

TECHNOPOLIS

Technopolis Plc

TECHNOPOLIS ONLINE Annual Report 2009

Summary of Finnish High Tech Company Capital Raising Activity

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The following are the findings of the Annual Survey conducted by Technopolis Online, which is at the forefront of high-tech venture capital research in Finland. This Survey reviews capital raised by private Finnish high-tech companies from Finnish venture capital funds, foreign investors and angel investors. The Survey is based on both reported and proprietary information regarding over 200 Finnish and foreign investors, and over 1,500 Finnish high-tech firms.

Prologue

Welcome to our first Annual Report on the Finnish Venture Capital Industry! We believe that this type of reporting is critical in evaluating how Finland is performing in attracting growth capital to young innovative companies, and thus is an indicator of the overall health of the innovation ecosystem that should support economic growth for years to come.

In distilling this data, we must make many tradeoffs in estimating the sizes and other attributes of investment rounds. Our belief is that we have the most complete set of data given that we track investments regardless of whether they come from Finland or abroad, or whether they are made by venture capital funds or business angels.

In addition, this annual report and the reports we release each quarter are just snapshots. We track and publish investments day by day real time, and you can follow these by visiting www.TechnopolisOnline.com, or by following the news feeds from there.

We hope you enjoy and benefit from this report, and please feel free to contact us with questions or comments.

Sincerely

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1.0 Overview and Highlights

It is amazing the difference that a couple of investments can make!

While 2008 had two landmark deals for Finland – €120 million to WinWind, and €40 million to Blyk Services, 2009's largest investment was €15 million to Heptagon. As you will see in the following analysis, the way the results are interpreted is very much dependant on how one includes those two investments.

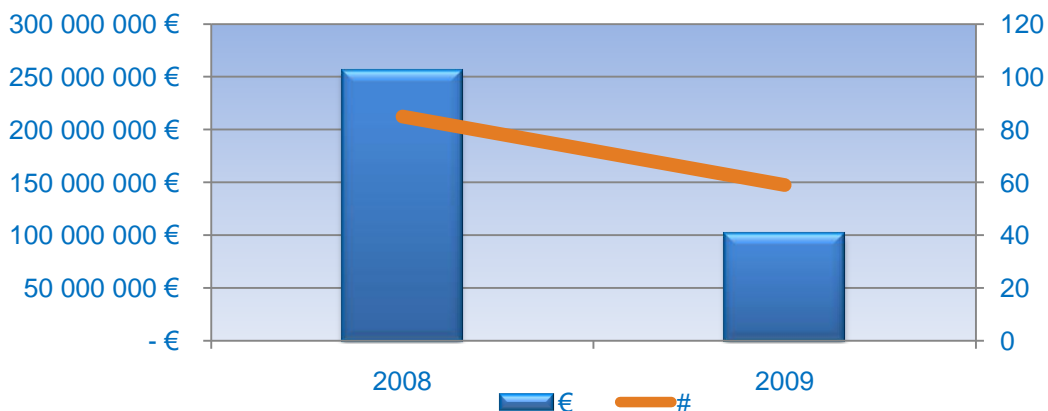
- Fully include them and there is a 60% decline in the Euro value of investments made to Finnish companies, from €255 million in 2008 to €101 million in 2009.
- Exclude them, or substitute average sizes instead of their extreme amounts, and the 2008 and 2009 are roughly the same in the total amount of investments.

In any event, the number of investment rounds declined significantly year on year, with 59 in 2009 compare to 85 during 2008. In general there was a reduction in venture activity during the year, reflecting the weaker economy, which is consistent with what other economies are experiencing. A few highlights:

- There was a very large reduction of international investments in 2009. There were only five clear international VC deals during 2009, compared to twelve international deals in 2008. In fact there was not a single international investment during the last five months of the year.
- The average size of the investments (excluding the megadeals) increased significantly, reflecting domestic investors making larger investments to substitute for the lack of international capital.
- In Euro terms, the most popular industries in 2009 were nanotechnology and software, compared to mobile technologies and software in 2009. However the structure of the industries were quite different – a few large investments in nano vs. many smaller investments in software.
- The Helsinki Metropolitan Area received much more investment than the rest of the country compared to 2008.

2010 has opened with a relative bang, with already about €17m of investment into 8 companies, about 41% coming from international investors, but all of that amount going to one company, Footbalance System Ltd. We discuss expectations for 2010 in the final chapter.

Comparison of 2008 and 2009



2.0 Annual Comparisons

Total risk investment into Finnish companies declined from €256 million in 2008 to €101 million in 2009, a 60% reduction. While this is a dramatic difference, one must keep in mind that the difference in this aggregate number is driven totally by two megadeals, WinWind (€120 million) and Blyk Services (€40 million). The total number investments rounds tracked by Technopolis Online declined from 85 in 2008 to 59 in 2009.

