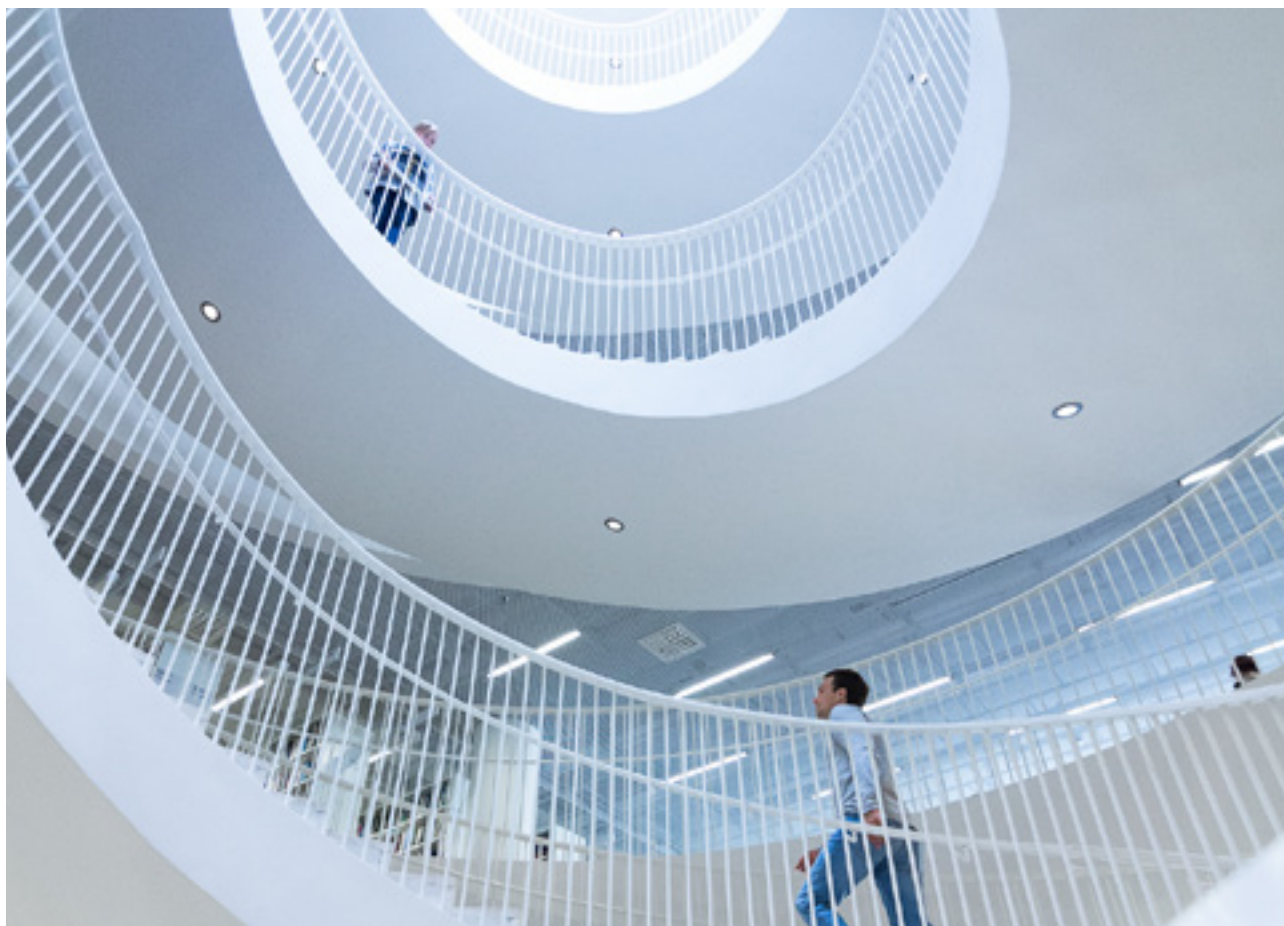




Tesi (Finnish Industry Investment LTD)

Consolidated financial statements 2019



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FINNISH INDUSTRY INVESTMENT LTD

Business ID 1007806-3
Domicile Helsinki
Address Porkkalankatu 1, 00180 HELSINKI

Report by the Board of Directors 2019

BUSINESS ENVIRONMENT

The slowdown in Finland's economy continued in 2019, and forecasts indicate a decline to zero growth. Alongside demographic factors, Finland's business is affected by declining prospects for the global economy, reflected specifically in Europe. Many market commentators envisage Europe entering an era of sluggish economic growth coupled with low interest rates. Geopolitical tensions and the outbreak of the coronavirus epidemic in early 2020 disrupted the supply chains, production, sales & logistics networks, and exports of Finnish companies.

The global financial services industry enjoyed a year of strong earnings from both shares and bonds, after briefly faltering in Q4-2018. The underlying cause of such good returns in 2019 was the accommodative monetary policy pursued by central banks. This depressed interest rates and diverted capital to seek higher returns from riskier asset categories, such as shares in listed companies and private equity.

As with stock exchanges, Europe's venture capital and private equity (VC & PE) sector enjoyed a good year for both funds raised and investment volumes, measured in monetary terms. While PitchBook's statistics highlight a reduction in the number of companies raising angel and seed investments in Europe, there was appreciable growth in the average sizes of series B, C and D financing rounds, raising the valuation levels of companies. The main change compared to earlier years was the decline in exits from European venture capital backed companies.

The most important developments in Finland's VC & PE market were the first venture capital rounds to exceed €100 million and some first-rate exits in the same segment (iLoq, Smartly, Blueprint Genetics). In 2019, companies originating in Finland raised over €500 million in venture capital. Continuity of the Finnish ecosystem is supported by numerous new risk capital funds that are raising - or have already raised - funds, which Tesi and its fund-of-funds KRR have backed. Finnish funds have accumulated a sufficient pool of dry powder to supply companies' financing needs over the next few years.

Alongside venture capital and private equity, IPOs and crowdsourcing rounds have in recent years become more relevant as financing channels for Finnish growth companies. Well-functioning and diversified financial markets are an important element for successful entrepreneurship and ownership.

