HIGHLIGHTING THE SOCIETAL POWER OF COMPANIES

By financing innovative companies, we improve competitiveness and raise Finland to the forefront of impactful economic growth.

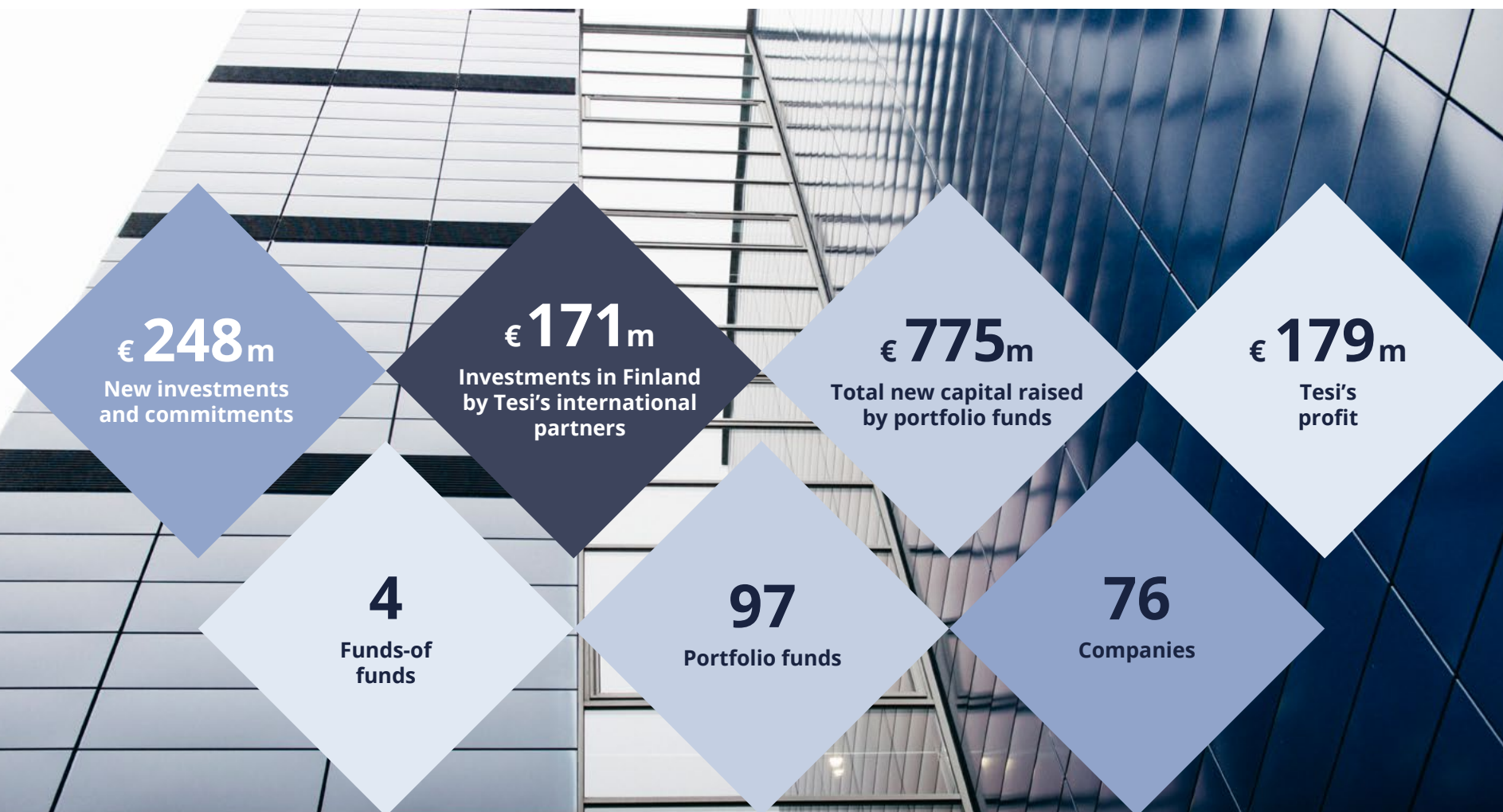


SHARING KNOWLEDGE AND EXPERTISE

We develop the venture capital and private equity market also by sharing our knowledge and expertise with companies, funds and decision-makers.



Key figures 2020



CEO'S REVIEW

Moving on from a year of the pandemic

WE will remember the year 2020 as one of the most extraordinary in our work history. The corona pandemic caused social suffering and impacted businesses in Finland and throughout the world. Working methods changed across industries. Digitalisation and remote working practices took great leaps forward. Tesi's year did not go according to original plans, either. What the year showed, however, was the importance of strategic implementation capabilities and agility in surprising and difficult situations.

During the corona crisis, we at Tesi have striven to help both companies and the government with our financing instruments and by producing data and analyses about the situation faced by Finnish SMEs. We launched the stabilisation and Venture Bridge programmes and also continued our normal investment activities, ensuring the success of Finnish companies in the future. In 2020, we made investments totalling €248 million. This figure includes

our commitment to the fund-of-funds KRR IV that we manage, other fund investments and direct investments, as well as stabilisation financing and Venture Bridge financing to combat the corona crisis. Read more about our investment operations on [page 11](#). Despite the challenging circumstances, the Finnish venture capital and private equity market did not experience the shock initially feared. Rather, investment volumes even increased from the levels of previous years. Especially venture capital-backed companies secured record-high funding rounds and company valuations remained at high levels. This can also be seen in Tesi's financial result of €179 million. Positive performance by portfolio companies (unrealised net gains €179 million) and successful exits (realised net gains €46 million) contributed to our strong financial result for the year.

We conducted a three-part survey with extensive stakeholder co-operation to form a neutral and real-time



“ There have been large, industry-specific differences in recovering from the crisis.

outlook of the impact of COVID-19 on Finnish companies. The survey covered external factors, internal procedures, and the impact of interventions to support SMEs. Helsinki GSE, the Ministry of Economic Affairs and Employment, Business Finland and Finnvera took part in the planning of the survey. The results have also been used in broader impact modelling by professor Vesa Vihriälä's working group investigating the effects of the coronavirus crisis on the Finnish economy. The data was also given to the Ministry of Finance and the Bank of Finland and **is publicly available for everyone to utilise.**

The results of the survey show that Finland's economy has so far weathered the corona crisis with less damage than expected while simultaneously taking its first steps for recovery. This both presents a good springboard for capitalising on post-crisis peaks in demand and supports economic reform over the longer term. While the crisis has significantly complicated businesses, companies' adaptability has been much better than anticipated. Many companies have been able to compensate for declining sales by reducing their operative costs. The EBITDAs reported by companies in-

WHAT STAKEHOLDERS SAY ABOUT TESI

THE aim of the corporate image survey conducted at the end of 2020 was to assess how satisfied stakeholders are with Tesi's activities. Altogether 453 respondents took part in the survey.

MAIN RESULTS:

Tesi occupies a stable position in the market and Tesi is well known amongst its network partners. Some 78% of respondents know Tesi fairly well or very well. (2017: 54%)

Respondents mentioned in particular Tesi's professionalism, expertise, dynamism and positive mindset.

Tesi's most impactful and important activities were:

- ◆ 87% of respondents regard Tesi's mission to accelerate the growth and international expansion of Finnish companies by sharing risk and helping companies and funds to grow as very important or extremely important
- ◆ 76% of respondents regard Tesi's operations to combat the coronavirus crisis (stabilisation and Venture Bridge programmes) as very important or extremely important

Tesi's Net Promoter Score (NPS) of 48 is a very positive result.

In the foreseeable future, respondents wanted Tesi to focus on combating the coronavirus crisis, and also on a longterm approach, sustainable development, responsibility, data, public profile, and internationalisation.

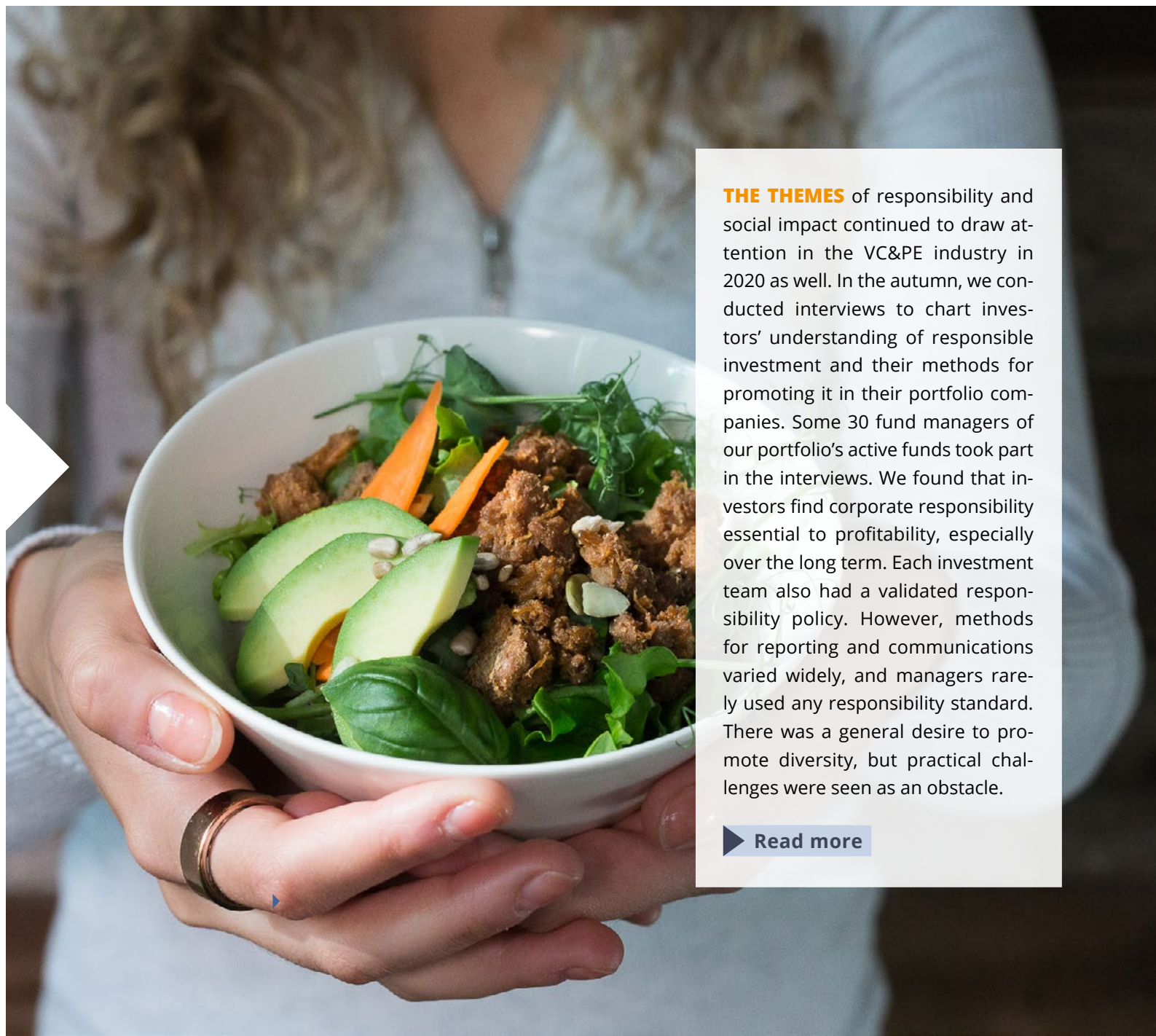
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dicate that they have mostly managed to continue profitable operations.

However, there have been large, industry-specific differences in recovering from the crisis – a situation represented by the so-called K-curve. The outlook for the ICT sector has improved significantly during the year. When it comes to industrial companies, demand in the global market determines the way to a great extent. Order intake in industrial companies has started to recover but is still significantly behind the pre-crisis levels and full recovery is expected to take much longer. The hardest hit are small

” Despite the challenging circumstances, we were able to continue our normal investment activities while also providing crisis financing for Finnish SMEs.

companies with limited opportunities for adjusting their operations. Based on the survey results, most companies cannot implement any more cost-saving measures.



