Finnish Industry Investment Ltd (Tesi)

Report by the Board of Directors and consolidated IFRS financial statements 2017

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FINNISH INDUSTRY INVESTMENT LTD (TESI)

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

Report by the Board of Directors 2017

BUSINESS ENVIRONMENT

Finland entered a new period of strong growth in 2017. Improved employment, buoyant construction and marine industries, higher corporate investment levels, a rise in asset values and low interest rates, combined with an upswing in exports, acted as catalysts in boosting Finland's economy. Over the longer term, a shortage of skilled labour to meet changing business needs can hamper Finland's growth.

The favourable macro-economic climate was reflected in Finland's financial markets. Households' appetite for credit, for instance, as well as companies' enthusiasm for financing investment with debt, reached their highest-ever levels in December 2017 (source: Finance Finland's Banking Barometer IV/2017). In corporate financing, diversification in the supply of financing, partly through crowd-funding and higher volumes of financing from the European Investment Bank, is an emerging market trend. IPOs also continue to be an important source of growth financing.

Venture capital and private equity markets have remained stable both in Finland and internationally, largely due to a continuing appetite for risk and abundant liquidity in almost all global asset categories. A rise in interest rates and possible geopolitical shocks could disrupt the balance of markets even over the short-term.

Finnish venture capital and private equity funds were successful in fund-raising in 2017. New funds were raised to support the growth and risk-taking capacity of companies in all phases of development. The fund-of-fund KRR III raising €150m, backed by Tesi and by Finnish pension funds and insurance companies, was a critical milestone for continuity in the supply of capital, especially for Finnish venture capital investments.

Finnish venture capital volumes remained close to the record levels of 2016, at some €250m. A large portion of this came from international investors. Noteworthy in 2017 was investors' heightened interest in Finnish health technology companies. Meanwhile, in Europe fintech-related venture capital investments have become one of the hottest technology subsectors.

International investors are more active than ever before in Finland's venture capital and private equity market. Chinese investors, in particular, made many large investments and acquisitions in Finland during the year. Asian investors are active also in other European countries. This trend can be seen as one sign of a geopolitical shift in which the relative dominance of Asia, and especially China, is strengthening.

Finnish buyout funds have around €1b of raised capital seeking new investees. Finding suitable investees will require a more versatile approach in creating a deal flow than before. A large part of these funds' investment capacity will be targeted at an important part of Finland's business structure – the growth and internationalisation of medium-sized companies and their mergers and acquisitions.

INVESTMENT ACTIVITIES

In addition to profitability, Tesi's investment operations aim at creating an impact on the economy. This impact is manifested in the growth of companies through promoting the development of Finland's venture capital and private equity market and by enhancing skilled ownership. Tesi's vision is to raise Finland to the next level of entrepreneurship, growth and internationalisation.

During 2017 Tesi gave commitments to venture capital and private equity funds and made new investments in companies amounting to €149m (€165m in 2016). This figure includes a €60m commitment to the KRR III fund.

Tesi gave commitments totalling €60m (€102m) to seven venture capital and private equity funds. Four commitments were to venture capital funds and three to growth funds. In addition to Tesi's investments, other capital amounting to €526m was invested in Finnish funds, which is roughly 8 times the amount of Tesi's commitment. Tesi gave three commitments to international funds that supplement the Finnish venture capital market with their special focus and/or special expertise.

Tesi paid out altogether €59m (€62m) to funds in capital calls. Correspondingly, the funds returned a total of €77m (€80m) to the company.

Tesi made direct investments during the year of altogether €29m (€63m) in 22 companies, including the investments of Start Fund I Ky that Tesi acquired. Overall, a total of almost €163m in new capital was channelled into these portfolio companies, representing five times the amount invested by Tesi. Of this total amount, some €45m came from international investors.

Investment programmes promoting growth and the renewal of economic structures form a focus for Tesi's direct investments.

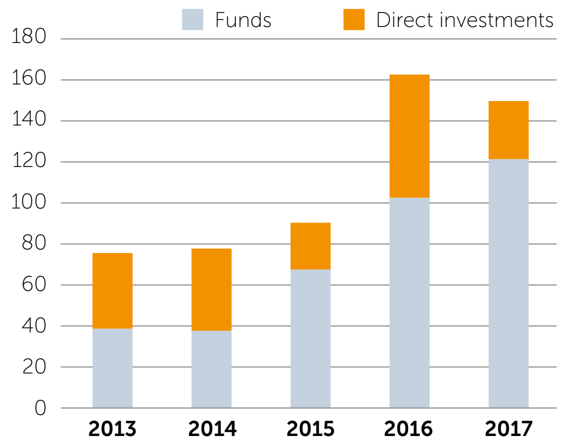
The strategic priorities for the Industrial Renewal programme are cleantech, bioeconomy, health technology and digitalisation. Through the programme, investments amounting to over €8.7m were made in eight companies in 2017. The largest investments were in Kotkamills, Rauma Marine Constructions and Enevo. Altogether, investments totalling €78m have been made in 21 companies under the auspices of the programme.

Through Tesi, the International Co-investors programme acts as a catalyst in attracting international capital and expertise into Finnish growth companies. In 2017, some €7m was invested in four companies through the programme. Investee companies in the programme were BCB Medical, MariaDB Corporation and Verto Analytics. Throughout the programme, investments amounting to over €19m have been made in altogether seven companies. These companies have raised a total of €116m in capital from investors, of which €88m came from international investors.

The investment programme for the mining cluster aims to boost the growth of Finland's mining industry. In 2017, €2.3m was invested in two companies through the programme. Altogether €13.3m has been invested in seven companies through the programme.

Tesi's objective is also to internationalise Finland's venture capital and private equity market. In 2017 Tesi's international investor partners invested altogether €72m in Finnish growth companies, of which €27m came from Tesi's international portfolio funds. In addition to capital, investors also provided Finnish companies with highly valuable business management expertise as well as contact networks.

NEW INVESTMENTS, €M



In recent years, Tesi has put special emphasis on active ownership and portfolio companies' growth. The aggregated net sales of direct portfolio companies grew on average by 22% (median) during the financial year. The aggregated net sales of venture-capital phase companies grew on average by 35% (median), and of later-stage companies by an average 19% (median).

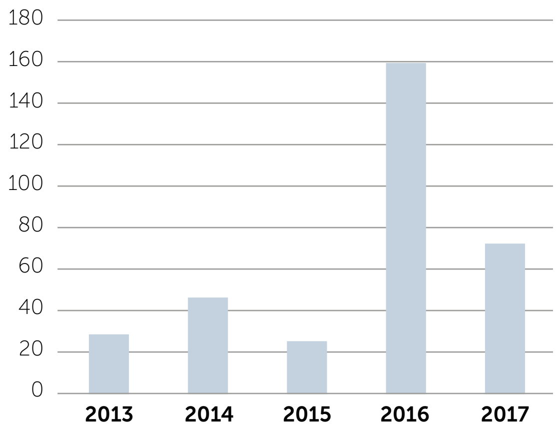
Exits reached record levels in 2017, especially in the venture capital segment. Altogether €122m was returned from investments during the year, of which €77m was from funds and €45m from direct investments.

