

Finnish Industry Investment Ltd's interim review 01-06/2013

Finnish Industry Investment Ltd is a government-owned investment company that promotes Finnish business, employment and economic growth through venture capital and private equity investments.

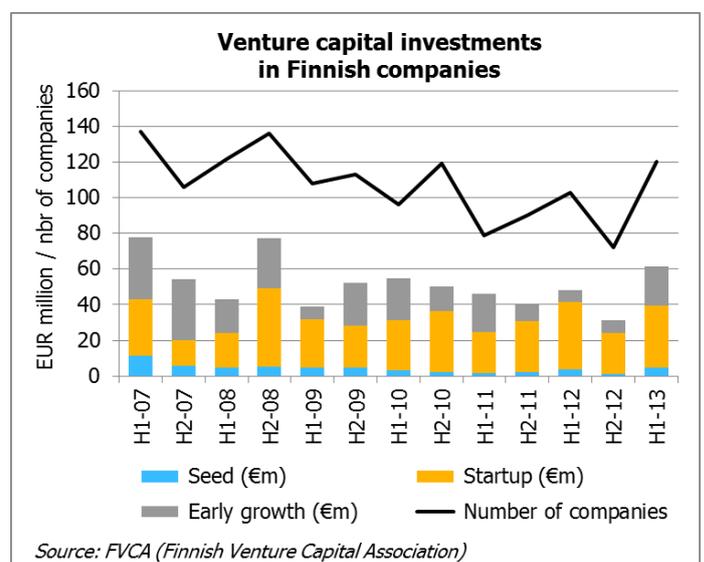
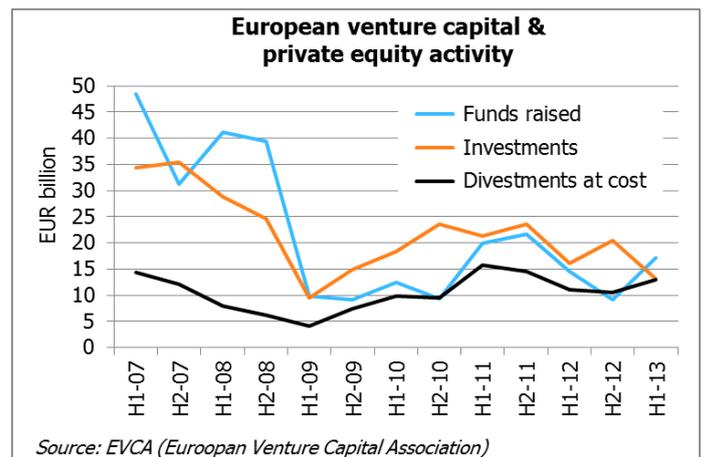
Business environment – the most active six month period in four years for venture capital

In macroeconomic terms the first six months of 2013 was generally negative and a number of research institutes downgraded their economic forecasts for both the eurozone and Finland. European consumer and corporate confidence indices published in the summer, however, indicated an upswing. The positive macroeconomic cycle was strengthened by the return of Europe's GDP to quarterly growth during April-May. The economic climate in Finland was overshadowed by redundancy announcements and a slowdown in both exports and construction.

Statistics published by venture capital associations in both Europe and Finland show an increase of activity in the venture capital and private equity industry in the first half of 2013, despite the economic climate. Particularly noteworthy was the revival of fundraising and exits by European management companies to their highest level since 2011.

Correspondingly, statistics from Finland's FVCA show a total MEUR 62 of venture capital invested in early- and growth-stage companies in the January-June period, making it the most active six-month period in over four years.

Finnish Industry Investment and FoF Growth, which was co-founded with Finnish pension investors in 2008, have played a significant role in catalysing the availability of venture capital over the last five years by investing in altogether 13 Finnish early- and growth-stage funds.



Finnish Industry Investment's fund investments – growth in venture capital exits

Through fund investments, Finnish Industry Investment contributes to the development of Finland's venture capital and private equity market, and to the provision of financing for growth companies, by promoting the creation of funds in Finland and by catalysing Finnish companies' attractiveness to foreign funds. In the first half of 2013 Finnish Industry Investment, including FoF Growth, made new commitments totalling MEUR 32 in two Finnish and two Nordic venture capital and private equity funds.

Numerous profitable exits from venture companies were another positive feature during the spring. A continuation of this trend would contribute significantly to restoring private investors' interest in European and Finnish venture capital.