This leaves an average investment volume of about €1.7 million in 2009 compare to €3 million in 2008, but excluding the two megadeals the average size is actually significantly higher in 2009. In the following sections, we break down the differences in the two years, and then look at expectations for 2010. The graphs that follow generally *exclude* the 2 megadeals unless they are explicitly mentioned in the footnote in order to allow examination of trends.

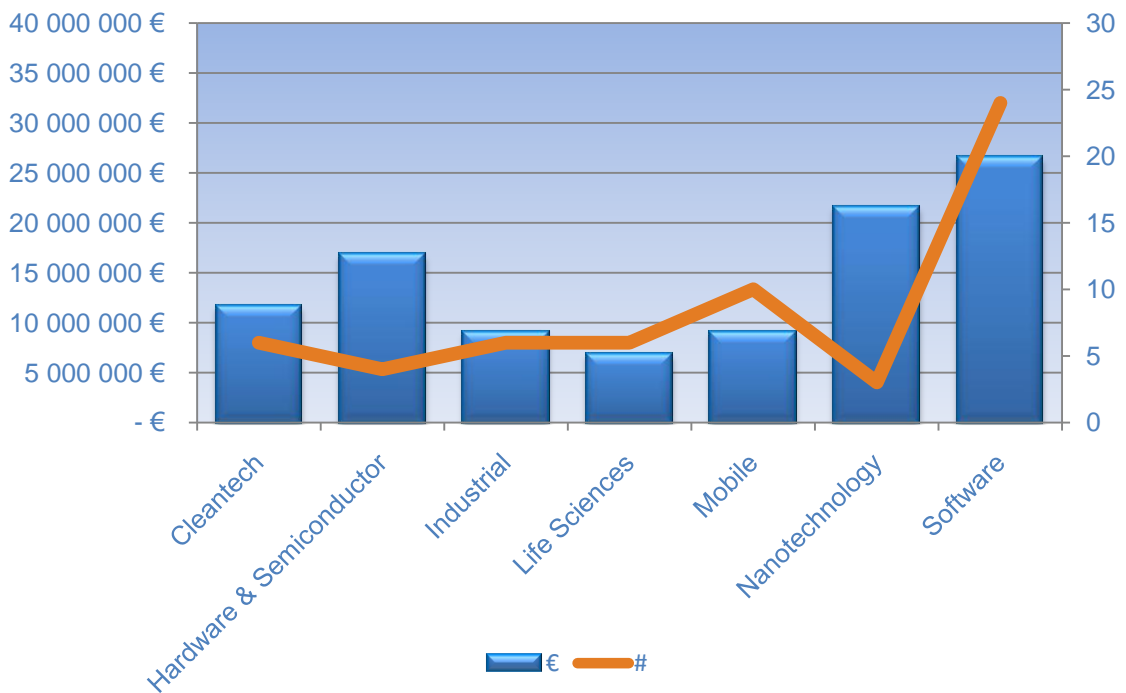
2.1 Investments by Industry

When comparing venture capital investments by industry between 2008 and 2009, the most noteworthy results are

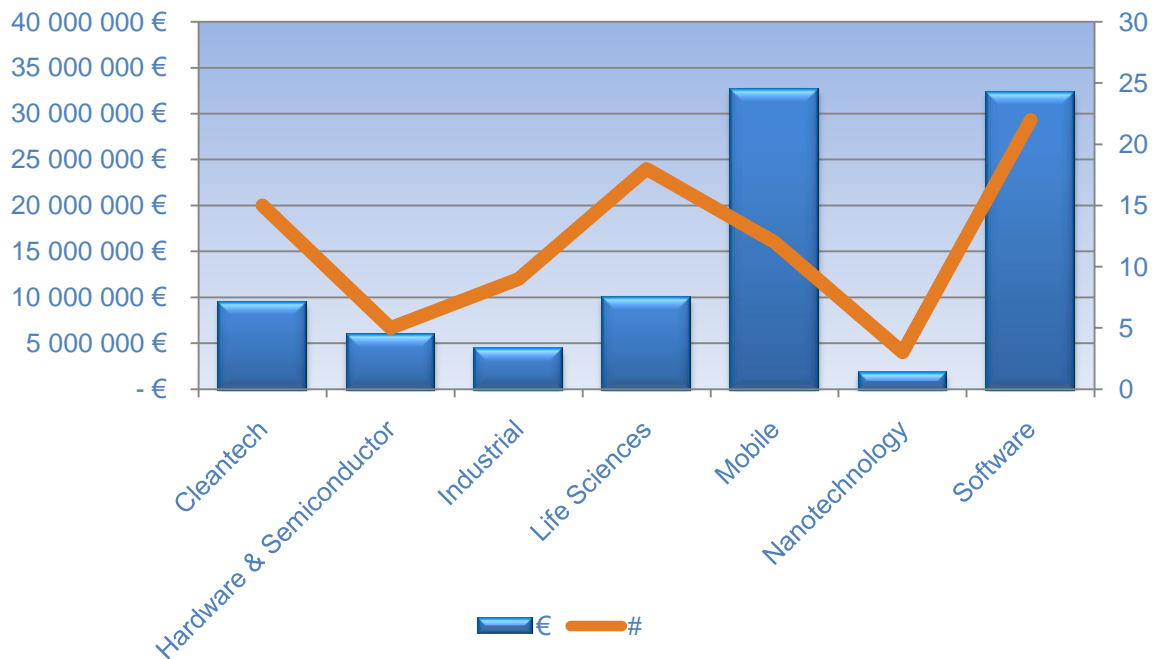
- A significant increase in the value of investments made into nanotechnology, driven largely by the Heptagon investment (1164%),
- A major decline in value of mobile industry investments (-72%), and
- A threefold increase in number of investments in life science industry while the value of investments declined.