Tesi exited from altogether eight direct portfolio companies. Asian investors and industrial buyers were particularly prominent in the exit market. Tesi also exited from eight fund investments that had reached the end of their term, and from two fund investments by selling its share in the fund.

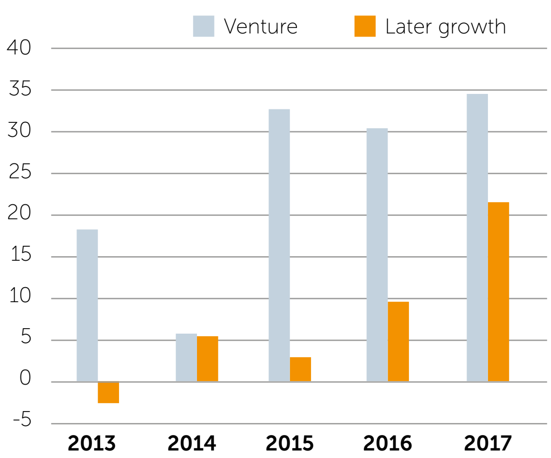
In addition to the Group's own investment operations, Tesi manages the funds-of-funds KRR I, II and III. In 2017, KRR II became fully invested and the fund's portfolio now comprises ten Finnish venture capital and small buyout funds. Tesi co-founded the KRR III fund together with Ilmarinen, Keva, State Pension Fund of Finland, Elo, LocalTapiola and Fennia. KRR III started operating with capital of €150m and, like its predecessors, plans to build a portfolio of some ten funds. KRR III made its first investment in 2017.

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

CHANNELLING OF INTERNATIONAL CAPITAL, €M



GROWTH IN DIRECT INVESTMENTS, % (MEDIAN)

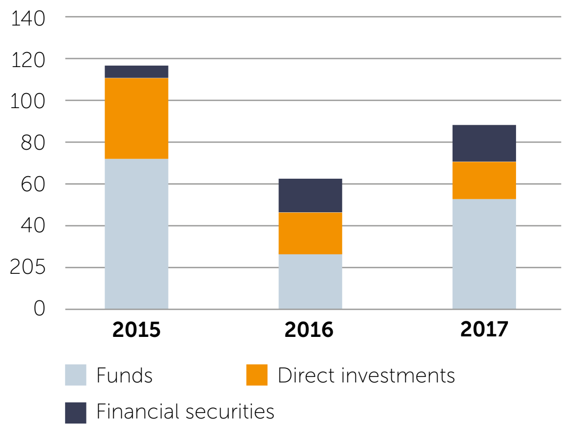


GROUP'S FINANCIAL PERFORMANCE

Consolidated profit/loss

Favourable development of the business climate was reflected in Tesi's portfolio in the strong growth of portfolio companies and numerous exits. This improved Tesi's profitability both in venture capital and private equity investments and in financial securities. Consolidated profit for the financial year grew appreciably compared to the previous year, amounting to €66m (€45m in 2016).

NET GAINS, €M



The Group's net gains from venture capital and private equity investments in 2017 totalled €69m (€46m). Net gains from funds were €53m (€28m). Net gains were boosted by positive gains in valuations and by exits from portfolio companies.

Net gains from direct investments amounted to €15m (€18m). Net gains comprised exits from investments, of which there were 8 during the financial year. Both the growth and profitability of portfolio companies grew strongly, but weaker than expected development of a few large investments depressed the unrealised change in value of Tesi's direct investment portfolio, which remained negative.

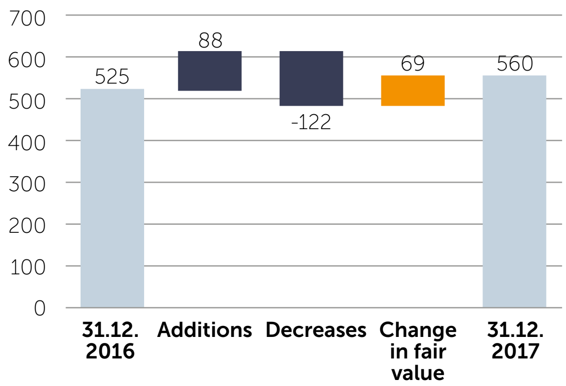
Other operating income includes net gains from financial securities amounting to €18m (€17m). Most of Tesi's financial securities are fixed-interest investments, and thus produced less income than the previous year because of the prevailing low interest rates. Equity investments performed strongly, raising overall returns from financial securities somewhat compared to 2016.

Operating expenses were €7m (€8m). Expenses per balance sheet total were 0.6% (0.8%). Operating profit amounted to €80m (€55m).

Balance sheet and financial position

Non-current assets were €569m (€533m) at the end of the year, of which €560m (€525m) 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 €35m during 2017. Of the venture capital and private equity investments at the end of the year, €372m (€336m) was invested in funds and €189m (€189m) in direct investments.

CHANGE IN VC & PE INVESTMENTS, €M

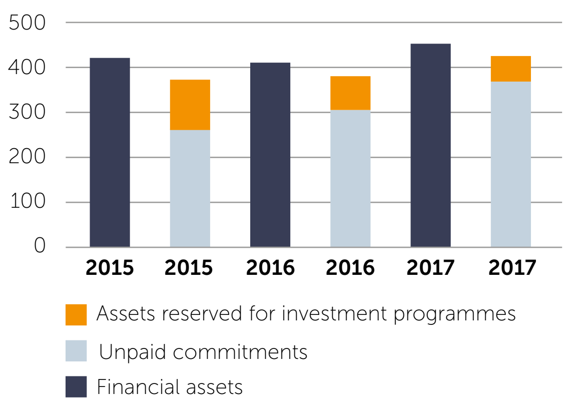


More detailed information about the determination of fair value is given in note 4 of the Notes to the Accounts.

The figure for current assets, €452m (€410m), included €445m (€404m) of financial securities recognised at fair value in the statement of comprehensive income.

Financial securities safeguard continuity in the company's investment operations and its ability to meet unpaid commitments. At the end of 2017 unpaid commitments totalled €367m (€305m). Unpaid commitments consist almost entirely of commitments given to funds, with an average payment period of over four years. In addition to unpaid commitments to funds, some €60m has been set aside for direct investments under the company's ongoing investment programmes.