Finnish Industry Investment's direct investments – fourfold leverage

Finnish Industry Investment also makes direct investments in companies operating in Finland, in their growth and internationalisation phases, and in merger and acquisition situations. In addition to the anticipated return on investment, Finnish Industry Investment evaluates projects in terms of their importance to Finland's economy, technological expertise and job creation.

In January-June 2013 Finnish Industry Investment made direct investments amounting to some MEUR 15 in 12 companies. Of these, four were initial investments and eight follow-on investments. The investments focused mainly on the cleantech and service sectors. With Finnish Industry Investment's participation, altogether four times the amount of capital that it invested in them itself was channelled into these companies. Foreign co-investors were involved in six financing rounds. In spring 2013, for example, the Swiss investor Emerald invested in MetGen Oy and the British investor DFJ Esprit in M-Files Corporation.

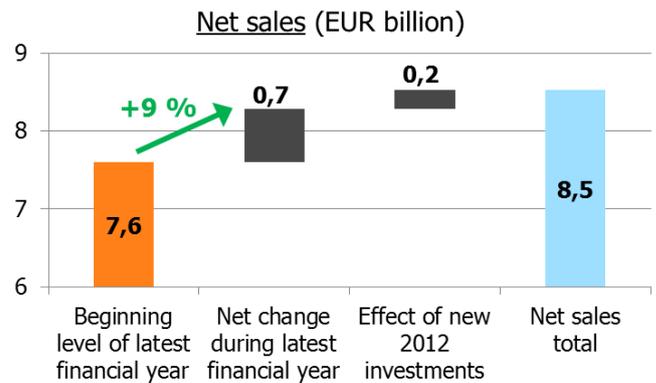
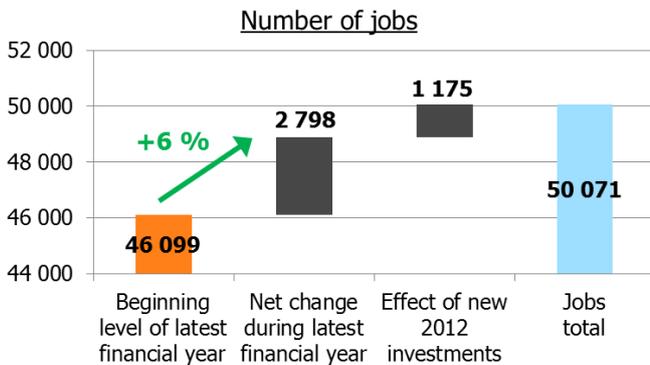
Economic impact – 510 portfolio companies and 50,000 jobs

In spring 2013 Finnish Industry Investment conducted an assessment of the economic impact of its investments during 2011-2012 in the following areas:

- Societal impact¹

The most important indicators of societal impact are an increase in the number of jobs and growth in companies' net sales. Jobs in Finnish Industry Investment's Finnish portfolio companies increased by 6% in 2012 compared to 2011, totalling some 50,000 at the end of 2012. The companies' combined net sales amounted to EUR 8.5 billion at the end of 2012, an increase of 9% compared to the previous year. The number of employees in Finnish Industry Investment's portfolio companies thus grew in relative terms four times as much, and net turnover almost twice as much, as those of Finland's total stock of companies. *(Statistics Finland: the number of jobs in Finnish limited companies grew on average approx. 1.4% in 2011 compared to 2010/ net turnover of Finnish limited companies grew on average approx. 5.4% in 2011 compared to 2010.)*

¹ *The assessment conducted in spring 2013 was based on the latest available financial statements data available at the time.*

Jobs and net sales of all Finnish portfolio companies in the investment portfolio, 31.12.2012


- Impact on the Finnish venture capital and private equity market

Development of the Finnish venture capital and private equity market is an important aspect of Finnish Industry Investment's economic impact. This can be seen in the creation of new venture capital and private equity funds and management companies, as well as in the catalysis of private, and particularly international, capital for Finnish growth companies. Finnish Industry Investment's new investments in 2011 and 2012 attracted seven times the amount of private capital into them compared to the company's own investment. An international investor was involved in almost one-half of Finnish Industry Investment's direct investments. In 2012, foreign investors invested MEUR 34.2 (2011: MEUR 62.6) in Finnish Industry Investment's direct portfolio companies. In 2011 and 2012 Finnish Industry Investment actively influenced the creation of two new players (Vision+ and Lifeline Ventures) in the venture capital market in Finland.