Software was the strongest industry overall with deals worth €26.5 million, but declining 18% percent from 2008. Hardware witnessed a major increase in investments, growing from €5.7 million to €16.8 million (267%). Also industrial and cleantech industries saw small increases in the value of investments, but the number of investments declined by 33% and 60%, respectively.

Investments by Industry 2009



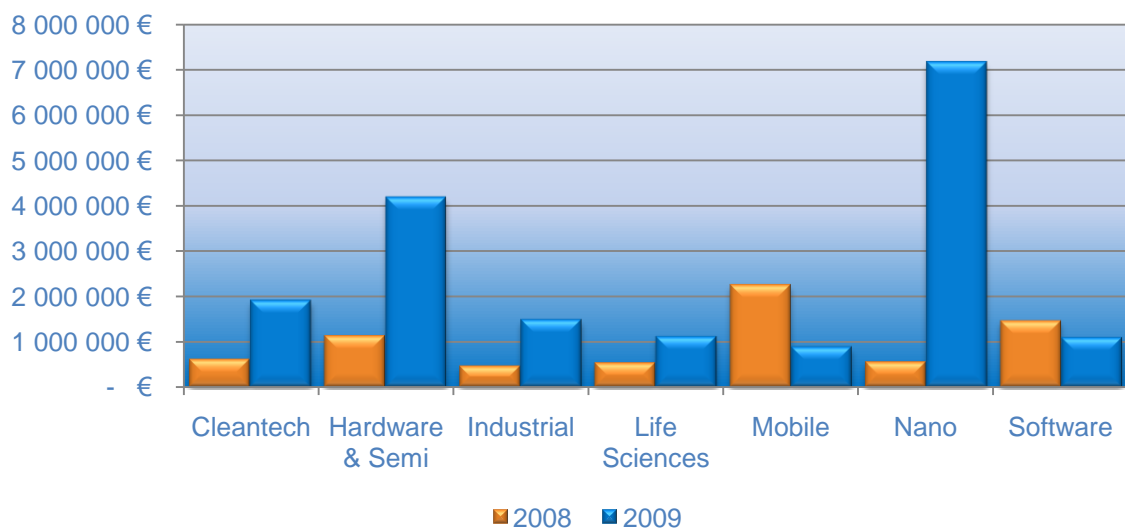
Investments by Industry 2008



2.2 Average Round Size by Industry

The biggest gainer in average round size by industry was nanotech led by Heptagon and Silecs investments, which saw an increase of 1164%. Also the cleantech (210%), hardware and semiconductors (267%), industrials (216%) and life sciences (106%) industries witnessed increases. Only in the mobile (-60%) and software (-25%) industries did the size of an average round decline.