FINANCIAL ASSETS AND UNPAID COMMITMENTS, €M



The Group's balance sheet totalled €1,020m (€943m) on 31 December 2017. Shareholders' equity grew to €978m as a result of the net profit of €66m for the financial year. The Group's equity ratio was 95.9% (96.8%). The Group did not hold any interest-bearing liabilities at the end of 2017.

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 social mission. The Board makes 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 private equity and venture capital investments, and to investments in 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.

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-third of the entire portfolio of direct investments and 10% of the whole VC & PE investment portfolio.

The value of private equity and venture capital investments at the end of the financial year amounted to €560m. Investments are subject to the risks stated above that, if they were realised, could substantially affect the future value of the investments. The attached table presents the possible euro-denominated impacts of relative changes in valuations on the value of the private equity and venture capital investment portfolio.

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

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

Investments in financial securities are made at the selected risk level in compliance with the investment policy confirmed by the Board of Directors. Investments in financial securities aim to ensure 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 monitored regularly and counterparty risk is managed by selecting partners carefully.

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

At the end of 2017 the ratio of total investments (fair value) and investment commitments to shareholders' equity was 95%.

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

IMPACT OF CHANGES IN VALUE OF VC & PE INVESTMENTS ON INVESTMENT PORTFOLIO (€560M), €M

	Fund Investments (fair value €372m)				
Direct investments (fair value €189m)	**0 %**	**-5 %**	**-10 %**	**-15 %**	**-20 %**
0 %	0	-19	-37	-56	-74
-10 %	-19	-38	-56	-75	-93
-20 %	-38	-56	-75	-94	-112
-30 %	-57	-75	-94	-113	-131
-40 %	-76	-94	-113	-131	-150

Group structure

The Group's subsidiaries are Start Fund Management Oy (parent company's ownership 100%), Tesi Fund Management Oy (parent company's ownership 100%), Tesi Industrial Management Oy (parent company's ownership 100%) and Aker Arctic Technology Oy (ownership 66.4%). Start Fund I Ky (ownership 100%) was dissolved during the financial year.

Organisation and development of operations

At Tesi's Annual General Meeting on 1 March 2017, the following members were elected to the Board of Directors: Board Chairman, Esa Lager (Board Professional, LL.M., M.Sc. (Econ), born 1959); Urpo Hautala (Senior Advisor, Ministry of Finance, M.Pol.Sc., born 1958); Kimmo Jyllilä (CEO, Almatro Advisors Oy, M.Sc. (Econ), born 1972); Johanna Lindroos (Partner, Dasos Capital Oy, M.Sc. (Econ), born 1968); Mika Niemelä, (Director of Finance, Ministry of Employment and the Economy, M.Pol.Sc., born 1975); Annamarja Paloheimo, (People Business Partner, Personal Banking, Nordea Bank AB (publ), Senior Lawyer, LL.M., born 1964); and Riitta Tiuraniemi (CEO, Terveysoperaattori Oy, M.Sc. (Tech), born 1962). In 2017 the Board of Directors convened altogether 16 times and average attendance at the meetings was 90.2%.

The company's President & CEO was Martin Backman (M.Sc. (Econ.), M.Sc. (Eng.), born 1969) until 3 March 2017. The company's Board of Directors appointed as his successor Jan Sasse (M.Sc. (Econ.) born 1967) with effect from 6 March 2017. The parent company employed an average 32 people during the financial year. Three new employees were recruited in 2017, and four people left the company. At year's end 12 women and 21 men worked in the company.

During the year Tesi continued to put the values it defined in 2016 into practice. The company's vision was also updated to accord with the redefined values and operational enhancements. Tesi will help raise Finland to the next level of growth and internationalisation.

Personal performance discussions were held twice in 2017. The discussions help disseminate strategic targets to team and individual level, and these targets are supported and monitored. In Tesi, personnel commitment and motivation strongly depend on employees being able to use and develop their skills and expertise in a versatile way. Skills development in 2017 focused mainly on communications and media skills as well as on interaction capabilities.

Personnel surveys are conducted regularly to monitor personnel motivation and job satisfaction. A 360-degree evaluation was conducted for the first time in the company. The results gave valuable feedback for developing management and supervisory skills.

Tesi follows the guidelines issued by the Prime Minister's Office regarding remuneration in state-owned companies. Salaries and emoluments in 2017 totalled €3.7m (€3.8m). The remuneration system is developed in line with evolving company objectives, in order to effectively support the company's business operations. More details about remuneration practices are given in the Corporate Responsibility Report, which is published on the company's website.

In autumn 2017, Tesi designated as its strategic development projects the development of Finland's venture capital & private equity market and data-driven business. Development of the VC & PE market will take the form of broadening the investor base of Finnish funds with both Finnish and international investors. Tesi will also update its internationalisation strategy and focus on acquiring better knowledge of the Asian market. Tesi will in future employ more concise data and more effective analytics in its operations and strategic planning.

Shares and share capital

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

Board's proposal for the distribution of profit

The parent company's distributable earnings (according to FAS financial statements) on 31 December 2017 amounted to €187,385,291. No significant changes in the company's financial position have occurred since the end of the financial year. The Board proposes to the Annual General Meeting that no dividend be distributed for financial year 2017. The company's financial resources will be targeted at 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 given one commitment to a Finnish buyout fund (details to be published later) and also made direct investments in Viria and Zervant.

OUTLOOK

The prospects for Finland's economy over the short-term have become positive, which promises fair winds for the venture capital and private equity market as well. As a small market, Finland is sensitive to external shocks, such as disruptions in world trade, sharp falls in asset values or a faster than expected rise in interest rates.

Tesi's strategic themes for 2018 are development of the venture capital and private equity market, active ownership as well as corporate responsibility and sustainable development. Alongside the catalytic risk financing that Tesi offers itself, Tesi develops the Finnish venture capital and private equity market through channelling private and international capital and expertise into funds and companies in Finland. Tesi will continue to cooperate closely with the EIF and the EIB in channelling EU funds into Finnish venture capital funds and growth companies.

Responsible investment has become an integral part of investors' everyday activities. Impact investing is expected to be the next growing trend in responsible investment. Tesi views corporate responsibility from the viewpoint of business opportunities and sustainable development. The objective for 2018 is that a target promoting responsible business operations is defined in at least one-half of actively managed portfolio companies. Over one-half of first-round investments implement at least one of the UN's sustainable development goals.

In fund investments, the emphasis will increasingly be on venture capital funds and small buyout funds. Tesi will expand the investor base of Finnish funds with both domestic and international investors. This will provide funds with more private capital, allowing them to finance their portfolio companies longer. A number of new Finnish management companies are in the process of fund-raising, and projects arising from this are expected to emerge during 2018 and 2019.