THE THEMES of responsibility and social impact continued to draw attention in the VC&PE industry in 2020 as well. In the autumn, we conducted interviews to chart investors’ understanding of responsible investment and their methods for promoting it in their portfolio companies. Some 30 fund managers of our portfolio’s active funds took part in the interviews. We found that investors find corporate responsibility essential to profitability, especially over the long term. Each investment team also had a validated responsibility policy. However, methods for reporting and communications varied widely, and managers rarely used any responsibility standard. There was a general desire to promote diversity, but practical challenges were seen as an obstacle.

▶ [Read more](#)



However, the crisis is not yet over. The upcoming spring will indicate how the order intake of industrial companies develops and how the ending of the temporary bankruptcy legislation in Finland impacts companies. Tesi will remain fully prepared to meet the demand for crisis financing also during 2021, and the recapitalisation decisions made in the Finnish state's supplementary budget places Tesi in good stead to do this. We will continue to closely monitor the situation through our stabilisation and Venture Bridge programmes. Active intervention may also be needed to support companies facing difficulties in 2021.

Per our strategy, we will continue our operations in 2021 with emphases on responsibility and societal impact, value creation, internationalisation as well as on sharing market insight with our stakeholders to develop the Finnish VC&PE market. We will also continue our active development work around the themes of responsibility and impact. We strongly believe that Finnish growth companies have a vital role to play in solving global challenges, and we want to enable the growth and internationalisation of these companies. This year, we strive to achieve harmonised methods of working in a socially bene-

” In 2021, we will continue our active development work around the themes of responsibility and impact.

ficial and responsible way that can be put into operational use in investments. We will also systematically develop value creation procedures as part of our investment activities. We have already begun this work by asking our stakeholders for views, and we will share our insight with the market, as well.

We have worked in close collaboration with growth companies, the VC&PE industry, and decision-makers throughout the year towards a common goal. Tesi staff have shown a splendid degree of flexibility in an operating environment undergoing profound change and have managed to fully respond to the challenges such change presents. I want to thank all our stakeholders and staff for the flexibility and solution-orientation they have exhibited, both of which enabled us to prepare for the exceptional measures taken during the year and still, for the most part, continue the investment activities according to our strategy.

Jan Sasse

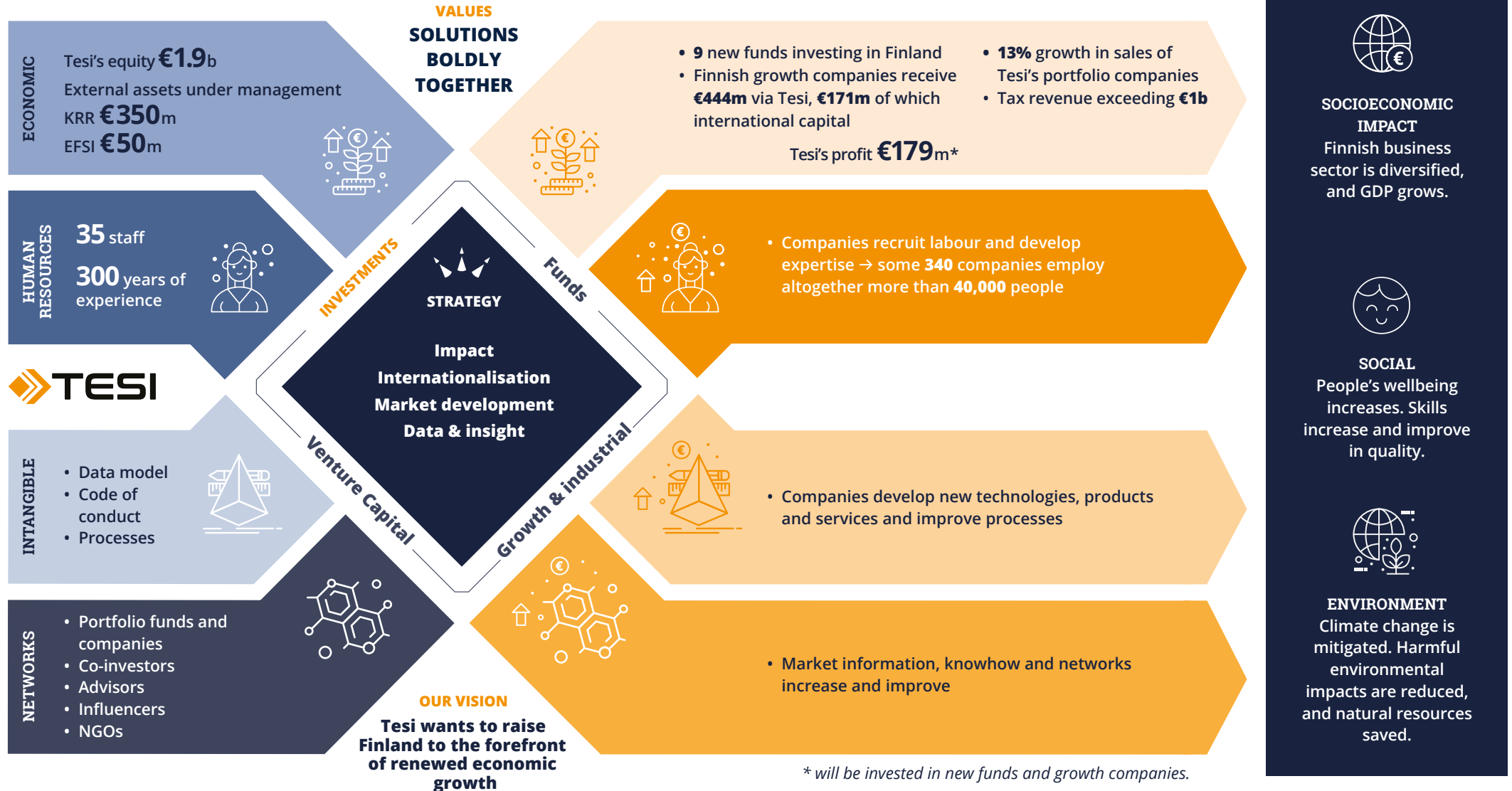
Value creation diamond

CAPITAL

TESI'S ACTIVITIES

OUTCOME

IMPACT



Investments in

2020

**Tesi wants to raise
Finland to the forefront of
transformative economic
growth.**



CASE

Verso Capital turns spin-offs into fast growers

VERSO Capital, a Helsinki-based buyout investor, raised a new fund in 2020, with first investors in the fund including Tesi and the KRR III fund it manages. Verso Fund III will focus primarily on spin-offs and carve-outs. The fund is seeking to invest in businesses with annual sales of €5–€50 million that cannot currently live up to their full potential in their current ownership.

“Not all businesses can be optimally developed inside large organisations. We aim to create independent growth companies with potential for interna-

tional expansion from the business operations of large corporations,” says **Anssi Kariola**, Managing Partner, Verso Capital.

Tesi’s Investment Director **Riitta Jääskeläinen** regards Verso’s new fund as a welcome development. “It’s splendid timing for a new fund that can invest in growth and in developing operations and subsidiaries that otherwise may be left to their own devices in these challenging times,” she comments.

▶ [Read more](#)



“ We aim to create independent growth companies with potential for international expansion from the business operations of large corporations.

ANSSI KARIOLA, MANAGING PARTNER,
VERSO CAPITAL

Ensuring growth financing during the corona crisis

DESPITE the challenging circumstances, we were able to continue our normal investment activities while also providing crisis financing for Finnish SMEs. During the year, we made investments totalling €248 million in funds and companies. This figure includes a commitment to the KRR IV fund-of-funds we manage, fund investments, direct investments, and our stabilisation and Venture Bridge financing in the corona situation.

The impacts of the corona crisis were felt in the Finnish venture capital and private equity industry, although not as severely as was initially feared. No systematic disruptions were identified, and the volumes of euro-denominated transactions remained buoyant. On the other hand, there are signs of a decline in transaction volumes. Fund-raising has prolonged, but it is still too early to predict whether this will continue.

In addition to the impacts of the pandemic on Finnish SMEs, in the spring there was a heightened concern that in an era of high uncertainty, international

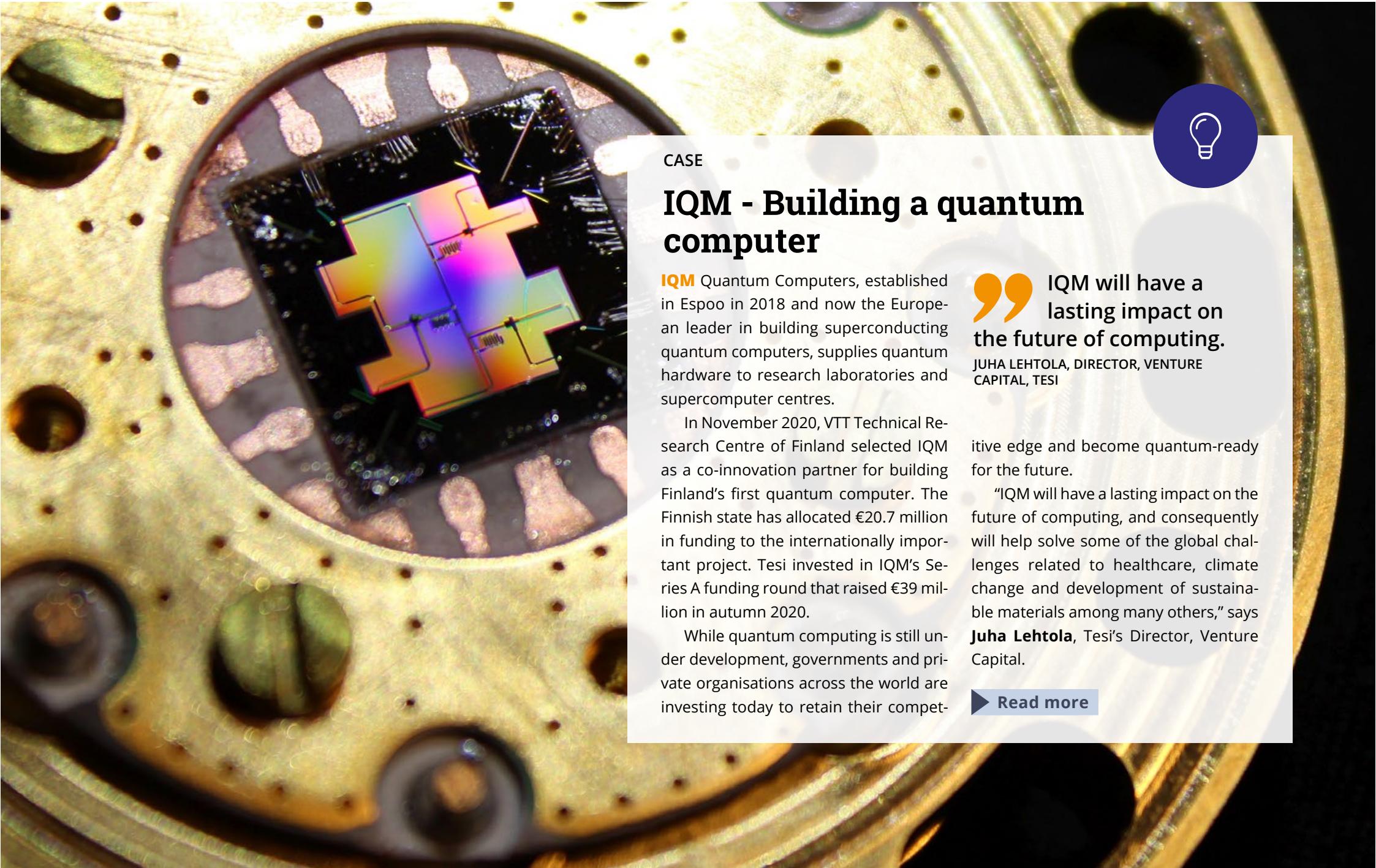
investors will focus on their home markets. In recent years, international investors have played an important role as financiers and active owners of Finnish growth companies. In general, the supply of international venture capital has not, for the time being, declined

” The impacts of the pandemic on international investors’ activity will become evident only later.

as significantly as was initially feared. Rather, **international investors’ activity** was higher in early 2020 than the year before. The impacts of the pandemic on international investors’ activity will become evident later as many funding rounds raised in 2020 had already been initiated prior to the pandemic.