A more multidimensional and more challenging operating environment, coupled with the impacts of climate change, will result in ever greater worldwide pressure on political, social and economic systems, as well as on capital allocation strategies. The sustainability of pension systems, for instance, in the current climate of ultra-low interest rates has been a subject of debate both in Finland and elsewhere. In the prevailing situation, investors' role as creators of responsible economic growth, e.g. through the commercialisation of innovative technologies and business models, is growing in importance.

TESI'S ROLE

The objectives of the Finnish Prime Minister Marin's Government Programme (75% employment rate; R&D and innovation funding to reach 4% of GDP; and Finland's carbon neutrality by 2035) are common goals of the Ministry of Economic Affairs and Employment guiding Tesi's operations. The aspects most pertinent to Tesi are the cross-sectoral programmes implemented by the Ministry of Economic Affairs and Employment to promote exports and international growth, entrepreneurship and ownership in Finland.

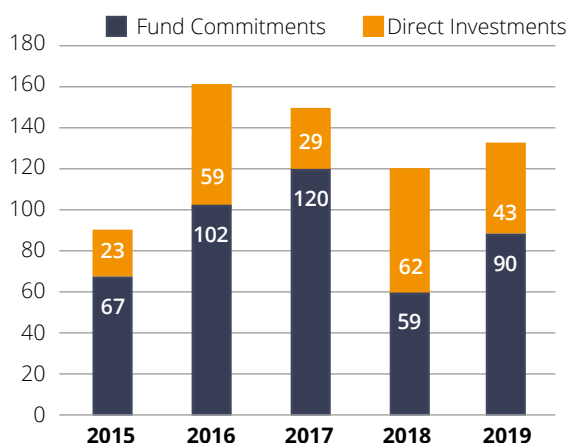
Tesi's mission is to enhance Finnish business by improving the availability of financing. This involves developing the VC & PE market and boosting the availability of private capital in Finland; improving companies' operating environment; promoting growth and internationalisation, while operating both profitably and in a socially beneficial way. The supply of equity financing varies in Finland, depending on the size of the financing requirement and the company growth phase. Market bottlenecks also change over time. In order to ensure the growth and internationalisation of Finnish companies, it is essential that growth financing in Finland flows smoothly and bottlenecks in the market are identified.

The core of Tesi's operations consists of VC & PE investments, both in funds and directly in companies, and – to an increasing extent – of collaborating with partners to produce insightful data supporting the development of Finland's VC & PE industry. Tesi's goal is to increase the ambition for ownership and success, raising Finland to the front ranks of renewed economic growth.

INVESTMENT OPERATIONS

Tesi invests in VC & PE funds and directly in growth companies together with private co-investors. During 2019, Tesi made new investments and commitments amounting to €133m (€121m in 2018).

NEW INVESTMENTS, €M



FUND INVESTMENTS

Tesi's fund investments focus on venture capital, growth and buyout funds.

In 2019, Tesi gave commitments totalling €89m (€59m) to ten funds. Tesi gave two commitments to Finnish venture capital funds (Eduimpact Fund I, Lifeline IV) and five to growth and buyout funds (Armada V, CapMan Buyout XI, DevCo Partners III, Evolver Fund I, Juuri Fund II). These funds attracted €758m from other investors, which is roughly 10 times the amount of Tesi's commitment. In addition, Tesi gave three commitments to international venture capital funds (Atomico V, Creandum V, Northzone IX) supplementing the Finnish venture capital market with their special focus and/or expertise.

Tesi paid out altogether €75m (€84m) to its portfolio funds in capital calls. Correspondingly, the funds returned a total of €68m (€156m) to the company. Tesi exited from five fund investments that had reached the end of their term.

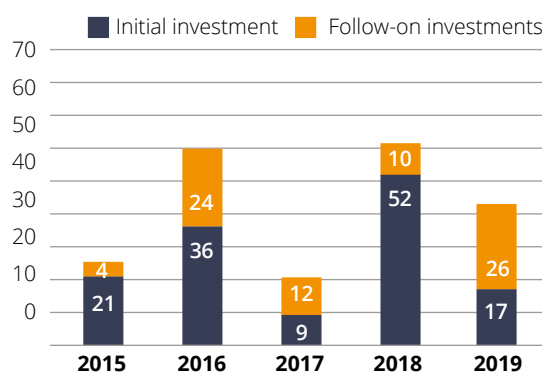
In addition to its own investment operations, Tesi manages KRR funds-of-funds (KRR, KRR II, KRR III). Established by Tesi and Finnish institutional investors, the KRR funds-of-funds invest in Finnish venture capital, growth and selected buyout funds. In 2019, KRR III gave commitments to four venture capital and growth funds. The KRR concept has proven to be successful over the last 10 years, while also having a positive impact on Finland's economy. Between 2009 and 2019, the KRR funds have committed capital to altogether 30 funds. These funds, in turn, have been accelerating the growth and international expansion of over 220 Finnish companies.

DIRECT INVESTMENTS

Tesi makes direct minority investments in fast-growing technology companies, growth-oriented SMEs, M&As and buyouts, and industrial projects. Tesi's investment programmes promote growth and the renewal of economic structures.

In 2019, Tesi made direct investments amounting to €43 (€62m) in 25 companies. Of these, Tesi made initial investments totalling €17m in six companies (Wirepas Ltd, IQM Finland Ltd, Picosun Ltd, Endev Ltd, Fira Group Ltd, Relais Group Plc). Tesi made follow-on investments amounting to €26m in 19 portfolio companies. Overall, a total of almost €180m in new risk capital was channelled into these portfolio companies, over four times the amount invested by Tesi. Of this total amount, some €99m came from international investors.

DIRECT INVESTMENTS 2015–2019, €M



The €75m **Circular Economy programme** was launched at the end of 2018. In 2019, Tesi made an investment in Endev, which bases its operations on incinerating municipal waste and recovering raw material from it. By the end of 2019, Tesi has made investments amounting to €12.5m from the programme.