In line with its current investment focus, Tesi will continue direct minority investments in SMEs seeking growth and in industrial investments. The focus for direct investments will be on the Industrial Renewal and International Co-investors investment programmes. New strategic objectives for direct investments will be the circular economy and artificial intelligence.

Good returns from previous financial years give Tesi strong resources for long-term investment operations that promote the growth of Finnish companies.

Key figures

KEY FIGURES, GROUP	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	FAS 2013
Profit/loss for the financial year, €m	65,7	44,6	86,4	-25,7	-7,6
Shareholders' equity, €m	978,2	912,5	867,9	676,5	559,7
Balance sheet total, €m	1020,3	943,0	895,3	694,5	561,5
Unpaid commitments, €m	367,4	305,5	265,0	256,0	270,1
Investments at acquisition price, €m	496,0	526,2	503,4	528,6	493,2
Investments at acquisition price and commitments, €m	863,4	831,7	768,4	784,6	763,3
Investments at book value, €m	560,1	525,2	459,8	414,2	367,7
Ratio of investments and commitments to shareholder's equity	0,9	0,9	0,8	1,0	1,1
New commitments during financial year, €m	148,8	164,6	93,0	81,5	130,2
Return on equity	6,9 %	5,0 %	11,2 %	-4,2 %	-1,4 %
Equity ratio	95,9 %	96,8 %	96,9 %	97,4 %	99,7 %
Expenses per investments under management	0,6 %	0,8 %	0,8 %	0,8 %	0,7 %
Personnel, average	32	34	31	31	30
Salaries and fees for the financial year, €m	3,7	3,9	3,6	3,2	2,9
Fund investments, total number	91	93	91	90	88
Funds, number of portfolio companies	660	677	617	544	446
Parent company, number of portfolio companies	37	36	37	42	45
Start Fund I Ky, number of portfolio companies	0	6	14	22	25
Tesi Industrial Management Oy, number of portfolio companies	5	4	2	2	1
Portfolio companies, total number	702	723	670	610	517

Consolidated statement of comprehensive income

EUR THOUSANDS	NOTE	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net gains from venture capital & private equity funds	5	53 363	27 570
Net gains from direct investments	5	15 386	18 060
Net gains from investments, total		**68 748**	**45 631**
Net gains from financial securities		18 282	16 962
Income from fund management		372	447
Other operating income, total		**18 654**	**17 409**
Employee benefit costs	6	-4 470	-4 737
Depreciation and impairment		-228	-139
Other operating expenses	7	-2 519	-2 981
Operating profit / loss		**80 185**	**55 184**
Financial income and expenses, total		-129	18
Profit / loss before income tax		**80 056**	**55 202**
Income tax	8	-14 387	-10 601
Profit / loss for the financial year		**65 669**	**44 601**
Total comprehensive income for the financial year		**65 669**	**44 601**
Profit for the financial year attributable to:			
Shareholders of the parent company		65 669	44 601

Consolidated statement of financial position

EUR THOUSANDS	NOTE	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Venture capital and private equity investments			
Fund investments	4	371 500	335 736
Direct investments	4	188 558	189 415
Venture capital and private equity investments, total		560 058	525 151
Tangible and intangible assets	9	817	517
Deferred tax assets	11	7 672	7 241
Non-current assets, total		568 547	532 909
Current assets			
Receivables		287	145
Financial securities	4	445 289	403 645
Cash and cash equivalents		6 198	6 282
Current assets, total		451 774	410 072
Assets, total		**1 020 321**	**942 981**
EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the parent company			
Equity			
Share capital		438 992	438 992
Share premium account		215 855	215 855
Retained earnings		257 638	213 037
Profit for the financial year		65 669	44 601
Shareholders' equity, total		978 155	912 485
Liabilities			
Non-current liabilities			
Deferred tax liabilities	11	30 578	27 849
Non-current liabilities, total		30 578	27 849
Current liabilities			
Accounts payable and other liabilities	10	11 588	2 646
Current liabilities, total		11 588	2 646
Liabilities, total		42 166	30 495
Equity and liabilities, total		**1 020 321**	**942 981**

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Retained earnings	Shareholders' equity, total
1.1.2016	**438 992**	**215 855**	**213 037**	**867 884**
Profit for the financial year			44 601	44 601
Total comprehensive income for the financial year			44 601	44 601
Shareholders' equity 31 Dec 2016	**438 992**	**215 855**	**257 638**	**912 485**

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

EUR THOUSANDS	Share capital	Share premium account	Retained earnings	Shareholders' equity, total
1.1.2017	**438 992**	**215 855**	**257 638**	**912 485**
Profit for the financial year			65 669	65 669
Total comprehensive income for the financial year			65 669	65 669
Shareholders' equity 31 Dec 2017	**438 992**	**215 855**	**323 307**	**978 155**

The company has one class of share.
The number of shares at 31 December 2017 and at 31 December 2016 was 41,710.
The shares have no nominal value.
All the shares issued are fully paid up.

Consolidated statement of cash flows

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Capital calls paid to funds	-59 399	-62 485
Cash flows received from funds	76 997	80 419
Direct investments paid	-28 798	-62 632
Repayments of direct investments and sales proceeds	41 390	19 763
Interest received from venture capital and private equity investments	2 047	608
Dividends received from venture capital and private equity investments	1 604	4 575
Cash flow from venture capital and private equity investments, total	**33 841**	**-19 752**
Payments for financial securities	-235 356	-64 522
Sales proceeds from financial securities	211 993	97 454
Payments received from other operating income	385	447
Payments made for operating expenses	-8 204	-6 927
Cash flow from operating activities before taxes	**2 660**	**6 701**
Direct taxes paid	-2 216	-3 227
Cash flow from operations (A)	**443**	**3 474**
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for tangible and intangible assets	-528	-433
Cash flow from investing activities (B)	**-528**	**-433**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash flow from financing activities (C)	**0**	**0**
Change in cash and cash equivalents (A+B+C) increase (+)/decrease (-)	-84	3 041
Cash and cash equivalents at beginning of period	6 282	3 241
Cash and cash equivalents at end of period	6 198	6 282

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 15 February 2018, 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 the 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 domestic 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 approximately one billion euros in total. Currently there are investments in 702 companies, directly or through investment funds. The continuity and growth of our investment operations have been secured with government capitalisation as well as with financing from the company's own income.

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

ACCOUNTING POLICIES

Tesi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and they are in compliance with IAS and IFRS standards, as well as SIC and IFRIC interpretations, that are effective as at 31 December 2017 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 (EY) No 1606/2002. The notes to the financial statements also meet the requirements of the Finnish accounting legislation and company law that are complementary to the requirements in the IFRS.