Fund-of-funds, KRR IV, raised just before the pandemic, will contribute to





CASE

IQM - Building a quantum computer

IQM Quantum Computers, established in Espoo in 2018 and now the European leader in building superconducting quantum computers, supplies quantum hardware to research laboratories and supercomputer centres.

In November 2020, VTT Technical Research Centre of Finland selected IQM as a co-innovation partner for building Finland's first quantum computer. The Finnish state has allocated €20.7 million in funding to the internationally important project. Tesi invested in IQM's Series A funding round that raised €39 million in autumn 2020.

While quantum computing is still under development, governments and private organisations across the world are investing today to retain their compet-

“IQM will have a lasting impact on the future of computing.

JUHA LEHTOLA, DIRECTOR, VENTURE CAPITAL, TESI

itive edge and become quantum-ready for the future.

“IQM will have a lasting impact on the future of computing, and consequently will help solve some of the global challenges related to healthcare, climate change and development of sustainable materials among many others,” says **Juha Lehtola**, Tesi's Director, Venture Capital.

[▶ Read more](#)



the creation of new funds in the Finnish market over the upcoming years. KRR IV's total capital is €175 million, which will be invested in 10–14 Finnish VC&PE funds between 2020–2025. Tesi made a commitment of €65 million in KRR IV, in addition to investments by Finnish pension and insurance companies Ilmarinen, Keva, State Pension Fund of Finland, Elo, LähiTapiola and Veritas. The KRR funds-of-funds have so far invested €414 million in 34 VC&PE funds to date. KRR portfolio funds have in turn invested in over 240 Finnish companies.

Through fund investments, we de-

” **With its direct investments, Tesi enabled the growth and internationalisation of many societally impactful companies.**

velop Finland's VC&PE sector long-term. Fund investment volumes in 2020 remained roughly the same compared to previous years, although there were some delays in fund-raising. Tesi gave commitments amounting to €82 million to altogether nine funds. On the venture capital side, Tesi gave commitments

to Superhero Venture Fund 2020, Open Ocean Fund 2020, and Icebreaker Fund II. On the growth and buyout side, Tesi gave commitments to CapMan Growth II, Verso Fund III, and Sponsor Fund V. Tesi also invested in GOS Private Debt I, a new type of debt fund. In addition to these, Tesi gave commitments to one international fund, Verdane Edda II which is actively looking at the Finnish market, and to one Finnish fund, details of which will be announced later.

Tesi makes minority investments in Finnish companies hand-in-hand with private investors. We share economic risk and help companies to grow, develop new solutions, and find innovative ways of utilising their know-how. Alongside normal investment activities, Tesi made investments from the COVID-19-related temporary stabilisation and Venture Bridge programmes, and also raised its activity level in larger, later-stage venture capital rounds.

With its direct investments, Tesi enabled the growth and internationalisation of many societally impactful companies. Apart from its special investment programmes, Tesi made first-round investments amounting to €24 million in six companies, and follow-on investments of €14 million in 13 companies. Tesi made first-round investments



CASE

Kaiku Health - Acquisition a portal to global sales channels

IN May 2020, Tesi exited from its minority holding in Kaiku Health. The company will continue its growth on the world stage under the ownership of Swedish Elekta, a global leader in radiotherapy technology.

“As a part of Elekta, we have a truly global channel for offering our digital platform to the world,” comments Kaiku Health’s CEO **Lauri Sippola**.

The Kaiku application facilitates the liaison between patient and care provider, offers the patient information about treatment progress, and produces data for cancer research. It can also produce

considerable savings in costs.

Kaiku Health’s newest intelligent prediction model predicts symptoms related to certain cancer treatments before they even appear. That allows timely intervention.

“Since digitalisation of the healthtech sector started only recently, there is still room for technical innovations with revenue potential. The problems we face are global, so the business opportunities are also global,” comments Tesi’s Investment Director **Joni Karsikas**.

[▶ Read more](#)

“ Our application is already used by patients in over 60 cancer clinics and hospitals in in Europe.

LAURI SIPPOLA,
CEO, KAIKU HEALTH

” Through fund investments, we develop Finland’s VC&PE sector long-term.



in Fifax, a responsible fish farming pioneer; Swappie, a company promoting the circular economy in mobile phones; UpCloud, a cloud service provider; Nordic Rescue Group, a rescue vehicle manufacturer; Varjo, a developer of VR solutions; and in Unikie, a provider of vehicle automation solutions. The joint investment program by Tesi and EIB has played an important role in enabling larger funding rounds during 2020.

Despite the challenging year, there were also successful exits. Kaiku Health will continue its global growth under the ownership of Swedish Elekta, a leader in radiotherapy technology. Europe’s third-largest producer of folding cartons, Austrian Mayr-Melnhof Group, signed a contract for the entire stock of Kotkamills Group plc. The transaction is still awaiting general approval by the competition authorities. Profit Software was acquired by Volpi Capital in December. The exits give a boost to Finland’s ecosystem in otherwise challenging circumstances and create a sound base for Tesi’s future investment operations through returning profits.

CASE

Unikie – Putting vehicles without drivers on the road



ESTABLISHED in Tampere in 2015, Unikie specialises in developing demanding software that applies the best of Finland’s technological expertise to create wellbeing. The company’s spearhead is Unikie AI Vision, a comprehensive autonomous driving (AD) solution using machine vision and machine learning. In a car factory, it can park completed vehicles coming off the production line, while in mining it can control heavy-duty machines without a driver. As intelligent systems achieve improvements in production transparency, transportation needs will decline and so will carbon dioxide emissions.

Unikie currently operates in the USA, Germany, Sweden and Poland, in addition to Finland, and also has sales in ten countries. It counts large

German automotive manufacturers amongst its customers as well as Sandvik, Nokia and Valmet.

“We believe we are in a good position for continuing on our growth path and seizing our share of the growing software market. Deeptech development could become a new springboard for Finnish exports,” CEO **Esko Mertsalmi** comments.

CapMan Growth and Tesi recently added fuel to Unikie’s international growth with a €12 million investment. Unikie also received a capital loan of €7 million for business development from Business Finland, with the aim of promoting construction of an ecosystem for autonomous vehicles in Finland.

► [Read more](#)



“ A digital revolution is taking place in vehicle technology, and we want to be part of it.

ESKO MERTSALMI,
CEO, UNIKIE



STABILISATION FINANCING

As part of the state's corona support package, the first step we took was to ensure stabilisation financing is available to those middle-sized companies that are facing an acute liquidity crisis and do not have other financing options on hand. The criteria for stabilisation financing were formed to focus precisely on companies that have faced difficulties due to the coronavirus situation. After the initial spike, the demand for stabilisation financing has been relatively moderate. During the year, we made investment decisions from the programme in 12 companies amounting to altogether €57.4 million.

[Read more](#)

Stabilisation financing - application volumes (31.12.2020)

NET SALES 2019 (€M)	APPLICATIONS FOR FINANCING FROM TESI (€M)	NUMBER
Less than 10	5	3
10 - 39	59	22
40 - 199	41	12
200 or more	50	4
Total	155	41

NO. OF PERSONNEL IN FINLAND (PEOPLE)	APPLICATIONS FOR FINANCING FROM TESI (€M)	NUMBER
Less than 50	10	5
50 - 99	31	9
100 - 249	58	19
250 - 499	10	3
500 - 999	16	3
1,000 or more	30	2
Total	155	41

SECTOR	APPLICATIONS FOR FINANCING FROM TESI (€M)	NUMBER	INVESTMENT DECISIONS (€M)	NUMBER
Manufacturing	66	13	33	5
Water supply; sewerage, waste management & remediation	10	1		
Construction	11	4		
Wholesale and retail trade	10	4	2	1
Transportation & storage	2	1	2	1
Accommodation & food service	23	6	13	3
Information and communication	16	5		
Real estate	2	1		
Professional, scientific & technical activities	3	1	3	1
Administrative and support services	3	1		
Education	4	2		
Arts, entertainment & recreation	5	1	5	1
Other services	2	1		
Total	155	41	57	12

Venture Bridge - application volumes (31.12.2020)

Net sales 2019 (€M)	Applications for financing from Tesi (€m)		Investment decisions (€m)	
		Number		Number
Less than 10	33,3	35	14	15
10 - 39	0,8	1		
40 - 199	0			
200 or more	0			
Total	34,1	36	14	15

No. of personnel in Finland (people)	Applications for financing from Tesi (€m)		Investment decisions (€m)	
		Number		Number
Less than 50	28,1	33	10	13
50-99	6	3	4	2
100-249	0			
250-499	0			
500-999	0			
1,000 or more	0			
Total	34,1	36	14	15



CORONA FINANCING

VENTURE BRIDGE

In the spring, in close cooperation with the local venture capital sector, we started planning the Venture Bridge programme to bridge innovative growth companies to their next financing round during the coronavirus situation. After its launch in June, the demand for the financing has remained stable, declining only slightly towards the end of the year. By the end of the year, we had made investment decisions worth €14 million in 15 companies.

[▶ Read more](#)

SECTOR	APPLICATIONS FOR FINANCING FROM TESI (€M)	NUMBER	INVESTMENT DECISIONS (€M)	NUMBER
Software	10,6	16	4,2	7
Consumer	6,2	6	2,8	3
Health Tech	2,8	3	0,5	1
Deep Tech	14,6	11	6,5	4
Total	34,1	36	14	15



Report by the Board of Directors and Financial Statements

2020

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BUSINESS ENVIRONMENT

The year 2020 was exceptional due to the global COVID-19 pandemic. The survey of Finnish SMEs conducted by Tesi revealed the same results as other analyses of the impacts of the pandemic: Finland's economy has so far weathered the crisis with less damage than expected, and corporate financing has remained relatively stable. Although the crisis has significantly complicated business, company adaptability has been better than anticipated. Many companies have been able to compensate for a decline in sales by reducing their operative costs and, in general, have managed to keep their businesses profitable.

Recovery from the impacts of the crisis has varied greatly from sector to sector. The outlook for the ICT sector has improved significantly during the year. Demand in the global market determines the way to a great extent, especially in our industrial sectors. Order intake in industrial companies has started to recover but is still significantly behind the pre-crisis levels and full recovery is expected to take much longer. Small businesses with limited resources to adapt are in the most disadvantageous situation. Most companies cannot implement any more cost-saving measures. It will become clearer in spring 2021 how the order intake of industrial companies develops and how the ending of the temporary bankruptcy legislation in Finland will impact companies.

The effects of the crisis have also been felt in the Finnish venture capital and private equity sector, although to lesser extent than expected. No disruptions at the systemic level were identified, and the volumes of euro-denominated transactions remained buoy-

ant. On the other hand, there are signs of a decline in transaction volumes. Fundraising activities of funds have slightly slowed down, but it is too early to predict whether this will continue. A notable trend is the continued rise in the valuations of venture capital backed companies during 2020. The same can be observed in many other risk asset classes on the global capital market, such as publicly traded stock. The phenomenon can partly be attributed to central banks continuing their highly reflationary monetary policy due to the pandemic, which in turn has resulted in an ever-increasing flow of capital into riskier investments in the low-interest environment.

In recent years, international venture capital investors have been important financiers of Finnish growth companies. Early in the year there were concerns that international investors would retreat to their home markets, as they did during the financial crisis. In general, the supply of venture capital has not, for the time being, declined as much as was initially feared. Rather, international investors' activity was in fact higher in early 2020 than the year before (source: Finnish Venture Capital Association). The impacts of the pandemic on international venture capitalists' activity over the longer term remains to be seen.

TESI'S ROLE

Tesi (Finnish Industry Investment Ltd) reports to Finland's Ministry of Economic Affairs and Employment. The Company's mission is to enhance the supply of risk financing for Finnish SME's. This involves developing the Finnish venture capital and private equity (VC&PE) market and boosting the supply of private capital in

Finland; promoting growth and internationalisation; and operating both profitably and in a societally beneficial way. The supply of equity financing varies greatly in Finland, depending on the size of the company's financing need and its growth phase. Market gaps also change position over time. If companies are to grow and internationalise, it is essential that growth financing in Finland flows smoothly and bottlenecks in the investment market are identified. The core of Tesi's operations consists of VC&PE investment, both in funds and directly in companies, and – to an increasing extent – of collaborating with stakeholders to produce insightful data supporting the development of Finland's VC&PE industry.