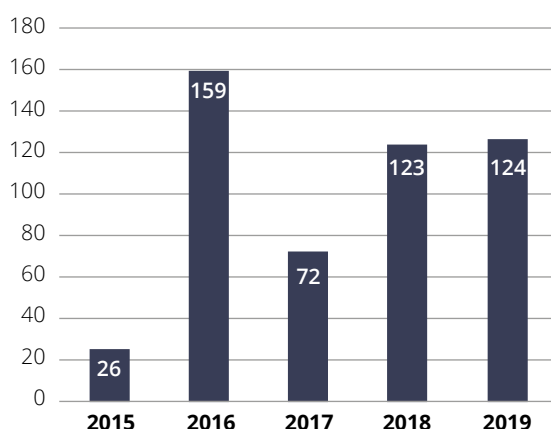
The **EFSI co-investment programme** channels financing from the European Investment Bank to Finnish companies, enabling them to raise larger financing rounds. One-half of the financing comes from the EFSI programme and one-half from Tesi, with private investors participating to an equal extent. In 2019, three investments amounting to €12.3m were made through the EFSI co-investment programme (Wirepas Ltd, Iceye Ltd, Rauma Marine Constructions Oy).

Tesi also supports fast-growing and growth-oriented companies in making their initial public offerings (IPOs). In 2019, altogether six companies listed on the Helsinki Stock Exchange. Tesi was involved in three of them: as an anchor investor in the listing of importer and technical wholesaler Relais Group, and in the IPOs of Tesi's portfolio

companies Optomed (producer of fundus cameras) and LeadDesk (provider of contact centre software).

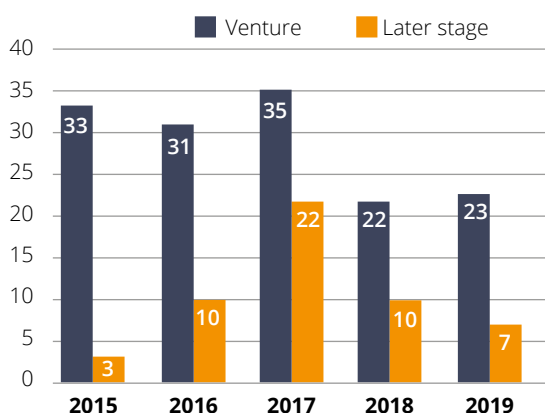
One of Tesi's objectives is to enhance the internationalisation of Finland's VC & PE market. Alongside capital, international investors provide Finnish companies with highly valuable expertise in international business management and contact networks. In 2019, Tesi's international partners invested altogether €124m in Finnish companies, of which €35m came from Tesi's international portfolio funds.

CHANNELING OF INTERNATIONAL CAPITAL, €M



Tesi is an active investor and puts emphasis on active ownership and portfolio companies' growth. The aggregated net sales of direct portfolio companies grew on average by 14% (median) during the financial year. The aggregated net sales of venture-capital backed companies grew on average by 23% (median), and of later-stage companies by an average 7% (median).

GROWTH IN PORTFOLIO COMPANY REVENUE, % (MEDIAN)



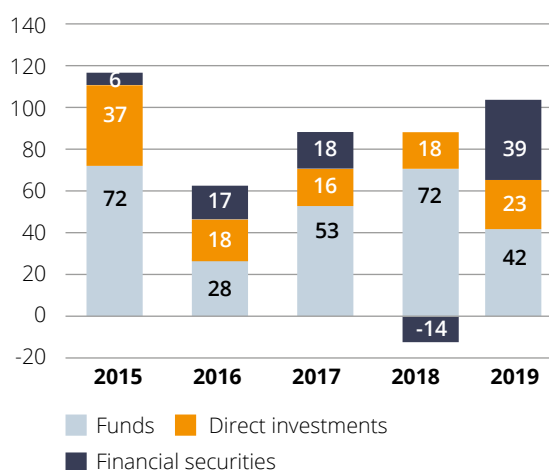
There was less exit activity in the review period than in previous years. Altogether €78m was returned from investments during the year, of which €68m was from funds and €10m from direct investments. Tesi made partial exits from two direct investments.

FINANCIAL PERFORMANCE

Consolidated profit/loss

Financial performance was strong in 2019, in line with the trend of previous years. A healthy profit was generated by both VC & PE investments and financial securities. Consolidated net profit for the financial year increased compared to the previous year, amounting to €78m (€55m in 2018).

NET GAINS, €M



The Group's net gains from venture capital and private equity investments in 2019 totalled €65m (€90m). Net gains from funds were €42m (€72m). The increase in funds' net gains was due to successful exits from portfolio companies and a general rise in valuation levels.

Net gains from direct investments amounted to €23m (€18m). Net gains were partly generated by partial exits from investments, of which there were two during the financial year. Generally portfolio companies improved both their growth and profitability.

Other operating income includes net gains from financial securities amounting to €39m (-€14m). The capital markets recovered from the slowdown in the last quarter of 2018, and this was reflected in earnings from financial securities.

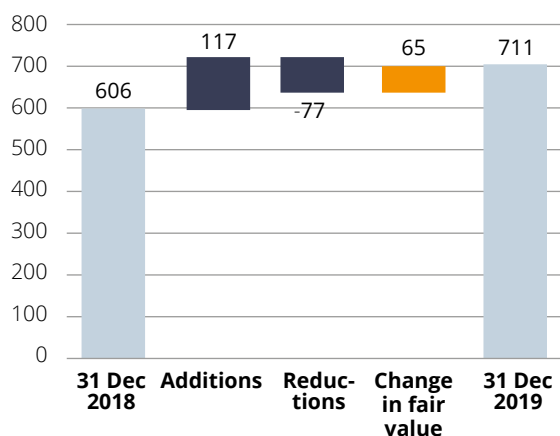
Operating expenses amounted to €8.5m (€8.3m), an increase of 2.4% against the previous year. To support strategy implementation, Tesi's new data model and IT system development contributed to the rise in expenses. The ratio of operating expenses to investments under

management was 0.7% (0.8%). Operating profit amounted to €96m (€68m).

Balance sheet and financial position

Non-current assets were €751m (€646m) at the end of the year, of which €711m (€606m) consisted of venture capital and private equity investments recognised at fair value in the statement of comprehensive income. Volumes of venture capital and private equity investment grew by €105m during 2019. Of the venture capital and private equity investments at the end of the year, €419m (€371m) was invested in VC & PE funds and €292m (€235m) in direct investments. The changes are illustrated in the graph below. Of the €65m change in fair value, €39m was realised gains.