As from 1 January 2017, Tesi has applied following new and amended standards that have come into effect:

- Amendments to IAS 7 Disclosure Initiative. The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The updated standards have not had a significant effect on Tesi's consolidated financial statements.

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 section 2. Critical accounting estimates and judgments.

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 summary:

- Subsidiaries that provide fund management services are considered to be an extension to the parent company's business activities and they are consolidated (Start Fund Management Oy and Tesi Fund Management Oy);
- Subsidiaries that are regarded as investment entities and through which Tesi makes its investments are measured at fair value through profit or loss (Tesi Industrial Management Oy).

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

Subsidiaries and their treatment in consolidated financial statements are described in more detail in the financial statements in note 14.

RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

Tesi's financial assets comprise venture capital and private equity investments, financial securities and cash and cash equivalents, which are grouped, at the date of acquisition, into classes that determine their basis of measurement. 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 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 designated at initial recognition as 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. Financial securities 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.

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.

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.

RECEIVABLES

Receivables consist mainly of deferred expenses and accrued income that are entered at amortised cost.

ACCOUNTS PAYABLE

Tesi has minor amounts of current financial liabilities (accounts payable), which are measured at amortised cost due to their short maturities.

LEASES

Leases are classified at the 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.

The leases entered by Tesi 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 benefit when they are due. Contributions paid in advance are recognised as an asset to the extent that a cash refund or a reduction of future payments is available.

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

INCOME TAX

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

FORTHCOMING REQUIREMENTS

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

IFRS 9 Financial Instruments and amendments thereto (effective for financial years beginning on or after 1 January 2018) The new standard replaces the current IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The classification and measurement of financial liabilities are largely the same as in the current IAS 39 requirements. Tesi has no derivative instruments and the measurement of financial assets in the balance sheet is based on fair value. The classification of financial assets will also remain unchanged. The standard will therefore have no significant effect on Tesi's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. Tesi's income flows come mainly from realised and unrealised changes in the fair value of venture capital and private equity funds and from direct VC & PE investments, as well as from interest and dividends from direct investments, none of which are regulated by the IFRS 15 standard. Management income does not comprise variable considerations or separate payment liabilities that could create a risk that management income already recognised would later need to be recalled. The standard will therefore have no significant effect on Tesi's consolidated financial statements.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17-standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5,000 or less. Tesi has started to assess the impact of the standard.

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

2. Critical accounting estimates and judgments

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

APPLICATION OF THE INVESTMENT ENTITY EXCEPTION

Tesi's management has determined that Tesi is an investment entity as defined in IFRS 10, because it meets the criteria of an investment entity. Tesi's business mission is to invest solely for returns from capital appreciation and investment income. Although the objective of Tesi's operations is also the development of and support for business activity in Finland, this objective is pursued solely by means of investing in venture capital and private equity, and thus the Company's earnings are obtained from capital appreciation and other investment income. Venture capital and private equity funds have, by nature of the funds and the life cycle model, an exit strategy for their investments. There is also a documented exit strategy for each direct investment. Management monitors the development of investments 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 are acting as investors. The pension funds are unrelated to Tesi, which is also one of the typical characteristics of an investment entity.

DETERMINATION OF FAIR VALUE

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

INCOME TAX

Deferred tax assets and liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and their tax bases. The most significant temporary differences relate to the difference between the fair value and tax bases of venture capital and private equity investments and financial securities. Other temporary differences arise, for example, from tax losses carried forward, for which the Company assesses opportunities for utilisation against future taxable profits. Assumptions about the future used in this assessment involve uncertainty relating to matters such as the exit values of investments, the timing of the exits and final tax impacts. More information is presented in note 8. Income tax and in note 11. Deferred taxes.

3. Financial risk management

GENERAL INFORMATION AND AREAS OF RISK

The Company has a risk management policy, confirmed by the Board of Directors, which sets out the principles for the Company's risk management, risk definitions and risk classifications, as well as defining the main roles and divisions of responsibilities and the monitoring and reporting procedures. The goal for risk management is to ensure that risks borne by the company are commensurate with its risk-bearing capability. Risk-bearing capability 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 2017 and 31 December 2016.

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

€M	31 DEC 2017	%	31 DEC 2016	%
Venture capital & private equity funds	**372**	**36 %**	**336**	**36 %**
Venture capital	162	16 %	141	15 %
Later stage	147	14 %	141	15 %
Funds-of-funds	62	6 %	53	6 %
Direct investments	**189**	**19 %**	**189**	**20 %**
Venture capital	55	5 %	54	6 %
Later stage	134	13 %	136	15 %
Financial securities	**451**	**44 %**	**404**	**43 %**
Bond funds	306	30 %	302	32 %
Equity funds	110	11 %	86	9 %
Other investments	36	4 %	16	2 %
Cash & cash equivalents	**6**	**1 %**	**6**	**1 %**
Total	**1018**	**100 %**	**935**	**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 target companies will succeed because of the realisation of risks relating to technology, business models, strategies, commercialisation, competitors, key personnel or obtaining further financing.

Companies in the growth phase allocation have normally achieved positive profitability, and the aforementioned risks relating to the venture phase are typically lower. However, active ownership by venture capital and private equity investors clearly raises the target level of business growth strategies of these companies through, for example, stronger internationalisation, structural arrangements, new capital investments or well-considered utilisation of debt leverage and thus increases the companies' overall risk profile. Furthermore, the development of 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 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 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 the Finnish Financial Supervisory Authority. The market volatility of financial securities is monitored regularly and counterparty risk is managed by selecting partners carefully.

At 31 December 2017, the fair value of the Company's cash and cash equivalents and financial securities amounted to €451.5m (€409.9m) and the amount of unpaid investment commitments was €367m (€305m). Unpaid investment commitments consist almost entirely of commitments given to venture capital and private equity funds with an average payment period of over four years. The Company also runs strategic direct investment programmes, for which it has received targeted government funding. A total of €60m in government funding received still remains to be used for these investment programmes as at 31 December 2017.

MARKET RISK

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

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

The Company's fixed income investments had a fair value of €299m as at 31 December 2017, representing the largest portion of the Company's €445m financial securities portfolio. The market risks that affect the value of fixed income investments consist of the risks associated with changes in general market interest rates and also of the spread risk. The computational weighted duration of the Company's fixed income investment portfolio at 31 December 2017 was 3.0 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 €9m.

The fair value of equity investments included in financial securities as at 31 December 2017 was €110m. A decrease of 10% in share prices would decrease the value of equity investments by €11m.