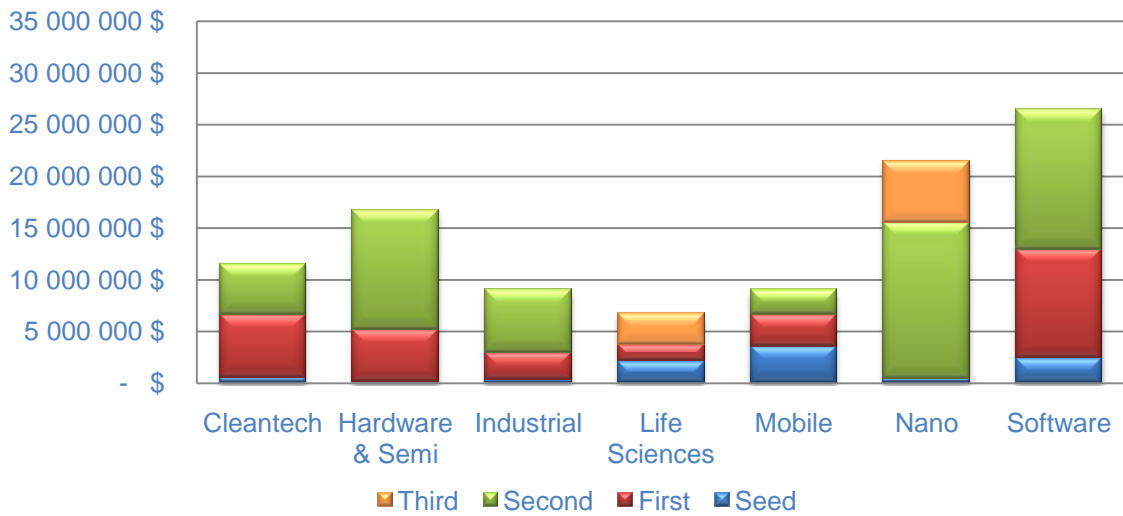
Average Round Size by Industry



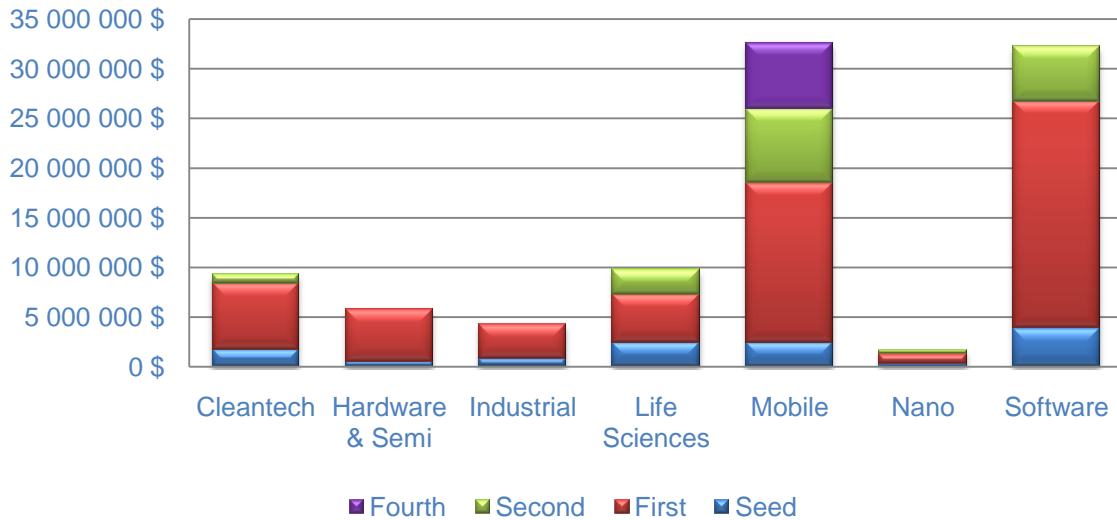
2.3 Investment Stages and Industry Comparison (2008 vs 2009)

The most significant change in round sizes by industry that occurred between 2008 and 2009 was that second round investments were clearly larger in 2009. Of all industries, only the mobile and life science industries didn't have bigger second rounds in 2009 than in 2008. The only industries that received later stage investments were the life sciences and nano industry, which both had third round investments. There were no fourth round investments in 2009.