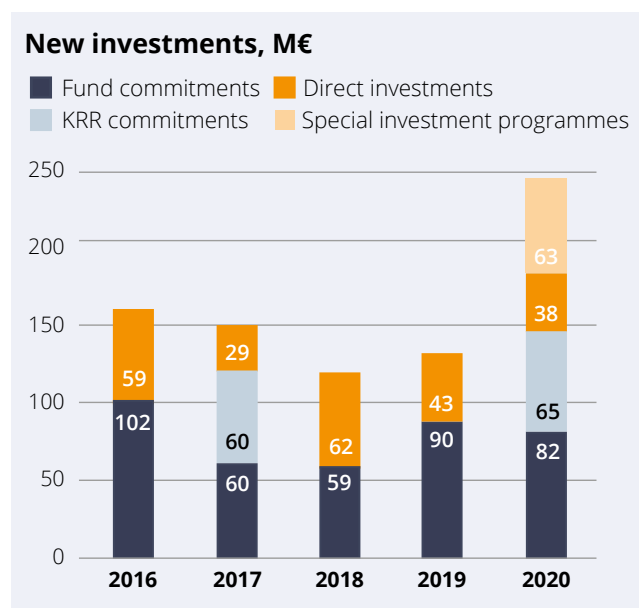
Corporate responsibility is Tesi's core operating principle. Tesi approaches responsibility from the point of view of business opportunities and sustainable development, evaluating the risk and opportunities of its portfolio companies in environmental, social and governance related issues. Responsibility is visible in the entire investment process: investment decisions, value creation during ownership and exits. For further information on Tesi's corporate responsibility, please visit the [Corporate Responsibility Report](#).

During the corona crisis, Tesi has striven to help both companies and other stakeholders with financing instruments, and by producing data and analyses about the situation faced by Finnish SMEs. As a part of the Finnish state's financing package, Tesi's role has been to ensure stabilisation financing is available to middle-sized companies that are facing an acute liquidity crisis and do not have other financing options on hand. In collaboration with

other Finnish investors, Tesi launched the Venture Bridge programme to bridge innovative companies to the next funding round during the pandemic.

INVESTMENT OPERATIONS

Tesi co-invests in venture capital and private equity funds and directly in companies hand-in-hand with private investors. In 2020, Tesi made investments totalling €248 million (€133 million in 2019). This figure includes a commitment to the KRR IV fund-of-funds, other fund commitments and direct investments, and



also stabilisation and Venture Bridge financing. As temporary investment programmes during the pandemic, the stabilisation and Venture Bridge programmes differ from Tesi's normal investment activities. Therefore,

the programmes are treated separately in Tesi's IFRS consolidated financial statements.

FUND INVESTMENTS

Tesi's fund investments are focused on venture capital, growth and small and mid-cap buyout funds. Tesi acts as a long-term anchor investor in its portfolio funds.

In 2020, Tesi gave commitments totalling €82 million (€89 million) to nine venture capital and private equity funds. In venture capital, Tesi gave commitments to Superhero Venture Fund 2020, Open Ocean Fund 2020, and Icebreaker Fund II. In growth & buyout, Tesi gave commitments to CapMan Growth II, Ver-so Fund III, and Sponsor Fund V. Tesi also invested in GOS Private Debt I, a new type of debt fund. Additionally, Tesi gave commitments to Verdane Edda II, which actively supplements Finland's market, and to a Finnish fund (details to be published later).

Tesi paid out altogether €74 million (€75 million) to its portfolio funds in capital calls. Correspondingly, the funds returned a total of €63 million (€68 million) to the company. Tesi also exited from five fund investments that had reached the end of their term.

In addition to its own investment operations, Tesi manages KRR funds-of-funds (KRR, KRR II, KRR III and KRR IV). Established by Tesi and Finnish institutional investors, the KRR funds-of-funds invest in Finnish VC, growth and buyout funds. In 2020, at the end of its investment term, KRR III gave commitments to four VC&PE funds. In 2020, Tesi made a commitment of €65 million to the €175 million KRR IV fund-of-funds that it manages.

The KRR concept has been very successful over the

last 11 years, while also having a positive impact on Finland's economy. Between 2009 and 2020, the KRR funds have committed capital to 34 funds, which have been accelerating the growth and international expansion of over 240 Finnish companies.

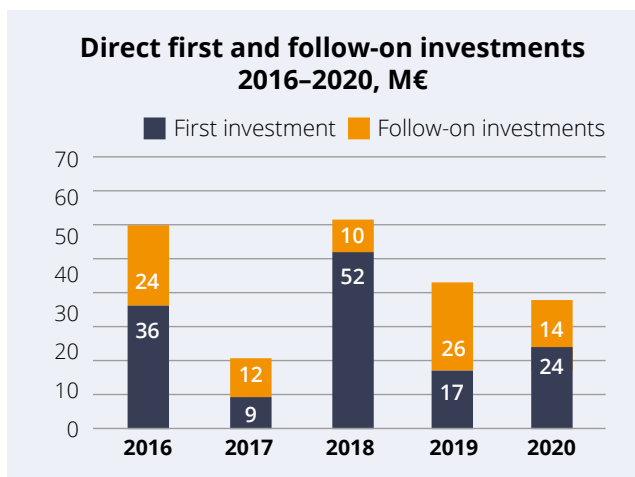
DIRECT INVESTMENTS

Tesi makes direct minority investments in fast-growing Finnish tech companies, SMEs pursuing growth, M&As and buyouts, and industrial projects. Investment programmes promoting growth and the renewal of industrial structures form the core for direct investments which are made together and on equal terms with other private investors.

In 2020, Tesi made direct investments of altogether €38 million (€43 million) in 19 companies. Of these, first-round investments totalling €24 million were made in six companies (Nordic Rescue Group, Upcloud, Swappie, Varjo Technologies, Unikie, Fifax), and follow-on investments amounting to €14 million in 13 portfolio companies. Overall, a total of almost €230 million in new risk capital was channelled into these portfolio companies, roughly six times the amount invested by Tesi. Of this total amount, some €125 million came from international investors.

Alongside its normal investment activities, Tesi made stabilisation and Venture Bridge investments totalling €63 million to mitigate the effects of the corona pandemic.

Tesi puts emphasis on active ownership and portfolio company growth. The net sales of portfolio companies grew on average by 10% (median) during the year despite the COVID-19 situation. The net sales of



venture capital companies grew on average by 16% (median), and of growth and buyout companies by an average 2% (median).

INVESTMENT PROGRAMMES

The €75 million **Circular Economy** investment programme was launched in 2018. In 2020, investments under the programme were made in: Swappie, a retailer of reconditioned smartphones; Fifax, a company engaging in sustainable fish farming; and Zenrobotics (Venture Bridge), a global leader in smart robotic recycling. At the end of 2020, Tesi had made fund commitments of €5.5 million and made direct investments amounting to €18 million under the programme.

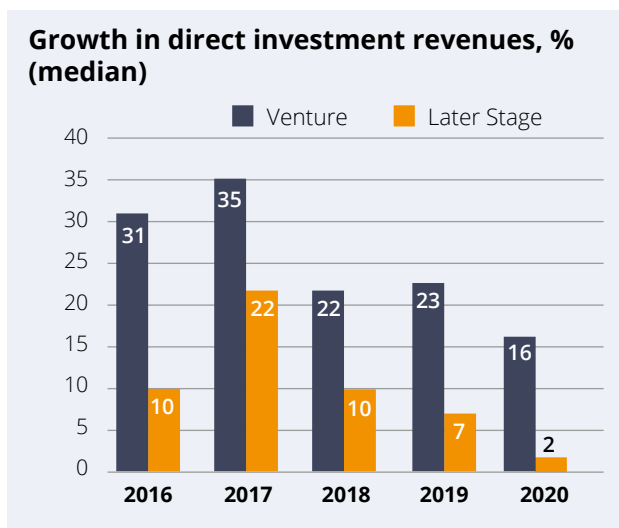
The **EFSI co-investment programme** channels financing from the European Investment Bank to Finnish companies, enabling them to participate in larger funding rounds. One-half of the financing comes from the EFSI programme and one-half from Tesi, with private investors participating at least to an equal extent.

In 2020, Tesi made two investments (Swappie and Varjo Technologies) totalling €10 million under the EFSI programme. Altogether €22 million has been invested in five companies under the programme.

In 2020, Tesi launched two special investment programmes to ensure Finnish SMEs receive financing through the corona crisis.

Stabilisation financing offers fast-track assistance to profitable mid-sized companies facing an acute cash crisis caused by the pandemic. Target companies must have the potential to overcome financial problems caused by the corona crisis through additional financing. Tesi offers stabilisation financing either as an equity investment or as a convertible loan. The size of an individual investment ranges between €1 million–10 million. Demand for stabilisation financing was initially brisk but remained moderate throughout the autumn. By the end of the year, Tesi had made investment decisions totalling €57.4 million in 12 companies under the programme. From these, investments were made in 10 companies, amounting to €51 million.

Venture Bridge programme is meant to compensate for any decrease in international investors activity in Finland due to the pandemic. Launched in June 2020, investments under the programme are focused on innovative growth companies that seek international expansion and need financing for their next investment round. Investments are made together and on equal terms with private VCs. The size of an individual investment ranges between €0.5 million–€2 million, and investments are made as convertible loans. Investments from the programme ensure a company has adequate financing for at least one year, until its



next financing round. By the end of the year, Tesi had made investment decisions totalling €13.8 million in 15 companies of which €12.4 million was invested in 14 companies under the programme.

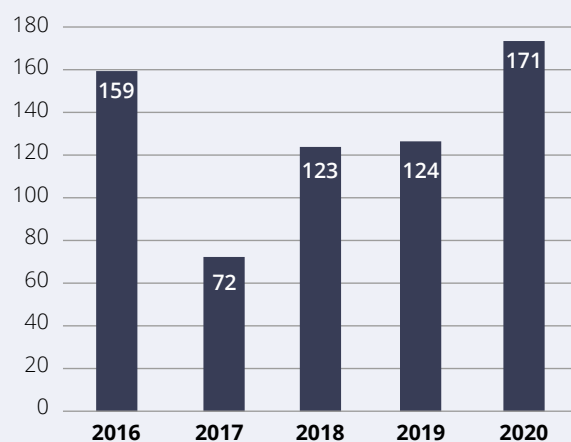
Channelling of international capital

One of Tesi's objectives is to internationalise Finland's VC&PE market. Investors provide Finnish companies with highly valuable international business management expertise as well as contact networks, in addition to capital. In 2020, Tesi's international investor partners invested altogether €171 million in Finnish growth companies, of which €46 million came from Tesi's international portfolio funds.

Exits

Despite the challenging year, there were also successful exits. Kaiku Health was sold to Swedish Elekta in

Channelling of international capital, M€



May, and Profit Software was acquired by Volpi Capital in December. In addition, Europe’s third largest producer of folding carton, Austrian Mayr-Melnhof Group, signed a contract for acquiring the entire stock of Kotkamills Group Oyj. The transaction is still subject to approval by the competition authorities.

Altogether €94 million was returned from investments during the year, of which €63 million was from funds and €31 million from direct investments.

Number of portfolio companies

Tesi invests in Finnish companies through both Finnish and international funds and makes direct investments hand-in-hand with private investors. Owing to the international nature of the venture capital and private equity market, foreign companies also become Tesi’s investees via investment funds. At the end of 2020,

there were altogether 843 companies in Tesi’s portfolio, of which 767 were through funds and 76 were direct investments. Some 340 of these portfolio companies were Finnish, in which Tesi invested €702 million (69% of Tesi’s invested capital). Correspondingly, 503 were foreign portfolio companies in which €317 million of capital was invested (31%). Of the portfolio companies of Finnish investment funds, 235 were Finnish and 99 foreign. Correspondingly, 30 of the portfolio companies of international funds were Finnish and 403 foreign.