CHANGE IN VC & PE INVESTMENTS, €M

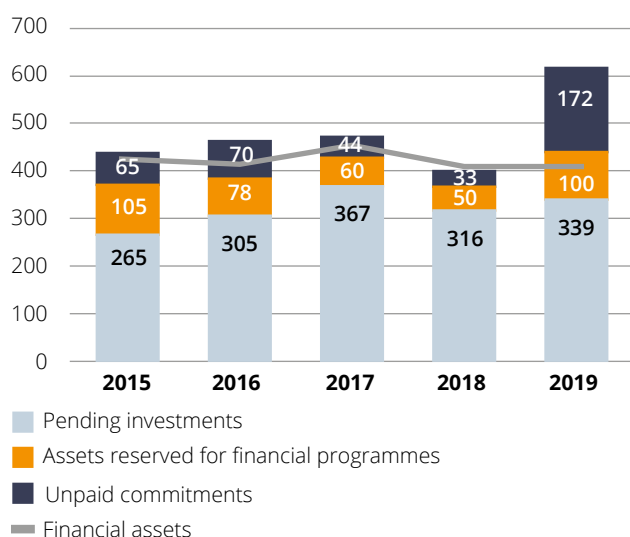


More detailed information about the determination of fair value is given in Note 4 of the Notes to the Accounts.

The figure for current assets, €379m (€385m), included €375m (€378m) of financial securities recognised at fair value in the statement of comprehensive income. The figure for non-current assets also includes €25m (€25m) of financial securities recognised at fair value in the statement of comprehensive income. Financial securities comprised bond investments €241 (€227m), equity investments €86m (€100m), and other investments €73m (€76m).

Financial securities safeguard continuity in the company's investment operations and its ability to meet unpaid commitments. At the end of 2019 unpaid commitments totalled €339m (€316m). Unpaid 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 unpaid commitments to funds, some €100m 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 €172m (€33m), including a decision to invest in the fund-of-fund KRR IV that became a commitment in January 2020.

FINANCIAL ASSETS AND UNPAID COMMITMENTS, €M



The Group's balance sheet totalled €1,130m (€1,031m) on 31 December 2019. Shareholders' equity grew to €1,088m as a result of the net profit of €78m for the financial year. The Group's equity ratio was 96.3% (96.6%). The Group did not hold any interest-bearing liabilities at the end of 2019.

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. In order 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 implementation of investments.

Risk management supports achievement of the goals set in the company's strategy and action plan by monitoring that the risks taken are commensurate with risk-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, et cetera.

A higher business risk is attached to direct industrial investments, which are aimed at influencing implementation of Finland's industrial policy. Direct industrial investments represent about one-fourth of the entire portfolio of direct investments and 10% of the whole VC & PE portfolio.

The value of venture capital and private equity investments at the end of the financial year amounted to €711m. Investments are subject to the risks stated above that, if they were realised, could substantially affect the future value of the investments. The table below presents the possible euro-denominated impacts of relative changes in valuations on the value of the venture capital and private equity portfolio.

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

Managing financing risks ensures that the company always has adequate financing available for its business operations (unpaid commitments). The company's liquid-

ity and cash flows are continuously monitored. When preparing new investments, the effect of the investments on liquidity and financial position is taken into account. Most of the Company's cash flows and investments are denominated in euros.

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

Other risks which Tesi is exposed to 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 corporate governance and with internal instructions, and these risks are covered by insurance.

At the end of 2019 the ratio of the company's total investments (fair value) and commitments to shareholders' equity was 97%.

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

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 8 March 2019, the following members were elected to the Board of

IMPACT OF CHANGES IN VALUE OF VC & PE INVESTMENTS ON INVESTMENT PORTFOLIO (€711M), €M

Direct investments (fair value 292M€)	Fund investments (fair value 419M€)				
	0 %	-5 %	-10 %	-15 %	-20 %
0 %	0	-21	-42	-63	-84
-10 %	-29	-50	-71	-92	-113
-20 %	-58	-79	-100	-121	-142
-30 %	-87	-108	-129	-150	-171
-40 %	-117	-138	-159	-180	-200

Directors: Chairman of the Board of Directors Kimmo Jyllilä (M.Sc. (Econ), born 1972), Marika af Enehjelm (TkT, M.Sc. (Econ), born 1974), Pauli Kariniemi (Lic.Sc. (Econ), born 1970), Jyrki Mäki-Kala (M.Sc. (Econ), born 1961), Mika Niemelä, (M.Pol.Sc., born 1975), Annamarja Paloheimo, (Senior Lawyer, LL.M., born 1964) and Riitta Tiuraniemi (M.Sc. (Tech), born 1962). Marika af Enehjelm resigned from Tesi's Board of Directors on 29 August 2019. The Board of Directors convened altogether 14 times in 2019 and average attendance at the meetings was 81.9%.

The company's CEO is Jan Sasse (M.Sc. (Econ.), born 1967). The parent company employed an average 37 people during the year. Five new employees were recruited to permanent positions during the financial year. Five people resigned from the company and one person retired. At year's end 10 women and 25 men were permanent employees of the company, and one woman was employed on a fixed-term contract.

Performance reviews with individual employees were held twice during the review period. The reviews help disseminate strategic targets at team and individual level, and these targets are supported and monitored. In Tesi, personnel commitment and motivation are strongly based on employees being able to use and develop their skills and expertise in a versatile way. Skills development in 2019 focused on deepening the understanding of Tesi's strategic themes and on deploying Tesi's new data tools. Personnel were also trained to recognise unconscious bias and the benefits of diversity.

Staff surveys are conducted regularly to monitor motivation and job satisfaction. The survey reviewed the implementation of Tesi's values, individual work load, cooperation models, supervisory work, and Tesi as an employer. The overall index has risen from the 2018 level.