Investments within Industries by Rounds 2009



Investments within Industries by Rounds 2008



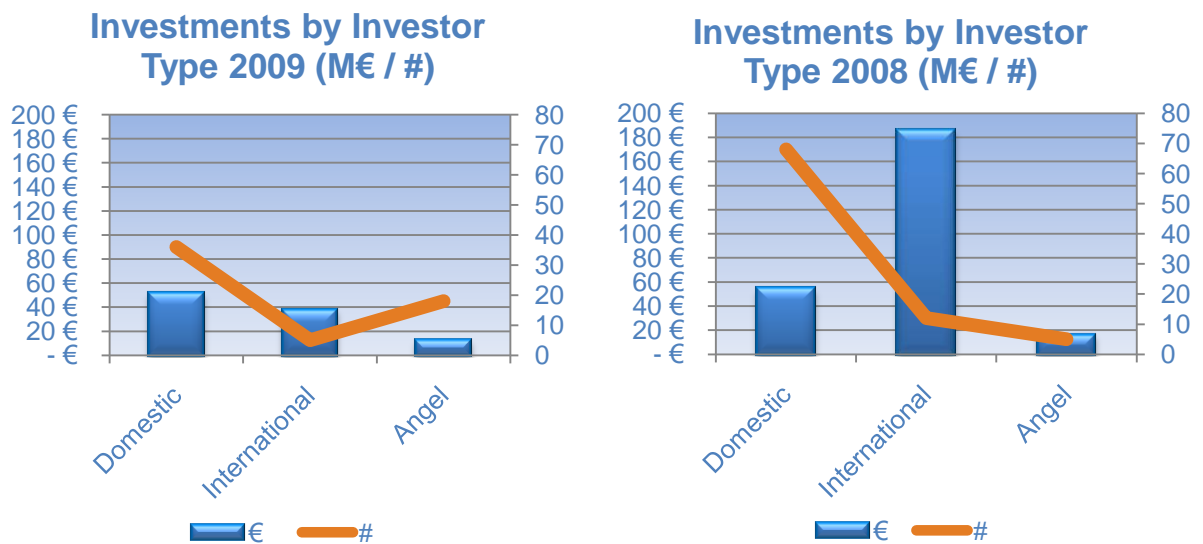
2.4 Investments by Investor Type and Origin

Investment activity in 2009 decreased from the previous year by 31%, which was clearly driven by the ongoing recession. Both domestic and international investors tightened their belts and the deal volume in both categories decreased roughly by half. In Euros investment decreased nearly 60%, though the statistics are skewed by a few major transactions during 2008.

The heart of the matter in decreased domestic VC activity has been the extremely difficult fundraising environment. Limited partners, who already had very limited sums in venture capital, seem to have cut their investments in new funds even further given the economic slump. This has led several domestic VC's to spend most of their energy securing their current portfolio rather than seeking new suitable investment targets. An alternative explanation is that domestic investors are simply learning from international peers and placing larger bets. Nonetheless, the number of domestic investments slumping as much as 49% from the prior year was surprising, while the invested Euros remained approximately at the prior year's level.

The amount of inbound international investments in 2009 decreased significantly from the previous year. There were only five clear international VC deals during 2009 compared to twelve international deals in 2008. In Euros the market suffered even more: in 2009 Finnish companies raised nearly 80% less international growth capital, though the 2008 figure was driven by the massive €120 million WinWind financing round in the autumn of 2008.

Overall, the lack of international investments especially hurts later stage financing activity since many of the domestic funds are small and cannot make the large transactions needed for rapidly growing and internationalizing companies. This is currently one of the most fundamental concerns of the Finnish venture capital market since it leaves Finland with an oversupply of small, financially-struggling companies. It also has a major impact on the state of the exit market – large Euro returns generally come from more well-funded companies.