GROUP’S FINANCIAL PERFORMANCE

Consolidated profit

Despite the prevailing economic climate, the VC&PE market did not experience the disruption anticipated. In the venture capital sector in particular, companies raised record high investment rounds and company valuations rose steeply. This was reflected in Tesi’s profit for the year, which amounted to €179 million (€78 million in 2019). Tesi’s profit consisted of realised gains from VC&PE investments during the year (€46 million) and gains in fair value of investments (€179 million) recognised in line with IFRS principles.

The Group’s net gains from VC&PE investments in 2020 totalled €226 million (€65 million). Net gains from VC&PE funds were €127 million (€42 million). The net gains were generated by positive valuations of portfolio companies enabled by large venture capital rounds, and by successful exits.

Net gains from direct VC&PE investments were

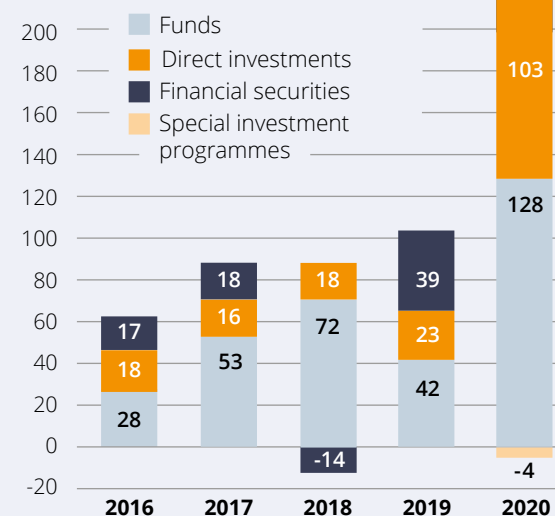
€103 million (€23 million), mainly generated by a rise in the investment valuations and by successful exits.

Net gains from special investment programmes launched during the year were negative, €-4 million.

Other operating income includes net gains from financial securities amounting to €4 million (€39 million). The pandemic depressed investment valuations early in the year, but because of the revival of the market towards the end of the year, returns on investments were positive.

Operating expenses amounted to €9.2 million (€8.5 million), an increase of 8.2% against the previous year. The special investment programmes launched during the year increased the company’s expenses. The ratio

Net gains, M€



¹ Tesi’s international portfolio mainly consists of venture capital funds that have vast portfolios of early-stage companies. These portfolios comprise a large number of companies, but committed capital per company is rather small. Tesi’s stake in these funds is significantly smaller than in Finnish funds. In addition, Tesi’s international portfolio consists of funds managed by a Nordic secondary investor, whose investment strategy is to acquire portfolios that investors want to exit. The portfolios of these funds also grow large in size.

of operating expenses to investments under management was 0.5% (0.7%). Operating profit amounted to €222 million (€96 million).

Balance sheet and financial position

Non-current assets were €1,063 million (€751 million) at the end of the year, of which €1,019 million (€711 million) consisted of VC&PE investments recognised at fair value in the statement of comprehensive income. Volumes of venture capital and private equity investment grew by €308 million during the financial year. Of the investments at the end of the year, €558 million (€419 million) was invested in funds, €402 million (€292 million) in direct investments, and €59 million (€0 million) in special investment programmes. The changes are illustrated in the graph below. Of the €226 million change in fair value, €46 million was realised.

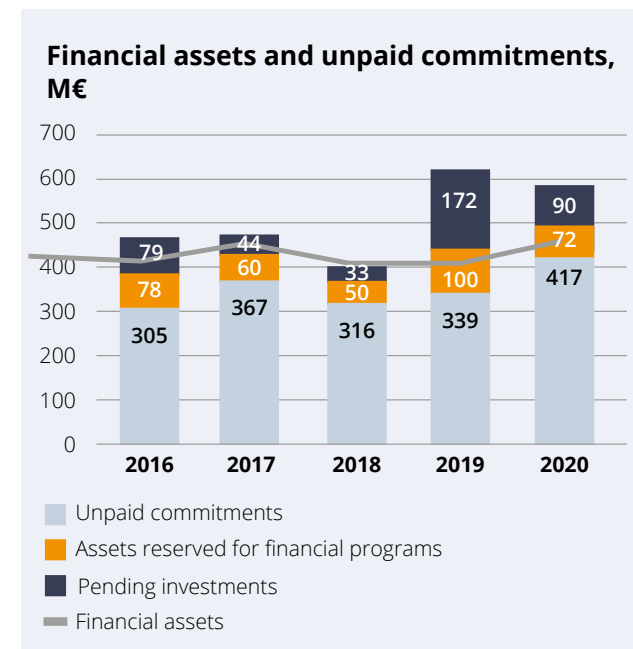
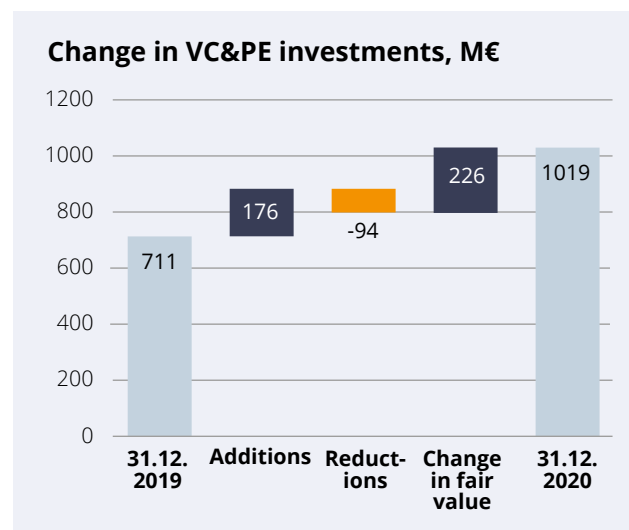
More detailed information about the determination of fair value is given in [note 4](#) of the Notes to the consolidated financial statements.

The figure for current assets, €436 million (€379 million), included €339 million (€375 million) of financial securities recognised at fair value in the statement of comprehensive income. The figure for non-current assets also includes €25 million (€25 million) of financial securities recognised at fair value in the statement of comprehensive income. Financial securities comprised bond investments €265 million (€241 million), equity investments €49 million (€86 million), and other investments €50 million (€73 million).

Financial securities safeguard continuity in the company's investment operations and its ability to meet unpaid investment commitments. At the end of 2020,

unpaid investment commitments totalled €417 million (€339 million), including €3 million in commitments to special investment programmes. Unpaid investment commitments consist almost entirely of commitments to VC&PE funds with an average payment period of over four years. In addition, some €72 million (€100 million) has been set aside for implementing the company's ongoing investment programmes. Investment decisions made by the Board of Directors but not implemented by year's end amounted to €90 million (€172 million).

The Group's balance sheet totalled €1,499 million (€1,130 million) on 31 December 2020. Shareholders' equity grew to €1,417 million as a result of the profit of €179m for the financial year. The Group's equity ratio was 94.5% (96.3%). The Group did not hold any interest-bearing liabilities at the end of the financial year.



Recapitalisation

The Finnish state recapitalised Tesi in the 2020 supplementary budget II by €150 million to finance the stabilisation programme. Stabilisation investments are targeted at mid-sized companies that encounter sudden and temporary difficulties because of the corona pandemic. In preparation for any worsening of the economic situation, the Finnish state committed €250 million for recapitalising Tesi in its supplementary budget IV. The additional capital will be channelled flexibly, according to the market situation, into venture capital investments, Tesi's stabilisation programme, and in fund investments over the next two years to mitigate the disruption caused by the pandemic. The appropriations from the supplementary budgets already paid,

and those to be paid in the future, will be returned to the Finnish state when Tesi exits the investments.

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 Finland's venture capital and private equity 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 does not legally jeopardise the primary obligation for profitable operation over the long term.

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-bearing capability. 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. To reduce risks, investments are deconcentrated to different allocation classes, different industries, and also distributed geographically, while taking into account the company's mission. The Board makes the company's investment decisions and supervises the implementations. The Board has authorised the Management to make investment decisions under the special investment programmes.

Risk management enables the goals set in the company's strategy and action plan to be achieved

by monitoring that the risks taken are commensurate with risk-bearing capability. Risk-bearing capability is managed by carefully planning 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, and other investment risks.

The value of VC&PE investments at the end of the financial year amounted to €1,019 million. Investments are subject to the risks stated above that, if realised, could substantially affect the future investment values. The table below presents the possible euro-denominated impacts of relative changes in valuations on the value of the VC&PE portfolio.

The risks related to each 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 VC&PE 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.

IMPACT OF CHANGES IN VALUE OF VC & PE INVESTMENTS ON INVESTMENT PORTFOLIO (€1019 M), €M

Direct investments (fair value 461 M€)	Fund Investments (fair value 558 M€)				
	0 %	-5 %	-10 %	-15 %	-20 %
0 %	0	-28	-56	-84	-112
-10 %	-46	-74	-102	-130	-158
-20 %	-92	-120	-148	-176	-204
-30 %	-138	-166	-194	-222	-250
-40 %	-184	-212	-240	-268	-296

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 both by good corporate governance and with internal instructions, and these risks are covered by insurance.

The responsible operation of companies and investors is being subjected to increasingly more detailed public scrutiny. The operations of portfolio companies may also have a significant indirect impact on Tesi's reputation. In Tesi, a corporate responsibility and ESG assessment is made of portfolio companies as part of the due diligence processes preceding an investment decision, and the development of responsibility aspects is regularly monitored as a part of standard processes for managing and monitoring portfolio companies. Tesi plans to define its ESG risk management model during 2021 as well as the Company's overall risk management model.

More detailed information about risks and risk management is given in [Note 3](#) of the Notes to the consolidated financial statements.

CORPORATE GOVERNANCE

Group structure

The Group's subsidiaries are FEFSI Management Oy, Tesi Fund Management Oy and Tesi Industrial Management Oy (all wholly-owned), and also Aker Arctic Technology Inc. (ownership 66.4%).

Organisation and development of operations

At Tesi's Annual General Meeting on 13 March 2020, the following were elected members of the Board of Directors: Chairman, Kimmo Jyllilä (MSc (Econ), born 1972); Pauli Kariniemi (Lic.Sc. (Econ), born 1970); Riku Huttunen (M.Pol.Sc. (Economics), born 1966); Minna Helppi (MBA, born 1967); Annamarja Paloheimo (Senior Lawyer, LL.M, born 1964), Riitta Tiuraniemi (MSc, born 1962) and Anniina Heinonen (MSc (Econ), born 1981). The Board of Directors convened 12 times in 2020, and attendance was 96.3%.

Tesi's CEO is Jan Sasse (MSc (Econ), born 1967). The parent company employed an average 35 people during the year. Five new employees were recruited to permanent positions during the financial year. Eight people resigned from Tesi. At year's end, nine women and 28 men were permanent employees of Tesi. In addition, there was one employee on a fixed-term contract and one part-time employee.

Tesi conducts performance review interviews twice a year. Owing to the corona pandemic, the company's

annual targets were amended in May 2020, and the revised targets were taken to team and individual level through the year's second round of reviews in June. In Tesi, personnel commitment and motivation strongly depend on employees being able to use and develop their skills and expertise in a versatile way. The main focus for skills development in 2020 was on enhancing interaction and presentation skills, and on improving management skills. Personnel gained a deeper understanding of diversity and inclusion as well as of data security issues. Also, a variety of tools and methods for remote working became established due to the pandemic. In addition, six Tesi employees enhanced their own expertise through coaching.

In 2020, Tesi conducted a Signi questionnaire instead of a more comprehensive personnel survey. Signi focuses particularly on charting those aspects that personnel feel are most important. The review highlighted the same targets for development as the personnel survey in 2019, namely a culture of open dialogue, equality and equal opportunity. The more comprehensive personnel survey will be conducted again in 2021.

Tesi follows the guidelines issued by the Prime Minister's Office regarding remuneration in state-owned companies. Salaries and emoluments in 2020 totalled €4.6 million (€4.2 million). The remuneration system is developed in line with evolving company objectives, to effectively support our business operations. More details about remuneration practices are given in the company's [Corporate Responsibility Report](#).

Shares and share capital

The company has one class of share and 43,160 shares. The share capital is €438,992,200.

Board's proposal for the distribution of profit

The parent company's distributable funds (according to FAS financial statements) on 31 December 2020 amounted to €440,717,247.87. 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 2020. The company's financial resources will be targeted at VC&PE investments that boost the growth and internationalisation of Finnish companies and promote the development of Finland's VC&PE market.