- Impact on economic structures

Business restructuring and productivity growth are objectives guiding investment allocation. Direct investments are allocated through investment programmes and via special focus areas. There were two investment programmes during the review period: the investment programme for the mining cluster, and the stabilisation investment programme. Special focus areas were the cleantech and service sectors. In 2011-2012, mining investments amounted to MEUR 6, stabilisation investments to MEUR 23, cleantech investments to MEUR 10, and investments in service sector companies to MEUR 6. Altogether MEUR 193 had been directly invested in these areas at the end of 2012.

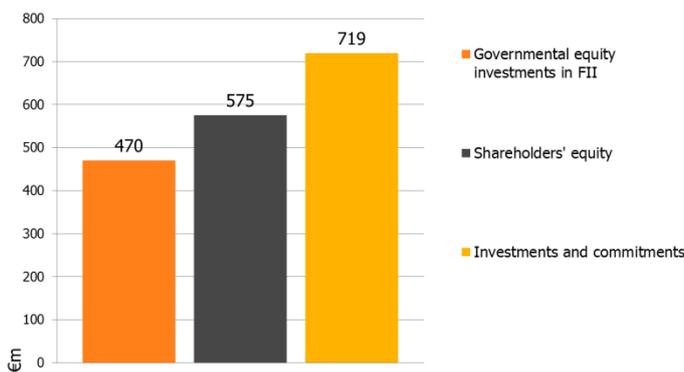
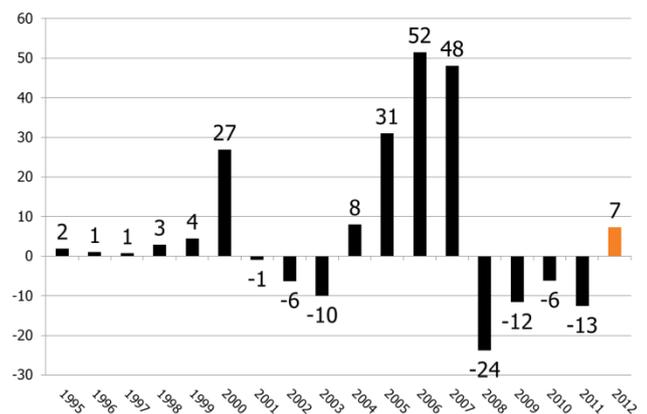
FoF Growth

- **Fund-of-funds established in 2008**
- **Investors include FII and eight Finnish pension companies**
- **Total capital MEUR 135, commitments MEUR 110 to 10 different Finnish portfolio funds**
- **Combined total capital of portfolio funds approx. MEUR 700**
- **At the end of 2012, portfolio funds had 52 portfolio companies, which generated MEUR in net sales and employed 4,300 people**

- Economic profitability

Economic profitability plays an important role in terms of economic impact. Setting a target for return on investment is one way of guiding capital into those investments that will have the most impact on the macroeconomy: the most promising companies grow fastest and create more new jobs. Economic profitability also ensures operational continuity and strengthens risk-taking capability.

Venture capital and private equity investment is cyclical in nature. Despite the loss-making years following the financial crisis (2008-2011), the Finnish government's MEUR 470 equity investment in Finnish Industry Investment has grown to MEUR 575 in value. Finnish Industry Investment posted a profit of MEUR 7.3 for 2012.

Key figures 31.12.2012

Financial result 1995-2012


Future prospects

During the next six months, Finnish Industry Investment's central objective is to establish FoF Growth II together with institutional investors. Discussions with potential institutional investors have already started. An additional MEUR 30 capitalisation of Finnish Industry Investment by the government relating to FoF Growth II was included in the government's proposal for the 2014 state budget. FoF Growth I has had substantial economic impact, and the aim is for FoF Growth II to pursue the same investment policy.

The European Union is currently preparing unification of the regulations on state aid for venture capital financing. The proposal published by the Commission distinguishes market-based investors, such as Finnish Industry Investment, from support programmes requiring notification, and therefore the new rules are not expected to have a significant effect on Finnish Industry Investment's investment activities.

Venture capital and private equity investment can be regarded as a tool for bringing about restructuring, of both individual companies and whole industrial sectors. Numerous studies show that active ownership by venture capitalists and private equity investors has helped their portfolio companies cope better than their peers in those studies, in terms of better business management and the creation of growth (e.g. Finnish Venture Capital Association, FVCA: *studies on the social and economic impact of venture capital and private equity 2007 – 2012*; and Deutsche Bank: *Private equity – In times of monetary normalisation*; 15.7.2013).