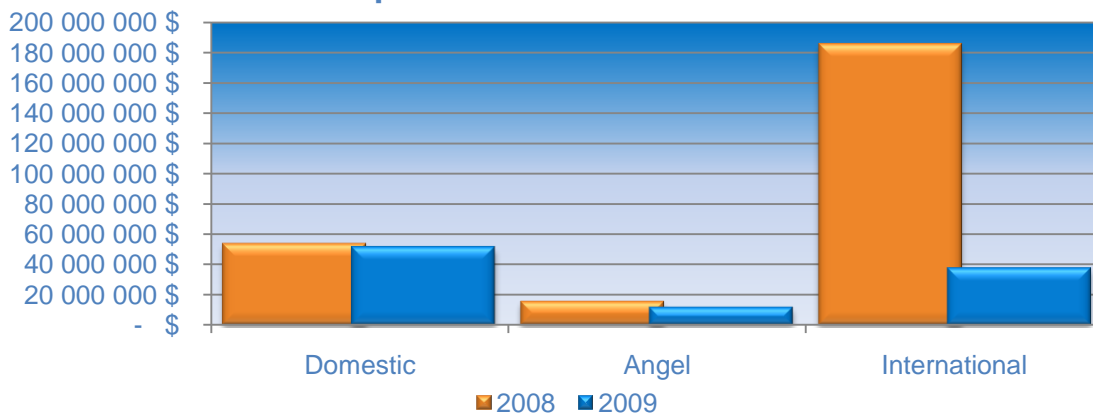


Includes Blyk and WinWind investments

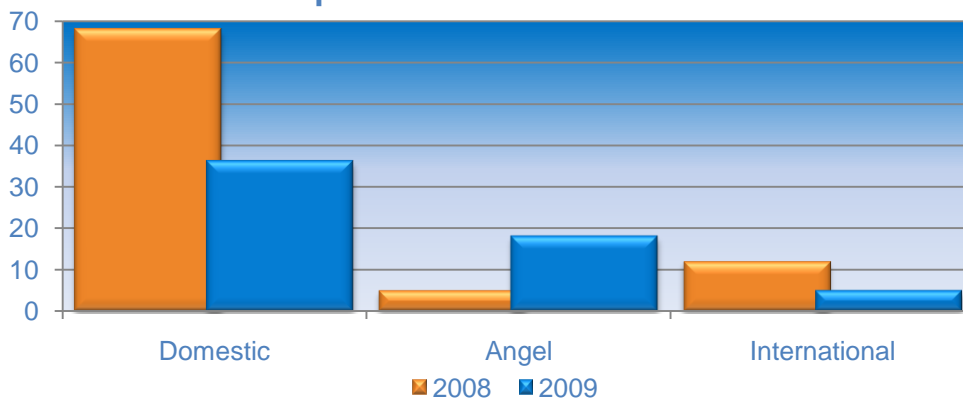
However, there was at least one positive sign in the market in 2009. It seems that the difficult VC fundraising circumstances has activated more local angel investors, who have increased their investment activity by nearly 400% from previous year according to our data. Even though the angel investments are usually small in terms of Euros, they can be vital for small companies fighting for their existence. Important angel investors such as Ari Korhonen and former F-secure CEO, Risto Siilasmaa haven't slowed down during the recession but quite the opposite, possibly because

bargains can be had at the bottom of the cycle. In addition, a number of new angels have emerged. We believe that this is a sign that adding more incentives for angels could really get.