EVENTS AFTER THE FINANCIAL YEAR

At the beginning of 2021, Finland's VC&PE investment market witnessed the largest investment round in its history when Wolt Enterprises raised a record €440 million from an international investor syndicate. Wolt's previous owners included some of Tesi's portfolio funds: Inventure, Lifeline, EQT Ventures and Atomico.

Since the end of the review period, Tesi has made one new stabilisation investment and three Venture Bridge investments.

PROSPECTS

So far, Finland's economy seems to have weathered the pandemic with limited damage while simultaneously the first transformative steps are being taken. This presents a good springboard for capitalising on

post-crisis peaks in demand while also supporting economic reform over the longer term. It will become clearer in spring 2021 how the order intake of industrial sector develops and how the ending of the temporary bankruptcy legislation in Finland will impact companies. Tesi will remain fully prepared to meet the demand for financing generated by the pandemic also during 2021. The recapitalisation decisions made in the Finnish state's supplementary budget places Tesi in good stead to do so. Tesi will continue to closely monitor the situation through the stabilisation and Venture Bridge programmes.

In 2021, Tesi will continue to follow its strategy, giving high priority to responsible operation and positive social impact, value creation, internationalisation, and sharing data and insight aimed at developing the Finnish venture capital and private equity market. The objective is to achieve harmonised methods of operating and investing in a socially beneficial and responsible way, and to systematically develop value creation procedures as part of our investment activities. This work has already been started by asking our stakeholders for insight, and Tesi will share the best practices with the market in the future.

Tesi will continue to use its fund investment activities to promote the long-term development and internationalisation of Finland's VC&PE market. Tesi will give high priority to sparring with Finnish funds' management teams and to scaling up their internationalisation, as well as to building networks and developing the fund investor base. The international fund operations will supplement Finland's own venture capital and private equity market. With direct investments, Tesi aims

for shorter-term impact by sharing risks with private investors. When screening projects, Tesi will pay greater attention to the positive social impact of potential target companies. In portfolio companies, Tesi will focus on value creation, active ownership and positive impact in collaboration with other investors.

The EU's new budget period starts in 2021. EU-sourced financing will therefore increase significantly, enabled by the InvestEU programme, the Next Generation EU programme and the European Guarantee Fund. Tesi will continue to collaborate with the EIB and to explore the opportunities offered by InvestEU for channelling financing to Finnish companies. Pan-European regulation is making progress also in financing sustainable development. At present, the VC&PE investment industry is actively seeking the best approaches for becoming involved.

The strong financial performance of recent years, combined with the expertise and networks the organisation has accumulated, provides Tesi with a sound framework for promoting Finnish companies' growth and internationalisation well into the future.

KEY FIGURES

KEY FIGURES, GROUP	IFRS 2020	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016
Profit/loss for the financial year, M€	179,2	77,8	54,6	65,7	44,6
Shareholders' equity, M€	1 417,4	1 088,2	996,0	978,2	912,5
Balance sheet total, M€	1 499,3	1 129,7	1030,5	1020,3	943,0
Unpaid commitments, M€	414,0	339,0	316,0	367,4	305,5
Investments at acquisition price, M€	761,8	639,3	545,1	496,0	526,2
Investments at acquisition price and commitments, M€	1 175,8	978,3	861,1	863,4	831,7
Investments at book value, M€	1 019,1	710,9	605,6	560,1	525,2
Ratio of investments and commitments to shareholders' equity	1,0	1,0	0,9	0,9	0,9
New commitments during financial year, M€	248,4	132,7	120,8	148,8	164,6
Return on equity	14,3 %	7,5 %	5,5 %	6,9 %	5,0 %
Equity ratio	94,5 %	96,3 %	96,6 %	95,9 %	96,8 %
Investments under management, M€	1 861,4	1 333,7	1 208,9	1 173,4	985,8
Expenses per investments under management	0,5 %	0,7 %	0,8 %	0,6 %	0,8 %
Personnel, average	35	37	36	32	34
Salaries and fees for the financial year, M€	4,6	4,2	3,9	3,7	3,9
Fund investments, total number	97	92	87	91	93
Funds, number of portfolio companies	767	665	712	660	677
Parent company, number of portfolio companies	73	51	45	37	36
Start Fund I Ky, number of portfolio companies	0	0	0	0	6
Tesi Industrial Management Oy., number of portfolio companies	3	3	3	5	4
Portfolio companies, total number	843	719	760	702	723

Consolidated statement of comprehensive income

EUR THOUSANDS	NOTES	2020	2019
Net gains from VC & PE funds	5	127 596	41 560
Net gains from direct VC & PE investments	5	102 688	23 001
Net gains from special investment programmes	5	-3 987	
Net gains from investments, total		226 297	64 561
Net gains from financial securities		3 732	38 723
Income from fund management		1 300	1 225
Other operating income, total		5 032	39 948
Employee benefit costs	6	-5 348	-4 966
Depreciation and impairment		-502	-523
Other operating expenses	7	-3 873	-3 494
Operating profit / loss		221 606	95 526
Financial income		89	96
Financial expenses		-496	-136
Profit / loss before income tax		221 199	95 485
Income tax	8	-41 962	-17 736
Profit / loss for the financial year		179 237	77 750
Total comprehensive income for the financial year		179 237	77 750
Profit for the financial year attributable to:			
Shareholders of the parent company		179 237	77 750

Consolidated statement of financial position

EUR THOUSANDS	NOTE	31.12.2020	31.12.2019
ASSETS			
Non-current assets			
Venture capital & private equity investments			
VC&PE funds	4	557 845	419 399
Direct VC&PE investments	4	402 098	291 528
Special investment programmes	4	59 123	
Venture capital and private equity investments, total		1 019 066	710 927
Intangible and tangible assets	9	1 168	1 613
Deferred tax assets	11	17 584	13 024
Financial securities	4	25 430	25 318
Non-current assets, total		1 063 248	750 882
Current assets			
Receivables		602	381
Financial securities	4	339 356	375 036
Cash & cash equivalents, special investment programmes		86 607	
Cash & cash equivalents		9 487	3 369
Current assets, total		436 052	378 786
Assets, total		1 499 300	1 129 668

EUR THOUSANDS	NOTE	31.12.2020	31.12.2019
EQUITY AND LIABILITIES			
Equity attributable to the shareholders of parent company			
Share capital		438 992	438 992
Share premium account		215 855	215 855
Invested unrestricted equity fund		164 500	14 500
Retained earnings		418 861	341 112
Profit for the financial year		179 237	77 750
Shareholders' equity, total	10	1 417 446	1 088 209
Liabilities			
Non-current liabilities			
Lease liabilities		610	856
Deferred tax liabilities	11	77 215	36 837
Non-current liabilities, total		77 825	37 693
Current liabilities			
Accounts payable and other liabilities	12	4 030	3 766
Current liabilities, total		4 030	3 766
Liabilities, total		81 854	41 459
Equity and liabilities, total		1 499 300	1 129 668

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Invested unrestricted equity fund	Retained earnings	Shareholders' equity, total
1.1.2019	438 992	215 855		341 112	995 959
Profit for the financial year				77 750	77 750
Total comprehensive income for the financial year				77 750	77 750
Transactions with owners in their capacity as owners					
Share issue			14 500		14 500
Shareholders' equity 31.12.2019	438 992	215 855	14 500	418 861	1 088 209

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Invested unrestricted equity fund	Retained earnings	Shareholders' equity, total
1.1.2020	438 992	215 855	14 500	418 861	1 088 209
Profit for the financial year				179 237	179 237
Total comprehensive income for the financial year				179 237	179 237
Transactions with owners in their capacity as owners					
Invested unrestricted equity fund			150 000		150 000
Shareholders' equity 31.12.2020	438 992	215 855	164 500	598 098	1 417 446

Consolidated statement of cash flows

EUR THOUSANDS	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Capital calls paid to VC & PE funds	-73 565	-74 810
Cash flows received from VC & PE funds	62 714	67 666
Direct VC & PE investments paid	-38 628	-43 286
Repayments of direct VC & PE investments and sales proceeds	25 842	5 648
Investments paid under special investment programmes	-63 275	
Cash flows received from investments under special investment programmes	165	
Interest received from VC & PE investments	1 909	71
Dividends received from VC & PE investments	2 995	3 986
Cash flow from VC & PE investments, total	-81 843	-40 725
Payments for financial securities	-162 805	-123 597
Sales proceeds from financial securities	201 518	165 539
Payments received from other operating income	1 300	1 225
Payments made for operating expenses	-9 605	-8 801
Cash flow from operating activities before taxes	-51 435	-6 359
Direct taxes paid	-5 840	-8 861
Cash flow from operations (A)	-57 275	-15 220

EUR THOUSANDS	2020	2019
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for tangible and intangible assets	0	0
Cash flow from investing activities (B)	0	0
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	0	14 500
Invested unrestricted equity fund	150 000	
Cash flow from financing activities (C)	150 000	14 500
Change in cash & cash equivalents (A+B+C) increase (+)/ decrease (-)	92 725	-720
Cash & cash equivalents at beginning of period	3 369	4 089
Cash & cash equivalents at end of period	96 094	3 369
Cash & cash equivalents at end of period comprise:		
Cash & cash equivalents, special investment programmes	86 607	
Cash & cash equivalents	9 487	

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 aforementioned address, as well as on the website: www.tesi.fi/. Tesi’s Board of Directors, in their meeting on 3 March 2021, authorised these financial statements for issue. According to Finland’s Limited Liability Companies Act, the Annual General Meeting has the power to subsequently amend the financial statements.

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

To mitigate the damage caused to businesses and companies by the COVID-19 pandemic that erupted at the beginning of 2020, Tesi launched two special investment programmes during the first quarter. In April, Tesi launched a stabilisation financing programme aimed at helping SMEs facing temporary and

acute financial difficulties through the pandemic. In June, Tesi launched the Venture Bridge programme, to enable early-stage growth companies raise financing in their next larger fundraising rounds in the unstable circumstances caused by the pandemic.

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. A central element in Tesi’s investment operations is to produce a positive social and environmental impact that promotes sustainable development. Tesi contributes to the innovation system services by providing venture capital and private equity financing to companies. The Company’s key principle is to conduct its operations responsibly and on market terms, together with domestic and foreign investors and hand-in-hand with them, thereby increasing risk-taking ability while boosting the availability of funding, investment expertise and networks.

Since 1995, Tesi has made venture capital and private equity investments amounting to 1.7 billion euros in total. Currently, Tesi has investments in 843 companies, directly or through investment funds. The continuity and growth of our investment operations have been secured with government recapitalisation 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 were effective as at 31.12.2020 and are endorsed for application in the European Union. In the Finnish Accounting Act and regulations issued by virtue of it, “IFRS” refers to standards and interpretations that have been endorsed by the EU in accordance with the procedure defined in the EU regulation (EC) 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 eu-

ros, 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 2020

IFRS standards, and amendments to them, that entered into force in 2020 have not had any impact on the Group's profit/loss for the financial year, financial position or presentation of the financial statements.

Tesi adopted the IFRS 16 Leases standard as from 1.1.2019 by applying the simplified approach. As a consequence, a right-of-use asset of €1.5 million was entered in tangible assets in the statement of financial position on 1.1.2019 and corresponding entries for lease liabilities were made current and non-current liabilities.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries are companies over 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. Realised and unrealised exchange rate differences arising from VC & PE investments and financial securities recognised at fair value through profit or loss are recorded as a part of their change in fair value. Exchange rate differences relating to cash & cash equivalents are presented as financial income or expenses in the income statement.

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 recognised at fair value 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.

Tangible assets also include leases, in which Tesi

is lessee, as right-of-use assets according to IFRS 16. Right-of-use assets are depreciated over their contract periods.

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

IFRS 16 leases

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 transition provisions that 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 €5,000 or less. Tesi has applied the latter provision both at the point of transition and in subsequent financial years.

As a consequence, a right-of-use asset of €1.5 million was entered in tangible assets in the statement of financial position on 1.1.2019 and corresponding entries for lease liabilities were made current and non-current liabilities.