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 private equity and venture capital 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 private equity and venture capital 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 calculat-

31 DEC 2017 €M	**EURO €M**	**USD €M**	**SEK €M**	**DKK €M**	**NOK €M**	**OTHERS €M**	**TOTAL €M**
VC & PE funds	278	20	57	11	4	0	372
Financial securities and cash & cash equivalents	379	27	4	3	1	38	451
Direct investments	186	1				2	189
Total	**843**	**48**	**61**	**14**	**6**	**40**	**1 012**
Sensitivity analysis Impact of 10% change in exchange rate on profit		4	6	1	1	4	15
Unpaid commitments to venture capital and private equity funds	314	13	20	9	1		357

ed 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 private equity and venture capital funds should be taken into account.

CREDIT RISK

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 2017 was €27.8m, representing some 5% of the total fair value of venture capital and private equity investments.

On the other hand, credit risk relating to financial securities arises from investments in publicly-quoted bond funds, such as government and corporate bonds. The Company's portfolio of bond funds is highly diversified, and accordingly the credit risk relating to individual governments, industries or enterprises is relatively small.

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 impact goals. The table below contains the Company's investment returns (fair value changes) before taxes and operating costs from its venture capital & private equity and financial securities allocations for the financial years 2013-2017. As the Company's venture capital and private equity investments are long-term by nature, the Company's financial performance is also better evaluated over a longer time period.

The state's investment in the Company's shareholders' equity amounted to €655m at the end of 2017. Consolidated shareholders' equity at the end of 2017 totalled €987m. The Company's cumulative profit from operations for the financial year, including the figure for 2017, amounted to €323m.

GAINS BEFORE TAXES FROM TESI'S INVESTMENT ACTIVITIES AND COMPANY'S EXPENSES 2013–2017 (GAINS = CHANGES IN FAIR VALUE)

ALLOCATION / FINANCIAL YEAR	2013*	2014	2015	2016	2017	Total 2013–2017
Gains from VC & PE investments (€M)	-9	-40	109	46	69	175
Gains from financial securities (€M)	11	14	6	17	18	67
Total (€M)	**2**	**-25**	**115**	**63**	**87**	**242**
Gains from VC & PE investments (%)**	-2,2 %	-9,5 %	24,9 %	9,3 %	12,7 %	8,1 %
Gains from financial securities (%)**	5,4 %	6,4 %	1,9 %	4,1 %	4,2 %	4,8 %
Total	**0,3 %**	**-3,9 %**	**14,9 %**	**6,9 %**	**9,0 %**	**6,8 %**

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

4. Determination of fair value

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

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

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

INVESTMENTS IN VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

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

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

The 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

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

Direct investments include equity investments €160,7m and debt investments €27,8m.

31 DEC 2016, EUR THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Venture capital and private equity funds				
Venture capital			140 888	140 888
Later stage			141 478	141 478
Funds of funds			53 370	53 370
Direct investments				
Venture capital			53 761	53 761
Later stage	7 238		128 417	135 654
Financial securities				
Bond funds	301 908			301 908
Equity funds	85 606			85 606
Other investments	16 131			16 131
Total	**410 882**	**0**	**517 914**	**928 796**

Direct investments include equity investments €155.5m and debt investments €33.9m

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

Changes in level 3 financial assets measured at fair value:

INVESTMENT CLASSIFICATION, EUR THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2017
Venture capital and private equity funds					
Venture capital	140 888	26 995	23 705	-29 135	162 453
Later stage	141 478	21 407	25 975	-41 697	147 164
Funds of funds	53 370	4 960	9 719	-6 166	61 883
Direct investments					
Venture capital	53 761	5 970	20 061	-25 043	54 750
Later stage	128 417	6 310	8 736	-15 054	128 408
Total	**517 914**	**65 642**	**88 197**	**-117 094**	**554 659**
Change in unrealised gains and losses recognised in income statement under net gains from venture capital and private equity investments for Level 3 assets held at the end of period:					24 014

INVESTMENT CLASSIFICATION, EUR THOUSANDS	1.1.	Total gains and losses recognised in the income statement	Additions	Decreases	31.12.2016
Venture capital and private equity funds					
Venture capital	129 622	12 022	20 921	-21 678	140 888
Later stage	154 177	11 731	29 887	-54 318	141 478
Funds of funds	42 300	3 817	11 676	-4 424	53 370
Direct investments					
Venture capital	36 429	1 506	20 536	-4 710	53 761
Later stage	83 973	22 183	34 140	-11 879	128 417
Total	**446 501**	**51 260**	**117 161**	**-97 008**	**517 914**
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:					22 108

Sensitivity analysis for level 3 financial assets

INVESTMENT CLASSIFICATION	Fair value 31 Dec 2017 € thousands	Valuation model	Non-observable input or implicit valuation parameters	Applied input or implicit valuation parameters (weighted average)	Change in measurement if input changes +/- 20%
Venture capital and private equity funds					
Venture capital	162 453	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing*		32 491
Later stage	147 164				29 433
Funds of funds	61 883				12 377
Direct investments					
Venture capital	54 750	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2017 (3.4x)	9 466
Later stage	128 408			EV/EBITDA 2017 (7.9x)	18 451

INVESTMENT CLASSIFICATION	Fair value 31 Dec 2017 € 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	140 888	Fair value	Values reported by fund management companies +/- adjustments made as a result of value testing*		28 178
Later stage	141 478				28 296
Funds of funds	53 370				10 674
Direct investments					
Venture capital	53 761	Portfolio company instrument transactions / Peer group	Valuation multiples**	EV/Net sales 2016 (3.3x)	10 752
Later stage	128 417			EV/EBITDA 2016 (8.2x)	25 683

* Fair value testing of venture capital and private equity funds performed by the Company resulted in a fair value that was, in total, 4 million euros lower than the values reported by fund management companies as at 31 December 2017.