Invested Euros By Investor Type - Comparison Between 2009-2008

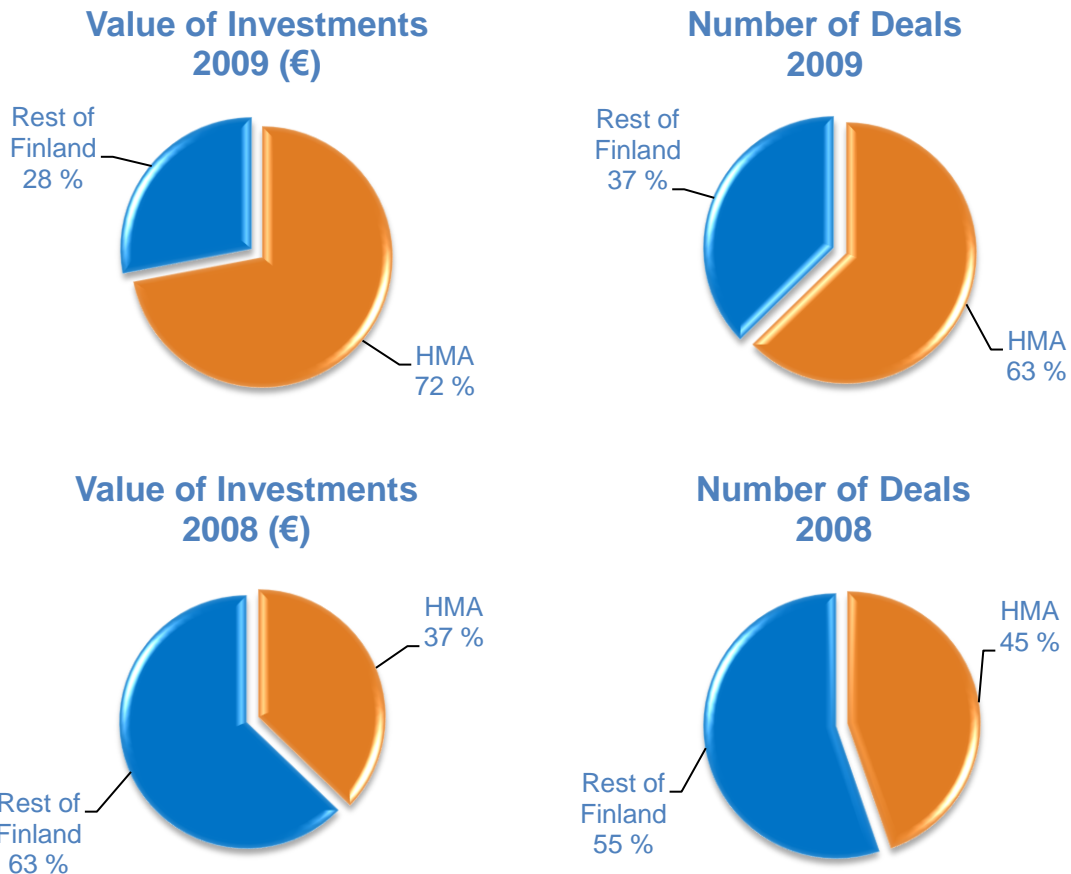


Number of Deals By Investor Type - Comparison Between 2008-2009



2.5 Geographical Distribution

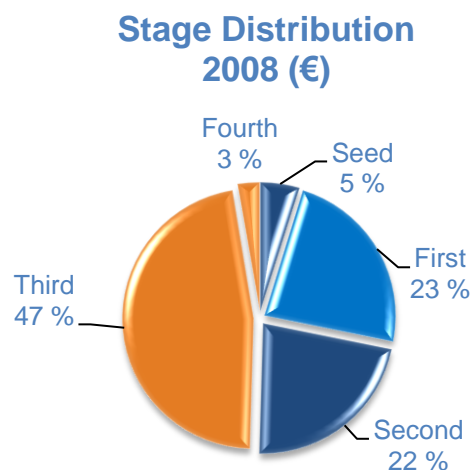
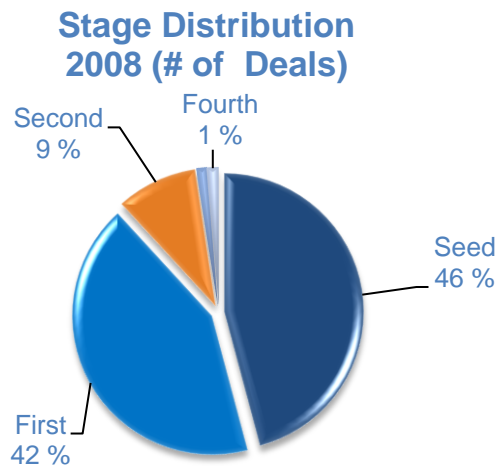
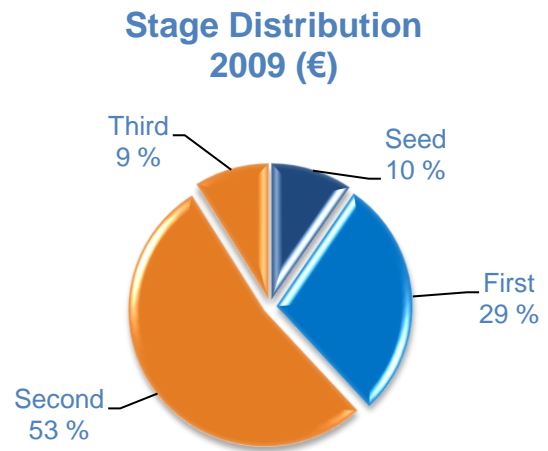
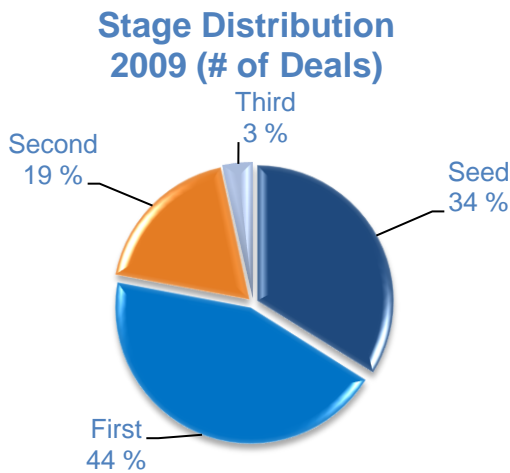
Helsinki area-based companies attracted the majority of investments, raising 63% of all investment rounds during 2009. In Euros, Helsinki metropolitan area companies did even better closing 72% of all invested Euros. The change from 2008 was dramatic, since capital region-based companies totaled significantly less than half of both deals and Euros in 2008. The figures underline the theory that growth companies have easier access to strategic partners and investors when they are based in the Helsinki Metropolitan Area.



HMA= Helsinki Metropolitan Area

2.6 Stage Distribution

Early stage companies attracted a clear majority (78%) of the number of investments in 2009, while later stage investments instead were bigger in terms of Euros, 62% of all invested Euros. The biggest change from the prior year was the shift of invested Euros more towards early stage companies. This was due to lack of large international later stage investments in 2009.