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 Company's personnel are included in the bonus scheme. In 2019, the Company's personnel established a personnel fund in which they can invest the bonuses they earn from the company's bonus scheme.

INCOME TAX

The income tax charge in the income statement includes both current and deferred tax. The current income tax charge is calculated on the basis of 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

Upcoming new standards will not have a significant impact on the 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 on the basis of 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 investments are mainly in the form of equity holdings. 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 and the European Investment Bank are acting as investors. These organisations 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 8. Income tax](#) and in [note 11. 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 de-concentrated 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 imple-

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

M€	31.12.2020	%	31.12.2019	%
VC & private equity funds	558	38 %	419	38 %
Venture capital	288	19 %	211	19 %
Later stage	147	11 %	124	11 %
Funds-of-funds	123	8 %	84	8 %
Direct investments	461	31 %	292	26 %
Venture capital	206	14 %	117	11 %
Later stage	196	13 %	174	16 %
Special investment programmes	59	4 %		
Financial securities	365	25 %	400	36 %
Bond funds	265	18 %	241	22 %
Equity funds	49	3 %	86	8 %
Other investments	51	3 %	73	7 %
Cash & cash equivalents	96	6 %	3	0 %
Total	1 480	100 %	1 114	100 %

mentation 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 un-

certainty 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 31.12.2020 and 31.12.2019.

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 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 be-

cause 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 aimed at creating value 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.

The responsible operation of companies and investors is being subjected to closer public scrutiny nowadays. The operations of portfolio companies may therefore also have a significant indirect impact on Tesi's reputational risk. A corporate responsibility and ESG assessment is made of portfolio companies as part of the due diligence processes preceding an investment decision, and the development of responsibility aspects is regularly monitored as a part of the processes for managing and monitoring investees. Tesi plans to define in more detail both its ESG risk management model and the Company's overall risk management model during 2021.

Business risks attached to venture capital and private equity investments also comprise the counterpar-

ty 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. As an exception to the above, Tesi can finance companies with a convertible loan also without co-investors within the scope of the stabilisation programme launched in 2020. In equity investments under the stability programme, Tesi's share of an investment can be as high as 70%, provided that other new investors take part in the investment round. In the case of co-investments with pre-existing owners only, Tesi's share of the investment will be at most 50%.

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 com-

mitments). 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.

To safeguard liquidity, in April 2020 the Company agreed with a bank on a three-year credit limit of €100 million, which was not used in 2020.

The special investment programmes started in 2020 due to the coronavirus pandemic are wholly financed through recapitalisation by the Finnish state. This recapitalisation will be repaid to the state as and when repayments from the special investment programmes accrue.

By 31.12.2020, the Company was recapitalised with a €150 million gratuitous investment in the Company's invested unrestricted equity fund, which amount is to be used for special investment programmes,. In addition to this, the Finnish state has committed to recapitalising the Company with a €250 million in total, to be disbursed in a number of tranches up until 31.12.2022. As at 31.12.2020, funds amounting to €87 million were available from the recapitalisation of €150 million intended for special investment programmes, and they were invested in the Company's cash & cash equivalents owing to the expected short nature of their investment horizon.

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.

At 31.12.2020, the fair value of the Company's cash and cash equivalents and financial securities amount-

ed to €374 million (€404 million) and the amount of unpaid investment commitments (A) was €414 million (€339 million), excluding the cash & cash equivalents of €87 million relating to special investment programmes and unpaid commitments of €3 million. 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. In addition to this, the strategic investment programme (B) ongoing as at 31.12.2020 included unpaid capital of €72 million (€100 million), and investment decisions (C) made by the Company's Board of Directors and as yet not implemented totalled €90 million (€172 million). The total of A+B+C was €571 million (€611 million), after adjustment for overlap.

31.12.2020 €M	EURO €M	USD €M	SEK €M	DKK €M	GBP €M	Muut €M	YHT. €M
VC&PE funds	466	51	34	5	3	0	558
Direct investments	455					7	461
Financial securities and cash & cash equivalents	396	27	3	1	3	31	461
Yhteensä	1 316	77	37	6	6	38	1 480
Sensitivity analysis							
impact of 10% change in exchange rate on profit		7	3	1	1	3	15
Unpaid commitments to VC&PE funds	386	5	17	0	3		410

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 target companies, avoidance of over-aggressive debt structures and the continuous development of portfolio companies.

The Company's fixed-interest investments had a fair value of €265 million as at 31.12.2020, representing the largest portion of the Company's €365 million financial securities portfolio. The market risks that affect the value of bond investments consist of the risks associated with changes in general market interest rates and also of the spread risk. The computational weighted duration of the Company's fixed-interest investment portfolio at 31.12.2020 was 2.3 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 €6 million.

The fair value of equity investments included in financial securities as at 31.12.2020 was €49 million. A decrease of 10% in share prices would decrease the value of equity investments by €5 million.

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 also 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.

CREDIT RISK

The Company's objective is to manage credit risk by actively monitoring the risk/reward ratio and also 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 31.12.2020 was €89 million, representing some 9% of the total fair value of venture capital & 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 typically participating in board work 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.

The Company's objective is to manage the credit risk of financial securities by investing in very dispersed bond fund portfolios, so 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, except for a €100 million credit limit that was not used in 2020. The Company does not have a specified policy for distributing dividends. Repayments of capital for special investment programmes to the Finnish state are described

in the section on liquidity risk above.

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 unpaid commitments to liquid assets (max-

imum), and to the ratio of the aggregate amount of liquid assets and the fair value of venture capital and private equity investments to unpaid commitments (minimum). Liquid assets comprise financial securities and cash & cash equivalents.

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 below table 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 2014-2020. As the Company's venture capital & private equity investments are long-term by nature, the Company's financial performance is also better evaluated over a longer time period.

The state's investment in the Company's shareholders' equity amounted to €819 million at the end of 2020. Consolidated shareholders' equity at the end of 2020 totalled €1,417 million. The Company's cumulative profit from operations, including the figure for the 2020 financial year, amounted to €598m.

GAINS BEFORE TAXES FROM TESI'S INVESTMENT ACTIVITIES AND COMPANY'S EXPENSES 2014-2020 (GAINS = CHANGES IN FAIR VALUE)

ALLOCATION / FINANCIAL YEAR	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
Gains from VC & PE investments (€m)	-40	109	46	69	90	65	226	564
Gains from financial securities (€m)	14	6	17	18	-14	39	4	84
Total, (€m)	-25	115	63	87	75	103	230	649
Gains from VC & PE investments (%)*	-9,5 %	24,9 %	9,3 %	12,7 %	15,4 %	9,8 %	26,2 %	14,1 %
Gains from financial securities (%)*	6,4 %	1,9 %	4,1 %	4,2 %	-3,3 %	9,6 %	1,0 %	3,2 %
Total	-3,9 %	14,9 %	6,9 %	9,0 %	7,5 %	9,7 %	18,4 %	9,8 %

* 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.

4. Determination of fair value

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

In accordance with industry practice, the Private Equity and Venture Capital Valuation Guidelines (IPEVG) are applied in the determination of the fair value of the Company's venture capital & private equity investments. 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 judgment and make 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 financial instruments than the 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 measurement of the holdings in funds may deviate from the amounts 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 test-

ed 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 set previously.

DIRECT VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

Depending on the varying overall status of the portfolio companies, the determination of the 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 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 of-

ten 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.

At the highest level in the fair value hierarchy are quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs), and at 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 of financial assets

€ THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2020				
Venture capital/private equity funds				
Venture capital			288 012	288 012
Later stage			147 324	147 324
Funds-of-funds			122 509	122 509
Direct VC & PE investments				
Venture capital	22 811		179 945	202 755
Later stage	11 348		187 995	199 343
Special investment programmes				
Venture capital			12 590	12 590
Later stage			46 534	46 534
Financial securities				
Bond funds	264 702			264 702
Equity funds	49 463			49 463
Other investments	50 621			50 621
Total	398 945	0	984 908	1 383 852

Direct VC & PE investments comprise equity investments €371m and debt investments €31m
 Special investment programmes comprise equity investments EUR 1 million and debt investments €58 million.

€ THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2019				
Venture capital/private equity funds				
Venture capital			211 142	211 142
Later stage			124 148	124 148
Funds-of-funds			84 109	84 109
Direct VC & PE investments				
Venture capital	9 657		107 713	117 371
Later stage	6 248		167 909	174 157
Financial securities				
Bond funds	240 864			240 864
Equity funds	85 895			85 895
Other investments	73 596			73 596
Total	416 259	0	695 021	1 111 281

Direct VC & PE investments comprise equity investments €248m and debt investments €44m
 The content of investments is specified in more detail in Note 3. Risk management

Changes in level 3 financial assets measured at fair value:

€ THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2020
INVESTMENT CLASSIFICATION					
Venture capital/private equity funds					
Venture capital	211 142	76 643	28 267	-28 039	288 012
Later stage	124 148	17 501	26 711	-21 035	147 324
Funds-of-funds	84 109	33 452	18 587	-13 639	122 509
Direct VC & PE investments					
Venture capital	107 713	67 827	35 562	-31 158	179 945
Later stage	167 909	16 444	11 153	-7 511	187 995
Special investment programmes					
Venture capital		240	12 350	0	12 590
Later stage		-4 226	50 925	-165	46 534
Total	695 021	207 879	183 555	-101 548	984 908
Change in unrealised gains and losses recognised in income statement under net gains from VC & PE investments for Level 3 assets held at the end of period:					179 921

€ THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2019
INVESTMENT CLASSIFICATION					
Venture capital/private equity funds					
Venture capital	176 830	31 888	31 782	-29 358	211 142
Later stage	121 624	-248	33 035	-30 263	124 148
Funds-of-funds	72 075	9 921	13 745	-11 632	84 109
Direct VC & PE investments					
Venture capital	81 581	12472	19726	-6065	107 713
Later stage	152 080	4307	19279	-7757	167 909
Total	604 190	58 339	117 566	-85 074	695 021
Change in unrealised gains and losses recognised in income statement under net gains from VC & PE investments for Level 3 assets held at the end of period:					25 345

Sensitivity analysis for level 3 financial assets

INVESTMENT CLASSIFICATION	Fair value 31.12.2020 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/private equity funds					
Venture capital	288 012	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing made by the Company*		57 602
Later stage	147 324				29 465
Funds-of-funds	122 509				24 502
Direct VC & PE investments					
Venture capital	179 945	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2020 (6.1x)	25 639
Later stage	187 995			EV/EBITDA 2020 (7.1x)	21 676
Special investment programmes					
Venture capital	12 590	Fair value	Values are determined with various methods (EV-based, credit risk assessment, and valuations of external management companies) depending on the instruments.		2 518
Later stage	46 534				9 307

INVESTMENT CLASSIFICATION	Fair value 31.12.2019 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/private equity funds					
Venture capital	211 142	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing made by the Company*		42 228
Later stage	124 148				24 830
Funds-of-funds	84 109				16 822
Direct VC & PE investments					
Venture capital	107 713	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2019 (4.6x)	16 486
Later stage	167 909			EV/EBITDA 2019 (8.4x)	25 206

* Fair value testing of venture capital and private equity funds performed by the Company resulted in a fair value that was, in total, 7 million euros lower than the values reported by fund management companies as at 31.12.2020.