** 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.

4.1 VENTURE CAPITAL AND PRIVATE EQUITY FUNDS

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Aboa Venture II Ky	Turku	14,0 %	1 345 503
Aboa Venture III Ky	Turku	30,8 %	3 500 000
Armada Mezzanine Fund II Ky	Helsinki	11,5 %	5 000 000
Armada Mezzanine Fund III Ky	Helsinki	11,3 %	10 000 000
Armada Mezzanine Fund IV Ky	Helsinki	4,9 %	5 000 000
Atomico IV (Guernsey), L.P.	Guernsey	5,4 %	6 626 612
Balderton Capital V, L.P.	Delaware USA	3,1 %	6 831 892
Balderton Capital VI, S.L.P.	Luxemburg	2,3 %	7 448 300
CapMan Buyout IX Fund A L.P.	Guernsey	3,4 %	10 000 000
CapMan Buyout VIII Fund A L.P.	Guernsey	2,8 %	10 000 000
CapMan Buyout X Fund B Ky	Helsinki	13,9 %	10 000 000
CapMan Equity VII A L.P.	Guernsey	6,4 %	10 000 000
CapMan Growth Equity Fund 2017 Ky	Helsinki	3,5 %	3 000 000
CapMan Life Science IV Fund L.P.	Guernsey	18,5 %	10 000 000
CapMan Mezzanine V Fund FCP-SIF	Luxemburg	15,8 %	15 000 000
CapMan Technology Fund 2007 L.P.	Guernsey	10,3 %	10 000 000
Conor Technology Fund I Ky	Espoo	40,0 %	8 000 000
Conor Technology Fund II Ky	Espoo	20,0 %	10 000 000
Creandum II LP	Guernsey	10,4 %	5 000 277
Creandum III LP	Guernsey	5,6 %	7 500 000
Creandum IV, L.P.	Guernsey	4,4 %	8 000 000
DN Capital - Global Venture Capital III LP	Jersey	2,1 %	3 000 000
EQT V (No. 1) Limited Partnership	Guernsey	0,2 %	7 000 000
EQT Ventures (No. 1) SCSp	Luxemburg	1,8 %	7 500 000
EQT VII (No. 1) Limited Partnership	United Kingdom	0,4 %	15 000 000
Finnmezzanine Rahasto III A Ky	Helsinki	9,9 %	10 000 000
Folmer Equity Fund II Ky	Helsinki	16,2 %	10 000 000
FSN Capital IV L.P.	Jersey	1,8 %	10 253 723
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
Inveni Secondaries Fund II Follow On Ky	Helsinki	10,2 %	1 200 000
Inveni Secondaries Fund II Ky	Helsinki	5,0 %	3 363 759
Inventure Fund II Ky	Helsinki	11,5 %	8 000 000
Inventure Fund III Ky	Helsinki	9,0 %	10 000 000
Inventure Fund Ky	Helsinki	24,2 %	9 850 000

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Juuri Rahasto I Ky	Helsinki	6,1 %	5 000 000
K III Denmark K/S	Denmark	22,7 %	10 000 000
Kasvurahastojen Rahasto Ky	Helsinki	40,0 %	54 000 000
Kasvurahastojen Rahasto II Ky	Helsinki	46,2 %	60 000 000
Kasvurahastojen Rahasto III Ky	Helsinki	40,0 %	60 000 000
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
Litorina IV L.P.	Jersey	3,7 %	9 928 728
LSP Health Economics Fund 2 C.V.	Netherlands	5,3 %	10 000 000
MB Equity Fund Ky	Helsinki	17,4 %	2 522 819
MB Equity Fund IV Ky	Helsinki	3,9 %	10 000 000
MB Equity Fund V Ky	Helsinki	6,3 %	15 000 000
Midinvest Fund II Ky	Jyväskylä	25,6 %	15 000 000
Midinvest Fund PH I Ky	Lahti	25,0 %	3 000 000
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	17,6 %	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
Norvestor VI L.P.	Guernsey	3,7 %	14 135 184
Open Ocean Fund 2015 Ky	Espoo	6,3 %	5 000 000
Open Ocean Fund Three Ky	Espoo	11,2 %	5 000 000
Polaris Private Equity III K/S	Denmark	2,8 %	10 075 905
Polaris Private Equity IV K/S	Denmark	2,3 %	10 054 024
Power Fund I Ky	Vaasa	29,6 %	5 000 000
Power Fund II Ky	Vaasa	23,9 %	15 000 000
Power Fund III Ky	Vaasa	13,0 %	10 000 000
Seedcap Ky	Espoo	37,8 %	5 000 000
Sentica Buyout III Ky	Helsinki	13,0 %	15 000 000
Sentica Buyout IV Ky	Helsinki	8,0 %	10 000 000
Sentica Buyout V Ky	Helsinki	8,1 %	15 000 000
Sentica Kasvurahasto II Ky	Helsinki	23,7 %	10 000 000
Sponsor Fund III Ky	Helsinki	5,7 %	10 000 000
Sponsor Fund IV Ky	Helsinki	5,0 %	10 000 000
Sunstone Technology Ventures II K/S	Denmark	7,5 %	7 044 897

COMPANY	DOMICILE	OWNERSHIP %	ORIGINAL INVESTMENT COMMITMENT EUR
Teknoventure Rahasto III Ky	Oulu	46,8 %	7 500 000
Vaaka Partners Buyout I Ky	Helsinki	19,7 %	10 000 000
Vaaka Partners Buyout Fund II Ky	Helsinki	6,t7 %	10 000 000
Vaaka Partners Buyout Fund III Ky	Helsinki	5,3 %	12 000 000
Wedeco Fund IV Ky	Vaasa	45,3 %	5 000 000
Vendep Capital Fund II Ky	Helsinki	23,1 %	7 500 000
Verdane Capital VII K/S	Denmark	7,2 %	9 963 317
Verdane Capital VIII K/S	Denmark	3,0 %	6 860 750
Verdane Capital IX (E) AB	Sweden	5,7 %	9 797 657
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
Nordic fund*)		18,8 %	10 158 679
			926 922 555

*) Fund details to be published after final closing of fund.
Under the provisions of Chapter 2:9 Section 2:9 paragraph 3 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	7,2 %
Aidon Oy	17,3 %
Aker Arctic Technology Oy *	66,4 %
BC Platforms AG	9,5 %
BCBM Holding Oy	25,5 %
BMH Technology Oy	25,3 %
Bookit Oy	2,4 %
Cavitar Oy	25,1 %
Coronaria Oy	6,6 %
Den Family Oy	9,6 %
Enevo Oy	23,4 %
Ferrovan Oy *	-
Forenom Group Oy	15,7 %
Keliber Oy *	17,5 %
Kotkamills Group Oyj *	9,6 %
Lamor Corporation Ab	10,1 %
LeadDesk Oy	4,1 %
MariaDB Corporation Ab	5,9 %
Mekitec Oy	33,8 %
MetGen Oy	15,7 %
M-Files Oy	13,0 %
Midaxo Oy	16,8 %
MultiTaction Oy	20,1 %
NewIcon Oy	11,2 %
nLight Photonics Corporation	0,5 %
Onbone Oy	6,5 %
Optomed Oy	10,3 %
Pesmel Oy	4,9 %
Profit Holding Oy	30,3 %
Rauma Marine Constructions Oy *	20,5 %
Sotkamo Silver Ab	2,3 %
Stella Care Oy	17,3 %
Suomen VAKA-palvelut I Oy (Touhula)	3,6 %
Suomen VAKA-palvelut II Oy (Touhula)	-
Talenom Oyj	5,1 %
Thirdpresence Oy	22,7 %
Unisport-Saltex Group Oy	11,4 %
Ursviken Group Oy	24,6 %
Vaadin Oy	19,7 %
Valmet Automotive Oy	37,0 %
Verto Analytics Oy	9,4 %
Vexve Holding Oy	-