Tesi follows the guidelines issued by the Finnish government regarding remuneration in state-owned companies. Salaries and emoluments in 2019 totalled €4.2m (€3.9m). The remuneration system is developed in line with evolving company objectives, in order 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 earnings (according to FAS financial statements) on 31 December 2019 amounted to €271,287,600.17. No significant changes in the company's financial position have occurred since the end of the financial year. The Board proposes to the An-

nual General Meeting that no dividend be distributed for financial year 2019. The company's financial resources will be targeted at venture capital and private equity investments that promote the growth and internationalisation of Finnish companies and the development of Finland's venture capital and private equity market.

EVENTS AFTER THE FINANCIAL YEAR

After the end of the financial year, Tesi has raised the fund-of-fund KRR IV (Kasvurahastojen Rahasto IV Ky), together with Finnish institutional investors. The size of KRR IV was €165m at first closing, of which Tesi's commitment was €65m. KRR IV plans to invest in 10-14 Finnish venture capital, growth and selected buyout funds in 2020-2025.

Tesi has also made direct investments in UpCloud Ltd and Nordic Rescue Group Ltd, which is the parent company of Saurus Ltd and Vema Lift Ltd.

PROSPECTS

In 2020, Tesi will best fulfil its mission by focusing on four strategic themes: impact; growth & internationalisation; value creation; and insightful data.

Making a positive socio-economic impact permeates all Tesi's activities. The impact of Tesi's operations is evident at the macroeconomic level as an influence on industrial policy and the national economy, and at the company level as a spur to sustainable development. In 2020, Tesi will more clearly define its model for making an impact, measuring it and collecting data. Tesi promotes diversity on a broad scale in its own operations as well as in its portfolio funds and companies. Making a positive impact will play a greater role in guiding Tesi's own operations.

Tesi will build its international network more systematically to serve the needs of Finnish companies. Tesi will continue to attract private capital to Finland and to channel international business expertise into Finnish companies. At the same time, Tesi will actively aim to make the expertise and networks deriving from its international connections available to Finland's venture capital and private equity market. Tesi is increasing its presence in Silicon Valley in order to serve Finnish companies looking to expand internationally to North America and in order to assist Finnish funds in building investor networks.

Tesi is an active investor that consistently develops the Finnish venture capital and private equity market. Through identifying bottlenecks in the market, Tesi investigates new focus areas and investment programmes. Alongside investment activities, distributing insightful data will play a larger role in market development in the future, with the aim of enhancing the Finnish market's transparency and appeal. Tesi studies the market in cooperation

with its partners and makes its data model available also for academic research purposes. During 2020, in collaboration with its partners, Tesi will publish studies of the Finnish venture capital and private equity market from different perspectives.

Tesi will continue to use its fund investments to promote the long-term development and internationalisation of Finland's venture capital and private equity market. Tesi will put special emphases on sparring with Finnish fund management teams in scaling up internationalisation, enhancing diversity in fund management teams, building networks, developing the fund investor base, and strengthening Finland's growth fund market. The deal flow for Finnish fund projects is growing strongly. Investments in international funds will continue to be focused on areas which will supplement the local offer of capital, expertise and networks.

With direct investments, Tesi aims for faster impact by spreading risks with private investors in individual cases. When screening projects, Tesi will pay greater attention

to the positive net impact of potential investees. Venture capital investments will focus on promoting larger financing rounds, and particularly on the healthtech and deeptech sectors. Direct growth investments will aim for diversification of ownership to support companies' growth and on the industrial scaling of Finnish innovations. Tesi focuses on value creation, active ownership and the economically viable pursuit of impact in collaboration with other investors. The direct investments deal-flow is expected to remain broadly the same as in 2019.

Tesi will continue to cooperate closely with the European Investment Bank (EIB) and the European Investment Fund (EIF) in channelling EU financing to Finnish companies. The EFSI co-investment programme will continue to play an important role in enabling larger financing rounds.

The positive financial performance of recent years provides Tesi with sound resources for promoting Finnish companies' growth and internationalisation well into the future.

KEY FIGURES

KEY FIGURES, GROUP	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016	IFRS 2015
Profit/loss for the financial year, €m	77,8	54,6	65,7	44,6	86,4
Shareholders' equity, €m	1 088,2	996,0	978,2	912,5	867,9
Balance sheet total, €m	1 129,7	1030,5	1020,3	943,0	895,3
Unpaid commitments, €m	339,0	316,0	367,4	305,5	265,0
Investments at acquisition price, €m	639,3	545,1	496,0	526,2	503,4
Investments at acquisition price and commitments, €m	978,3	861,1	863,4	831,7	768,4
Investments at book value, €m	710,9	605,6	560,1	525,2	459,8
Ratio of investments and commitments to shareholders' equity	1,0	0,9	0,9	0,9	0,8
New commitments during financial year, €m	132,7	120,8	148,8	164,6	93,0
Return on equity	7,5 %	5,5 %	6,9 %	5,0 %	11,2 %
Equity ratio	96,3 %	96,6 %	95,9 %	96,8 %	96,9 %
Expenses per investments under management	0,7 %	0,8 %	0,6 %	0,8 %	0,8 %
Personnel, average	37	36	32	34	31
Salaries and fees for the financial year, €m	4,2	3,9	3,7	3,9	3,6
Fund investments, total number	92	87	91	93	91
Funds, number of portfolio companies	665	712	660	677	617
Parent company, number of portfolio companies	51	45	37	36	37
Start Fund I Ky, number of portfolio companies	0	0	0	6	14
Tesi Industrial Management Oy., number of portfolio companies	3	3	5	4	2
Portfolio companies, total number	719	760	702	723	670

Consolidated statement of comprehensive income

€ THOUSANDS	NOTE	2019	2018
Net gains from VC/PE funds	5	41 560	71 717
Net gains from direct investments	5	23 001	17 947
Net gains from investments, total		64 561	89 664
Net gains from financial securities		38 723	-14 305
Income from fund management		1 225	938
Other operating income, total		39 948	-13 367
Employee benefit costs	6	-4 966	-4 689
Depreciation and impairment		-523	-213
Other operating expenses	7	-3 494	-3 649
Operating profit / loss		95 526	67 748
Financial income		96	181
Financial expenses		-136	-250
Profit / loss before income taxes		95 485	67 678
Income taxes	8	-17 736	-13 066
Profit / loss for the financial year		77 750	54 613
Total comprehensive income for the financial year		77 750	54 613
Profit for the financial year attributable to:			
Shareholders of the parent company		77 750	54 613