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

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

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Aboa Venture III Ky	Turku	30,8 %	3 500 000
Alder II AB	Sweden	6,6 %	9 731 887
Armada Fund V Ky	Helsinki	5,6 %	10 000 000
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	5,3 %	6 626 612
Atomico V SCSp	Luxembourg	0,6 %	4 450 774
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 Buyout XI SCSp	Luxembourg	11,4 %	20 000 000
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 Growth Equity Fund II Ky	Helsinki	4,1 %	4 000 000
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
Creandum V, L.P.	Guernsey	1,9 %	5 000 000
DevCo Partners III Ky	Helsinki	2,8 %	5 000 000

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
DN Capital - Global Venture Capital III LP	Jersey	22,3 %	3 000 000
EduImpact Fund Ky	Helsinki	22,3 %	10 000 000
Environmental Technologies Fund 3, L.P.	United Kingdom	3,0 %	5 547 235
EQT Ventures (No. 1) SCSp	Luxembourg	1,8 %	7 500 000
Evolver Fund I Ky	Mariehamn	18,6 %	10 000 000
Folmer Equity Fund II Ky	Helsinki	16,1 %	10 000 000
GOS Private Debt I Ky	Helsinki	50,0 %	5 000 000
Heartcore Capital Fund I K/S	Denmark	7,5 %	7 044 897
Icebreaker Fund II Ky	Helsinki	23,8 %	12 500 000
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	Helsinki	19,3 %	10 000 000
Juuri Rahasto I Ky	Helsinki	6,1 %	5 000 000
Juuri Rahasto II Ky	Helsinki	8,0 %	10 000 000
Kasvurahastojen Rahasto II Ky	Helsinki	46,2 %	60 000 000
Kasvurahastojen Rahasto III Ky	Helsinki	40,0 %	60 000 000
Kasvurahastojen Rahasto IV Ky	Helsinki	37,1 %	65 000 000
Kasvurahastojen Rahasto Ky	Helsinki	40,0 %	54 000 000
Life Sciences Partners 6 C.V.	Netherlands	1,0 %	5 000 000
Life Sciences Partners III B.V.	Netherlands	13,8 %	10 000 000

4.1 VC & PE FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
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
Lifeline Ventures Fund IV Ky	Helsinki	7,7 %	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 V Ky	Helsinki	6,3 %	15 000 000
Midinvest Fund II Ky	Jyväskylä	25,6 %	15 000 000
MVM IV LP	United Kingdom	3,4 %	6 627 198
Nest Capital 2015 Fund Ky	Helsinki	10,0 %	10 000 000
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
Northzone IX L.P.	Jersey	1,1 %	5 000 000
Open Ocean Fund 2015 Ky	Espoo	6,3 %	5 000 000
Open Ocean Fund 2020 Ky	Helsinki	13,6 %	12 500 000
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 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

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
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 IV Ky	Helsinki	5,0 %	10 000 000
Sponsor Fund V Ky	Helsinki	5,0 %	10 000 000
Superhero Venture Fund 2020 Ky	Helsinki	24,8 %	7 500 000
Vaaka Partners Buyout Fund II Ky	Helsinki	6,7 %	10 000 000
Vaaka Partners Buyout Fund III Ky	Helsinki	5,3 %	12 000 000
Vaaka Partners Buyout I Ky	Helsinki	19,7 %	10 000 000
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	2,8 %	4 787 209
Verdane Edda (E) AB	Sweden	10,9 %	10 015 624
Verdane Edda II (E) AB	Sweden	3,2 %	5 000 000
Verdane NVP II SPV K/S	Denmark	10,9 %	10 015 624
Verso Fund II Ky	Helsinki	9,9 %	5 000 000
Verso Fund III Ky	Helsinki	20,5 %	15 000 000
VisionPlus Fund I Ky	Helsinki	9,9 %	5 000 000
Finnish Fund*	Helsinki		10 000 000

1 071 099 252

* Name published later
Under the provisions of paragraph 3 of 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 VC & PE INVESTMENTS

PORTFOLIO COMPANY NAME	OWNERSHIP %
3 Step IT Group Oy	7,1 %
Aidon Oy	17,3 %
Aker Arctic Technology Oy *	66,4 %
BC Platforms AG	13,5 %
BCBM Holding Oy	22,8 %
BMH Technology Oy	24,8 %
Bookit Oy	2,2 %
Coronaria Oy	4,5 %
Den Group Oy	10,0 %
Dispelix Oy	6,5 %
Endev Oy	14,1 %
Fifax Ab	- **
Fira Group Oy	6,8 %
Foamit Group Oy	31,3 %
Forenom Group Oy	15,5 %
GRK Infra Oy	8,9 %
ICEYE Oy	7,2 %
IQM Finland Oy	8,5 %
KotiCap Oy (Renoa Group Oy)	12,5 %
Kotkamills Group Oyj *	9,2 %
Lamor Corporation Ab	9,7 %
LeadDesk Oyj	10,5 %
MariaDB Corporation Ab	5,3 %
Mekitec Oy	27,0 %
MetGen Oy	15,7 %
M-Files Oy	14,3 %
Midaxo Oy	22,0 %
MultiTaction Oy	14,1 %

PORTFOLIO COMPANY NAME	OWNERSHIP %
Newlcon Oy	7,5 %
Nordic Rescue Group Oy	26,5 %
Nosto Solutions Oy	11,3 %
Onbone Oy	2,8 %
Optomed Oyj	4,3 %
Oura Health Oy	5,5 %
Pesmel Oy	3,6 %
Picosun Oy	3,6 %
Rauma Marine Constructions Oy *	21,3 %
Relais Group Oyj	2,8 %
Stella Care Oy	14,5 %
Swappie Oy	5,6 %
Thirdpresence Oy	21,8 %
Unikie Oy	7,2 %
Unisport-Saltex Group Oy	11,6 %
UpCloud Oy	6,9 %
Ursviken Group Oy	24,6 %
Vaadin Oy	21,5 %
Valmet Automotive Oy	37,0 %
Varjo Technologies Oy	3,9 %
Verto Analytics Oy	8,9 %
Vexve Armatury Group Oy	- **
Viafin Service Oyj	7,9 %
Viria Oyj	4,8 %
Wirepas Oy	7,9 %
Zervant Oy	14,6 %
Zsar Oy	7,5 %

* Ownership through Tesi Industrial Management Oy

** Debt instrument, no ownership

4.3 INVESTMENTS UNDER SPECIAL INVESTMENT PROGRAMMES

Investments under Venture Bridge programme

PORTFOLIO COMPANY NAME	OWNERSHIP %
Akkurate Oy	-
Blidz Oy	-
Disior Oy	-
Emberion Oy	-
Fake Production Oy	-
Minima Processor Oy	-
Naava Group Oy	-
Not a Hotel Venture Limited "Bob W"	-
ONEiO Cloud Oy	-
Revonte Oy	-
Shark Punch, Inc. "Matchmade"	-
TactoTek Oy	-
uFaktory Oy	-
ZenRobotics Ltd.	-

A total of €51 million from the stabilisation programme was invested in altogether 10 different companies in 2020. Owing to contractual confidentiality, only the aggregated data of the programme is reported, except for the convertible loan of €10 million made to NoHo Partners Oy and announced during the year.

5. Net gains from VC & PE investments

EUR THOUSANDS	2020	2019
Venture capital/private equity funds		
Venture Capital	76 643	31 888
Later stage	17 501	-248
Funds-of-funds	33 452	9 921
Direct VC & PE investments		
Venture Capital	81 027	17 322
Later stage	21 662	5 679
Special investment programmes		
Venture Capital	240	
Later stage	-4 226	
Total	226 297	64 561
Net gains from VC & PE investments consist of changes in fair value:		
Realised	46 376	39 216
Unrealised	179 921	25 345
Total	226 297	64 561

Net gains from VC & PE investments comprise realised and unrealised changes in fair value, including interest income and dividend income from direct investments.

6. Employee benefit costs

EUR THOUSANDS	2020	2019
Salaries and fees	4 622	4 178
Pension expenses	622	694
Other personnel expenses	104	94
Total	5 348	4 966
Average number of personnel employed by the company during the financial year	35	37
MANAGEMENT TEAM		
Salaries and other short-term employee benefits	1 438	1 036
Total	1 438	1 036
CEO		
Salaries and other short-term employee benefits	290	279
Total	290	279
Emoluments for Board of Directors	133	137

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 company's 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 2020. At the end of 2019, the company's personnel established a personnel fund in which they can invest the bonuses they earn from the company's bonus scheme.

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	2020	2019
Other employee benefit costs	660	648
Travel and hospitality expenses	40	133
External services	1 497	1 524
Other expenses	1 676	1 190
Total	3 873	3 494

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

EUR THOUSANDS	2020	2019
Audit fees	39	25
Tax advice		
Other services	26	62
Total	65	87

8. Income tax

EUR THOUSANDS	2020	2019
Current income tax for the financial year	-7 018	-6 875
Adjustments relating to previous years	873	-680
Deferred taxes *)		
Temporary differences originated and reversed	-35 818	-10 182
Income tax presented in the income statement	-41 962	-17 736

*) 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	2020	2019
Profit before taxes	221 199	95 485
Tax calculated at domestic tax rate	-44 240	-19 097
Income not subject to tax	1 613	2 268
Expenses not deductible for tax purposes	-4	-2
Difference between net income from VC & PE funds and taxable income	-205	-225
Adjustments relating to previous years	873	-680
Income tax presented in the income statement	-41 962	-17 736

9. Intangible and tangible assets

The carrying amount of tangible and intangible assets at 31.12.2020 was 1168 thousand euros (2019: 1613 thousand euros). These include 935 thousand euros of items classified as non-current assets as per IFRS 16 (2018: 1179 euros). Depreciation and amortisation charged according to plan for 2020 was 502 thousand euros (2018: 523 thousand euros).

10. Notes concerning shareholders' equity

EUR THOUSANDS	Share capital (no.)	Share capital	Share premium account	Invested unrestricted equity fund	Retained earnings	Profit for the financial year	Total
31.12.2019	43 160	438 992	215 855	14 500	341 112	77 750	1 088 209
31.12.2020	43 160	438 992	215 855	164 500	418 861	179 237	1 417 446

Finnish Industry Investment Ltd has one class of share and 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.

The invested unrestricted equity fund includes €150 million recapitalisation by the Finnish state effected in 2020 through the special stabilisation investment programme established to mitigate the coronavirus pandemic. The recapitalisation will be repaid to the state as and when repayments from the special investment programmes accrue. The state's recapitalisation investment was also used in 2020 to make investments totalling €12 million under the Venture Bridge special investment programme. The Finnish state made a decision to invest €250 million in the Company's invested unrestricted equity fund for the special investment programme and for expansion of the stabilisation programme, as well as to ensure viable financing arrangements for startups, growth-stage and mid-cap companies and VC & PE funds. The investment can be effected in a number of tranches up until 31.12.2022. As at 31.12.2020, no investments under this €250 million decision had been made.

11. Deferred taxes

EUR THOUSANDS	Changes in fair values of VC & PE funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Other items	Total
Deferred tax assets					
1.1.2019	1 631	10 558	2 263	8	14 460
Recognised in income statement	932	-227	-2 139	-3	-1 436
31.12.2019	2 563	10 331	124	5	13 024
Recognised in income statement	1 052	3 575	-61	-5	4 560
31.12.2020	3 615	13 906	63	0	17 584

EUR THOUSANDS	Changes in fair values of VC & PE funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Total
Deferred tax liabilities				
1.1.2019	14 224	13 395	473	28 092
Recognised in income statement	3 369	2 239	3 137	8 745
31.12.2019	17 593	15 634	3 610	36 837
Recognised in income statement	20 472	20 213	-306	40 378
31.12.2020	38 065	35 846	3 304	77 215

12. Current liabilities

EUR THOUSANDS	2020	2019
Accounts payable	221	288
Accruals relating to employee benefits	1 600	1 487
Tax liabilities	1 588	1 283
Other	621	708
Total	4 030	3 766

13. Commitments

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

EUR THOUSANDS	2020	2019
During the year	21	2
Within 1-5 years	28	
Later than 5 years	0	
Total	50	2

Outstanding commitments at end of year

EUR THOUSANDS	2020	2019
Venture capital & private equity funds	410 309	332 701
Portfolio companies	3 661	5 798
Special investment programmes	3 400	
Total	417 370	338 498

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 606 thousand euros in 2020 (2019: 540 thousand euros) and from FEFSI Management Oy 564 thousand euros (2019: 563 thousand euros).

Finnish Industry Investment Ltd had no investment commitments to Tesi Industrial Management Oy as at 31.12.2020.

15. Subsidiaries

The following table presents the parent company and companies in which the group has control at 31.12.2020:

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

1) 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

At the beginning of 2021, Finland's VC & PE investment industry witnessed the largest investment round in its history when Wolt Enterprises raised a record €440m from an international investor syndicate. Wolt's previous owners included some of Tesi's portfolio funds: Inventure, Lifeline, EQT Ventures and Atomico. Since the end of the review period, Tesi has made one new stabilisation investment and three Venture Bridge investments.