*) Ownership through Tesi Industrial Management Oy
More information about venture capital and private equity investments can be found on Tesi's website: www.tesi.fi

5. Net gains from venture capital and private equity investments

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Venture capital and private equity funds		
Venture capital	26 995	12 022
Later stage	21 407	11 731
Funds of funds	4 960	3 817
Direct venture capital and private equity investments		
Venture capital	4 254	1 506
Later stage	11 132	16 554
Total	**68 748**	**45 631**
Net gains from venture capital and private equity investments consist of changes in fair value:		
Realised	43 010	20 958
Unrealised	25 738	24 673
Total	**68 748**	**45 631**

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

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Salaries and fees	3 662	3 808
Pension expenses	684	693
Other personnel expenses	124	236
Total	**4 470**	**4 737**

	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Average number of personnel employed by the company during the financial year	32	34

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Salaries and fees of key management		
Board of Directors	132	146
CEO	315	288
Management Group	1 191	1 347

The Management Group's salaries and fees also include those of the CEO and his deputy.

The remunerations paid to the members of the Board of Directors of parent company Finnish Industry Investment Ltd are decided by the Annual General Meeting (AGM). The company's AGM held on 1 March 2017 decided on the following monthly amounts: Chairman of the Board: €1,500; Deputy Chairman of the Board: €850, and other members of the Board: €700; and in addition to the monthly remuneration, all members: €500 per meeting, for meetings of the Board of Directors and for meetings of committees appointed by the Board of Directors.

The Board of Directors decides on the remuneration principles, total pay and bonus scheme for the CEO and other members of the of the parent company's Management Group. The Management Group comprised the President & CEO and on average five other members during the financial year. All the company's personnel were included in the bonus scheme during 2017.

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

7. Other operating expenses

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

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Audit fees	24	35
Tax advice	3	4
Other fees		7
Total	**27**	**46**

8. Income taxes

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Current income tax for the financial year	-12 089	0
Adjustments relating to previous years	0	-437
Deferred taxes (Note 11):		
Temporary differences originated and reversed	-2 297	-10 164
Income tax presented in the income statement	**-14 387**	**-10 601**

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

EUR THOUSANDS	1 JAN–31 DEC 2017	1 JAN–31 DEC 2016
Profit before taxes	80 056	55 202
Tax calculated at domestic tax rate	-16 011	-11 040
Income not subject to tax	1 472	868
Expenses not deductible for tax purposes	-2	-1
Difference between net income from venture capital and private equity funds and taxable income	60	9
Use of losses not previously offset against taxes	94	0
Adjustments relating to previous years	0	-437
Income tax presented in the income statement	**-14 387**	**-10 601**

9. Tangible and intangible assets

The carrying amount of tangible and intangible assets at 31 December 2017 was 817 thousand euros (517 thousand euros at 31 December 2016). The additions of 528 thousand euros in 2017 mainly comprised expenses associated with renovation and furnishing of the new office. Depreciation and amortisation charged according to plan for 2017 was 228 thousand euros (139 thousand euros).

10. Current liabilities

EUR THOUSANDS	31.12.2017	31.12.2016
Accounts payable	240	415
Accruals relating to employee benefits	1 358	1 716
Tax liabilities	9 873	0
Other	117	515
Total	**11 588**	**2 646**

11. Deferred taxes

EUR THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Other items	Total
Deferred tax assets					
1.1.2016	**3 134**	**8 666**	**517**	**7**	**12 324**
Recognised in income statement	-1 140	-3 756	-258	72	-5 083
31.12.2016	**1 994**	**4 910**	**259**	**79**	**7 241**
Recognised in income statement	-638	1 324	-184	-71	431
31.12.2017	**1 356**	**6 234**	**75**	**8**	**7 672**

EUR THOUSANDS	Changes in fair values of venture capital and private equity funds	Changes in fair values of direct investments	Changes in fair values of financial securities	Total
Deferred tax liabilities				
1.1.2016	**13 508**	**6 688**	**2 573**	**22 769**
Recognised in income statement	670	3 359	1 052	5 081
31.12.2016	**14 179**	**10 047**	**3 624**	**27 849**
Recognised in income statement	3 583	-396	-459	2 729
31.12.2017	**17 761**	**9 651**	**3 165**	**30 578**

12. Commitments

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

EUR THOUSANDS	31.12.2017	31.12.2016
During the year	311	396
Within 1-5 years	1 613	1 818
Later than 5 years	0	268
Total	**1 924**	**2 481**

Outstanding commitments at end of year

EUR THOUSANDS	31.12.2017	31.12.2016
Fund investments	357 265	304 744
Portfolio companies	10 166	752
Total	**367 431**	**305 496**

13. Related parties

Related parties of the group comprise the parent company and its subsidiaries and associates. Related parties also comprise the members of the Board of Directors, CEO and other members of the Management Group. Salaries and fees of management are disclosed in note 6. Employee benefit costs.

Transactions with related parties:

- Finnish Industry Investment Ltd has charged a consulting fee from Tesi Fund Management Oy amounting to 319 thousand euros in 2017 (315 thousand euros in 2016).

Furthermore, Finnish Industry Investment Ltd has investment commitments of 1,667 thousand euros to Tesi Industrial Management Oy. as at 31 December 2017.

14. Subsidiaries

The following table presents the parent company and companies in which the group has control at 31 December 2017:

PARENT	**Country of registration**	**Nature of business**	**Holding by the parent (%)**	**Holding by the Group (%)**	**Treatment in consolidated financial statements**
Finnish Industry Investment Ltd	Finland	Venture capital and private equity investment			
SUBSIDIARIES					
Start Fund Management Oy	Finland	Management company	100 %	100 %	Consolidated
Tesi Fund Management Oy	Finland	Management company	100 %	100 %	Consolidated
Tesi Industrial Management Oy	Finland	Venture capital and private equity investment	100 %	100 %	At fair value through profit or loss
Aker Arctic Technology 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 specialises in the design of and technical consultation for icebreakers and other ships operating in the Arctic areas.

15. Events after the financial year

Afte the end of the financial year, Tesi gave one investment commitment to a Finnish growth fund (details to be published later) and also made direct investments in Viria and Zervant.

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 SUOMEN TEOLLISUUSSIJOITUS OY

Report on the Audit of the Financial Statements

OPINION

We have audited the financial statements of Suomen Teollisuussijoitus Oy (business identity code 1007806-3) for the year ended 31 December, 2017. 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 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 FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on 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 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 that we have obtained prior to the date of this auditor's report is 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. With respect to the report of the Board of Directors, 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 15 February 2018
JUHA-PEKKA MYLÉN

Juha-Pekka Mylén,
Authorised Public Accountant, KHT