Consolidated statement of financial position

€ THOUSANDS	NOTE	31 DEC 2019	31 DEC 2018
ASSETS			
Non-current assets			
Venture capital & private equity investments			
Fund investments	4	419 399	370 529
Direct investments	4	291 528	235 118
Venture capital & private equity investments, total		710 927	605 647
Intangible and tangible assets	9	1 613	644
Deferred tax assets	11	13 024	14 460
Financial securities	4	25 318	25 010
Non-current assets, total		750 882	645 761
Current assets			
Receivables		381	2 237
Financial securities	4	375 036	378 455
Cash and cash equivalents		3 369	4 089
Current assets, total		378 786	384 781
Assets, total		1 129 668	1 030 542
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
Invested unrestricted equity fund		14 500	0
Retained earnings		341 112	286 499
Profit for the financial year		77 750	54 613
Shareholders' equity, total		1 088 209	995 959
Liabilities			
Non-current liabilities			
Lease liabilities		856	
Deferred tax liabilities	11	36 837	28 092
Non-current liabilities, total		37 693	28 092
Current liabilities			
Accounts payable and other liabilities	12	3 766	6 491
Current liabilities, total		3 766	6 491
Liabilities, total		41 459	34 583
Equity and liabilities, total		1 129 668	1 030 542

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

€ THOUSANDS	Share capital	Share premium account	Invested unrestricted equity fund	Retained earnings	Shareholders' equity, total
1 JAN 2018	438 992	215 855		323 307	978 155
Profit for the financial year				54 613	54 613
Total comprehensive income for year				54 613	54 613
Distribution of dividend				-36 808	-36 808
Shareholders' equity 31 Dec 2018	438 992	215 855		341 112	995 959

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

€ THOUSANDS	Share capital	Share premium account	Invested unrestricted equity fund	Retained earnings	Shareholders' equity, total
1 JAN 2019	438 992	215 855		341 112	995 959
Profit for the financial year				77 750	77 750
Total comprehensive income for year				77 750	77 750
Share issue			14 500		14 500
Distribution of dividend					0
Shareholders' equity 31 Dec 2019	438 992	215 855	14 500	418 861	1 088 209

Consolidated statement of cash flows

€ THOUSANDS	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Capital calls paid to funds	-74 810	-83 440
Cash flows received from funds	67 666	155 228
Direct investments paid	-43 286	-63 125
Repayments of and sales proceeds from direct investments	5 648	10 443
Interest from venture capital/private equity investments	71	270
Dividends from venture capital/private equity investments	3 986	1 306
Cash flow from venture capital and private equity investments, total	-40 725	20 682
Payments for financial securities	-123 597	-132 550
Sales proceeds from financial securities	165 539	160 121
Payments received from other operating income	1 225	938
Payments made for operating expenses	-8 801	-7 827
Cash flow from operating activities before taxes	-6 359	41 365
Direct taxes paid	-8 861	-27 474
Cash flow from operations (A)	-15 220	13 891
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		
Dividends paid	0	-16 000
Proceeds from share issue	14 500	0
Cash flow from financing activities (C)	14 500	-16 000
Change in cash & cash equivalents (A+B+C) increase (+)/decrease (-)	-720	-2 109
Cash and cash equivalents at beginning of period	4 089	6 198
Cash and cash equivalents at end of period	3 369	4 089

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, in their meeting on 28 February 2020, 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. Our 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 hand-in-hand with them 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 1.6 billion euros in total. Currently Tesi has investments in 719 companies, directly or through investment funds. The continuity and growth of our investment operations have been secured with state 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 are in compliance with IAS and IFRS standards, as well as SIC and IFRIC interpretations, that are effective as at 31 December 2019 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 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 2019

Tesi has adopted the following standard published by the International Accounting Standards Board (IASB): IFRS 16 Leases, effective as from 1 January 2019. The new standard replaced 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 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 EUR 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 €1.5m was entered in tangible assets in the statement of financial position on 1 January 2019 and corresponding entries for lease liabilities were made in current and non-current liabilities.

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 pri-

vate 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.

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

The adoption and application of the standard is presented in the section Standards entering into force or updated since the start of 2019.

IAS 17 leases (accounting principles in reference period)

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 company's personnel are included in the bonus scheme. 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.

INCOME TAXES

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 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 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 TAXES

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 taxes and in Note 12. 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 2019 and 31 December 2018.

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

€ MILLIONS	31 DEC 2019	%	31 DEC 2018	%
Venture capital & private equity funds	419	38 %	371	37 %
Venture capital	211	19 %	177	17 %
Later stage	124	11 %	122	12 %
Funds-of-funds	84	8 %	72	7 %
Direct investments	292	26 %	235	23 %
Venture capital	117	11 %	82	8 %
Later stage	174	16 %	154	15 %
Financial securities	400	36 %	403	40 %
Bond funds	241	22 %	227	22 %
Equity funds	86	8 %	100	10 %
Other investments	73	7 %	76	8 %
Cash & cash equivalents	3	0 %	4	0 %
Total	1114	100 %	1013	100 %

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 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 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.

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.

At 31 December 2019, the fair value of the Company's cash and cash equivalents and financial securities amounted to €404m (€408m) and the amount of unpaid investment commitments (A) was €339m (€316m). 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 December 2019 included unpaid capital of €100m (€121m), and investment decisions (C) made by the company's Board of Directors and as yet not implemented totalled €172m (€33m). The investment decisions include a decision to invest €65m in KRR IV (Kasvurahastojen Rahasto IV Ky), which was implemented as an investment commitment in January 2020. The total of A+B+C was €611m (€468m).

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 continuing development of target companies.

The Company's bond investments had a fair value of €241m as at 31 December 2019, representing the largest portion of the Company's €400m 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 bond investment portfolio at 31 December 2019 was 2.5 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 €6m.

The fair value of equity investments included in financial securities as at 31 December 2019 was €86m. A decrease of 10% in share prices would decrease the value of equity investments by €9 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 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.

