Finnish Industry Investment Ltd

Consolidated financial statements 2018

Table of contents

FINNISH INDUSTRY INVESTMENT LTD (TESI)

Business identity code	1007806-3
Reg. office	Helsinki
Address	Porkkalankatu 1, 00180 HELSINKI

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

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

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

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

Consolidated statement of cash flows

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

1. Summary of significant accounting policies

GENERAL INFORMATION ABOUT THE GROUP

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

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

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

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

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

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

ACCOUNTING POLICIES

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

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

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

STANDARDS ENTERING INTO FORCE OR UPDATED SINCE THE START OF 2018

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

IFRS 9 *Financial Instruments*

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

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

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

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

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

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

ACCOUNTING POLICY FOR INVESTMENT ENTITIES

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

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

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

ITEMS DENOMINATED IN FOREIGN CURRENCY

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

FINANCIAL ASSETS

RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and demand deposits.

FINANCIAL LIABILITIES

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

TANGIBLE AND INTANGIBLE ASSETS

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

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

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

Impairment of tangible and intangible assets

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

RECEIVABLES

Receivables consist mainly of deferred expenses and accrued income.

LEASES

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

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

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

Tesi's leases are classified as operating leases.

EMPLOYEE BENEFIT COSTS

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

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

INCOME TAX

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

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

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

NEW AND UPDATED STANDARDS APPLICABLE IN FUTURE YEARS

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

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

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

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

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

2. Critical accounting estimates and judgments

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

APPLICATION OF THE INVESTMENT ENTITY EXCEPTION

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

DETERMINATION OF FAIR VALUE

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

INCOME TAX

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

3. Financial risk management

GENERAL INFORMATION AND AREAS OF RISK

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

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

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

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

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

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

BUSINESS RISK ATTACHED TO VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

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

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

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

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

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

LIQUIDITY RISK

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

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

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

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

MARKET RISK

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

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

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

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

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

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

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

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

CREDIT RISK

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

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

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

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

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

CAPITAL MANAGEMENT AND INVESTMENT RETURNS

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

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

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

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

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

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

4. Determination of fair value

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

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

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

INVESTMENTS IN VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

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

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

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

DIRECT VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENTS

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

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

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

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

FAIR VALUE HIERARCHY FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE

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

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

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

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

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

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

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

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

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

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

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

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

Changes in level 3 financial assets measured at fair value:

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

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

Sensitivity analysis for level 3 financial assets

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

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

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

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

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

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

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

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

* VC/PE fund currently being founded

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

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

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

4.2 DIRECT INVESTMENTS

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

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

* Ownership through Tesi Industrial Management Oy.

5. Net gains from venture capital and private equity investments

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

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

6. Employee benefit costs

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

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

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

7. Other operating expenses

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

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

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

8. Income tax

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

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

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

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

9. Intangible and tangible assets

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

10. Notes concerning shareholders' equity

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

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

SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

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

11. Current liabilities

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

12. Deferred taxes

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

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

13. Commitments

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

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

Outstanding commitments at end of year

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

14. Related parties

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

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

Transactions with related parties:

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

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

15. Subsidiaries

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

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

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

16. Events after the financial year

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

Auditor's Report

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

TO THE ANNUAL GENERAL MEETING OF FINNISH INDUSTRY INVESTMENT LTD

Report on the Audit of the Financial Statements

OPINION

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

In our opinion

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

BASIS FOR OPINION

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

nificant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

OTHER REPORTING REQUIREMENTS

Other Information

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

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

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

Helsinki 1 March 2019
KPMG OY AB

Juha-Pekka Mylén
Authorised Public Accountant, KHT