31 DEC 2019 € MILLIONS	EURO €M	USD €M	SEK €M	DKK €M	GBP €M	Other €M	TOTAL €M
VC & PE funds	348	43	22	4	2	0	419
Direct investments	285					6	292
Financial securities and cash & cash equivalents	314	53	8	1	7	21	404
Total	947	95	31	6	8	27	1 114
Sensitivity analysis							
Impact of 10% change in exchange rate on profit		9	3	1	1	2	15
Unpaid commitments to VC & PE funds	300	7	21	0	4		333

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 December 2019 was €41m, representing some 6% 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 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, 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 2014-2019. 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 €669m at the end of 2019. Consolidated shareholders' equity at the end of 2019 totalled €1,088m. The Company's cumulative profit from operations, including the figure for the 2019 financial year, amounted to €419m.

GAINS FROM TESI'S INVESTMENT ACTIVITIES BEFORE TAXES AND COMPANY'S EXPENSES 2014-2019 (GAINS = CHANGES IN FAIR VALUE)

ALLOCATION / FINANCIAL YEAR	2014	2015	2016	2017	2018	2019	Total 2014-2019
Gains from VC & PE investments (€m)	-40	109	46	69	90	65	338
Gains from financial securities (€m)	14	6	17	18	-14	39	81
Total, (€m)	-25	115	63	87	75	103	419
Gains from VC & PE investments (%)*	-9,5 %	24,9 %	9,3 %	12,7 %	15,4 %	9,8 %	10,3 %
Gains from financial securities (%)*	6,4 %	1,9 %	4,1 %	4,2 %	-3,3 %	9,6 %	3,6 %
Total	-3,9 %	14,9 %	6,9 %	9,0 %	7,5 %	9,7 %	7,6 %

* Percentages for gains of allocations are calculated by dividing the gain for the year by the average capital invested.

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 & 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 or private equity invest-

ments. 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 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 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 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.

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
2019				
Venture capital and private equity funds				
Venture Capital			211 142	211 142
Later stage			124 148	124 148
Funds-of-funds			84 109	84 109
Direct 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 investments comprise equity investments €248m and debt investments €44m

€ 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 equity investments €200m and debt investments €35m

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 Jan	Total gains and losses recognised in the income statement	Additions	Decreases	31 Dec 2019
INVESTMENT CLASSIFICATION					
Venture capital and 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 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 venture capital and private equity investments for Level 3 assets held at the end of period:					25 345

€ THOUSANDS	1 Jan	Total gains and losses recognised in the income statement	Additions	Decreases	31 Dec 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 for Level 3 assets held at the end of period:					-7183

Sensitivity analysis for level 3 financial assets

INVESTMENT CLASSIFICATION	Fair value 31 Dec 2019 € 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	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 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

INVESTMENT CLASSIFICATION	Fair value 31 Dec 2018 € 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

* Fair value testing of venture capital and private equity funds performed by the Company resulted in a fair value that was, in total, 9 million euros lower than the values reported by fund management companies as at 31.12.2019.

** 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 III Ky	Turku	30,8 %	3 500 000
Alder II AB	Sweden	6,6 %	9 731 887
Armada Fund V Ky	Helsinki	6,7 %	10 000 000
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	5,3 %	6 626 612
Atomico V SCSp	Luxembourg	1,1 %	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	12,7 %	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 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
DN Capital - Global Venture Capital III LP	Jersey	2,1 %	3 000 000
EduImpact Fund Ky	Helsinki	25,5 %	10 000 000
Environmental Technologies Fund 3, L.P.	United Kingdom	3,3 %	5 547 235
EQT Ventures (No. 1) SCSp	Luxembourg	1,8 %	7 500 000
Evolver Fund I Ky	Maarianhamina	20,4 %	10 000 000
Folmer Equity Fund II Ky	Helsinki	16,1 %	10 000 000
Heartcore Capital Fund I K/S	Denmark	7,5 %	7 044 897
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	Helsinki	23,3 %	10 000 000

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Juuri Rahasto I Ky	Helsinki	6,1 %	5 000 000
Juuri Rahasto II Ky	Helsinki	9,1 %	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 Ky	Helsinki	40,0 %	54 000 000
Life Sciences Partners 6 C.V.	Netherlands	1,2 %	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
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 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
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
Northzone IX L.P.	Jersey	1,2 %	5 000 000
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 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
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

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Verdane Capital IX (E) AB	Sweden	2,9 %	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	10,9 %	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
			947 439 780

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	17,4 %
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 %
Boost NewCo Oy (SuperPark)	12,9 %
Coronaria Oy	4,5 %
Den Group Oy	10,0 %
Dispelix Oy	7,0 %
Endev Oy	14,1 %
Enevo Oy	19,1 %
Fira Group Oy	6,8 %
Flowplayer Oy	11,0 %
Foamit Group Oy	31,3 %
Forenom Group Oy	15,5 %
GRK Infra Oy	8,9 %
ICEYE Oy	8,1 %
IQM Finland Oy	5,6 %
Kaiku Health Oy	18,8 %
KotiCap Oy (Renoa Group Oy)	12,5 %
Kotkamills Group Oyj *	9,2 %
Lamor Corporation Ab	10,1 %
LeadDesk Oyj	11,4 %
MariaDB Corporation Ab	5,3 %
Mekitec Oy	30,4 %
MetGen Oy	15,7 %
M-Files Oy	12,7 %
Midaxo Oy	20,4 %
MultiTaction Oy	33,2 %
Newlcon Oy	7,5 %
Nordic Rescue Group Oy	27,5 %
Nosto Solutions Oy	8,0 %
Onbone Oy	7,5 %
Optomed Oyj	4,3 %
Oura Health Oy	5,6 %
Pesmel Oy	4,9 %
Picosun Oy	3,6 %

4.2 DIRECT INVESTMENTS

COMPANY	OWNERSHIP %
Profit Holding Oy	28,8 %
Rauma Marine Constructions Oy *	21,3 %
Relais Group Oyj	2,9 %
Stella Care Oy	18,5 %
Suomen VAKA-palvelut I Oy (Touhula)	3,6 %
Suomen VAKA-palvelut II Oy (Touhula)	-
Unisport-Saltex Group Oy	11,4 %
Ursviken Group Oy	24,6 %
Vaadin Oy	21,4 %
Valmet Automotive Oy	37,0 %
Verto Analytics Oy	9,7 %
Vexve Armatury Group Oy	-
Viafin Service Oyj	7,9 %
Viria Oyj	5,0 %
Wirepas Oy	7,9 %
Zervant Oy	12,5 %
Zsar Oy	6,7 %

* Ownership through Tesi Industrial Management Oy.

5. Net gains from venture capital & private equity investments

€ THOUSANDS	2019	2018
Venture capital and private equity funds		
Venture Capital	31 888	35 596
Later stage	-248	29 524
Funds-of-funds	9 921	6 598
Direct venture capital and private equity investments		
Venture Capital	17 322	9 701
Later stage	5 679	8 246
Total	64 561	89 664
Net gains from venture capital and private equity investments consist of changes in fair value:		
Realised	39 216	96 848
Unrealised	25 345	-7 183
Total	64 561	89 664

Net gains from venture capital and private equity investments comprise realised and unrealised changes in fair value, including interest income and dividend income from direct investments.

6. Employee benefit costs

€ THOUSANDS	2019	2018
Salaries and fees	4 178	3 891
Pension expenses	694	676
Other personnel expenses	94	122
Total	4 966	4 689
Average number of personnel employed by the company during the financial year	37	36
MANAGEMENT TEAM		
Salaries and other short-term employee benefits	1 036	1 133
Total	1 036	1 133
CEO		
Salaries and other short-term employee benefits	279	294
Total	279	294
Emoluments for Board of Directors	137	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 2019. 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 six-month period of notice in addition to which the individual is, under certain conditions, entitled to a reimbursement equivalent to six months' salary.

7. Other operating expenses

€ THOUSANDS	2019	2018
Other employee benefit costs	648	557
Premises expenses	0	417
Travel and hospitality expenses	133	168
External services	1 524	1 659
Other expenses	1 190	848
Total	3 494	3 649

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

€ THOUSANDS	2019	2018
Audit fees	25	43
Tax advice		3
Other expenses	62	33
Total	87	78

8. Income tax

€ THOUSANDS	2019	2018
Current income tax for the financial year	-6 875	-22 604
Adjustments relating to previous years	-680	264
Deferred taxes *)		
Temporary differences originated and reversed	-10 182	9 274
Income tax presented in the income statement	-17 736	-13 066

*) 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%.

€ THOUSANDS	2019	2018
Profit before taxes	95 485	67 678
Tax calculated at domestic tax rate	-19 097	-13 536
Income not subject to tax	2 268	391
Expenses not deductible for tax purposes	-2	-65
Difference between net income from venture capital/private equity funds and taxable income	-225	-119
Adjustments relating to previous years	-680	264
Income tax presented in the income statement	-17 736	-13 066

9. Intangible and tangible assets

The carrying amount of tangible and intangible assets at 31.12.2019 was 1613 thousand euros (2018: 644 thousand euros). These include 1,179 euros of items classified as non-current assets as per IFRS 16 (2018: 0 euros). Depreciation and amortisation charged according to plan for 2019 was 523 thousand euros (2018: 213 thousand euros).

10. Notes concerning shareholders' equity

€ THOUSANDS	Share capital (No.)	Share capital	Share premium account	Invested unrestricted equity fund	Total
31 Dec 2018	41 710	438 992	215 855		654 848
31 Dec 2019	43 160	438 992	215 855	14 500	669 348

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.

11. Deferred taxes

€ THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Other items	Total
Deferred tax assets					
1 Jan 2018	1 356	6 234	75	8	7 672
Recognised in income statement	276	4 324	2 188		6 788
31 Dec 2018	1 631	10 558	2 263	8	14 460
Recognised in income statement	932	-227	-2 139	-3	-1 436
31 Dec 2019	2 563	10 331	124	5	13 024

€ THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Total
Deferred tax liabilities				
1 Jan 2018		17 761	9 651	30 578
Recognised in income statement		-3 537	3 744	-2 486
31 Dec 2018		14 224	13 395	28 092
Recognised in income statement		3 369	2 239	8 745
31 Dec 2019		17 593	15 634	36 837

12. Current liabilities

€ THOUSANDS	2019	2018
Accounts payable	288	285
Accruals relating to employee benefits	1 487	1 483
Tax liabilities	1 283	4 535
Other	708	189
Total	3 766	6 491

13. Commitments

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

€ THOUSANDS	2019	2018
During the year	2	367
Within 1-5 years		1 337
Later than 5 years		
Total	2	1 704

Outstanding commitments at end of year

€ THOUSANDS	2019	2018
Fund investments	332 701	314 988
Portfolio companies	5 798	1 410
Total	338 498	316 398

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 540 thousand euros in 2019 (2018: 544 thousand euros) and from FEFSI Management Oy 563 thousand euros (2018: 301 thousand euros).

Finnish Industry Investment Ltd had no investment commitments to Tesi Industrial Management Oy as at 31.12.2019.

15. Subsidiaries

The following table presents the parent company and companies in which the group has control at 31 Dec 2019:

PARENT	Country of registration	Nature of business	Holding by the parent (%)	Holding by Group (%)	Treatment in consolidated financial statements
Finnish Industry Investment Ltd	Finland	Venture capital and private equity 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

After the end of the financial year, Tesi has raised the fund-of-fund KRR IV (Kasvurahastojen Rahasto IV Ky), together with Finnish institutional investors. The size of KRR IV was €165m at first closing, of which Tesi's commitment was €65m. KRR IV plans to invest in 10-14 Finnish venture

capital, growth and selected buyout funds in 2020-2025.

Tesi has also made direct investments in UpCloud Ltd and Nordic Rescue Group Ltd, which is the parent company of Saurus Ltd and Vema Lift Ltd.

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, 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

BASIS FOR OPINION

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

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements

in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant

to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

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

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

OTHER REPORTING REQUIREMENTS

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In 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 28 February 2020

KPMG OY AB

Juha-Pekka Mylén

Authorised Public Accountant, KHT