Includes WinWind and Blyk investments

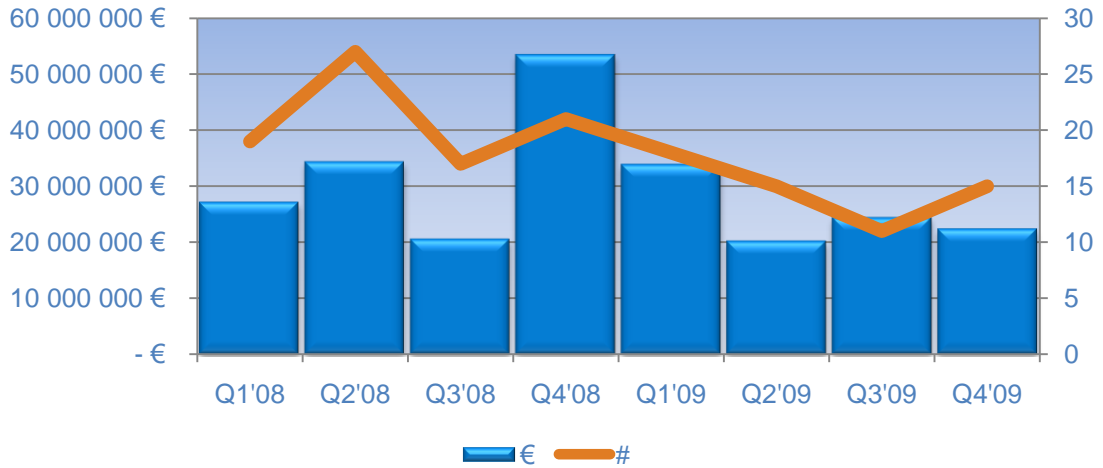
3.0 Quarterly Analysis 2009

3.1 Investment Activity by Quarter (2008 vs 2009)

Over the course of 2009, the number of investments declined overall relative to 2008's figures until hitting rock bottom in Q3'09 with only 11 investments made. The only quarter where the Euro sum of investments made was larger than during its '08 counterpart was Q1'09 with €33.9 million invested. Q4'09 saw a slight elevation in investment activity by number of investments made.

The high sum of investments made in Q4'08 is explained by Blyk Services' €40 million round, taking the total amount for the quarter up to €53 million. The Q2'08 was also remarkably high, reaching nearly €141 million with Masdar's €120 million investment in WinWind. While we see a slight revival in the number of investments made during Q4'09, the number and Euros of investments made is still less than in Q4'08 even excluding the impact of the mega-deals.

Investment Activity By Quarter

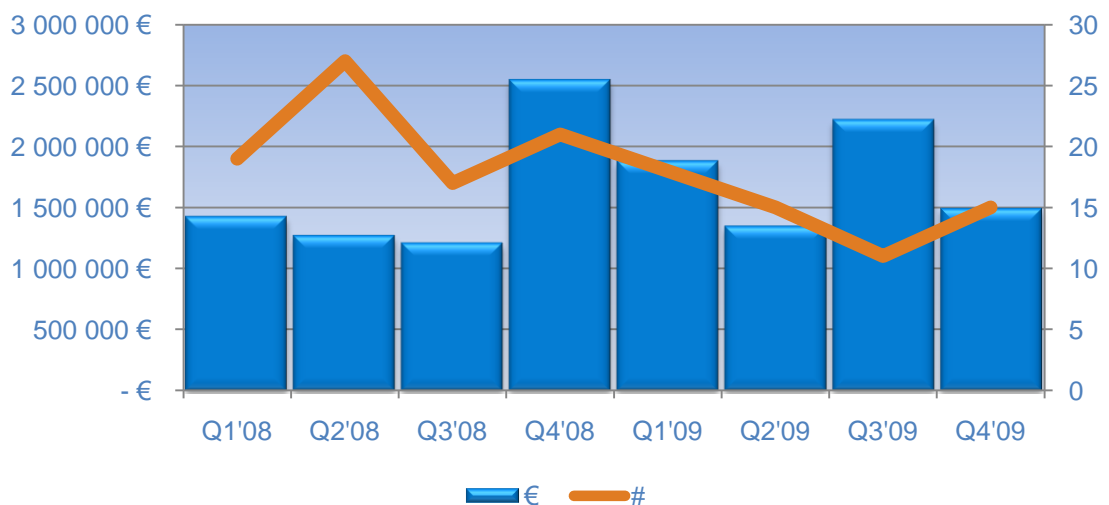


3.2 Average Investment by Quarter

While the number of investments made in 2009 declined from the previous year's figures, the average size of investments grew in Q1'09 and Q2'09. If WinWind's €120 million investment is excluded, Q3'09 was also higher than Q3'08. The Q4'08 average amount invested is so high due to Blyk Services' €40 million round. Excluding Blyk's round, also Q4'09 would have a higher average round size than its counterpart (Q4'08 average being €673k without Blyk). However, it is notable that in 2009 there were no investments over €15 million.

By combining the declining number of investments with larger average rounds, one may conclude that investors have made more "safe bets", i.e. been more cautious by investing larger sums to a smaller number of companies. It is also a portfolio management effect, spreading partner management time over fewer investee companies.

Average Round Size by Quarter

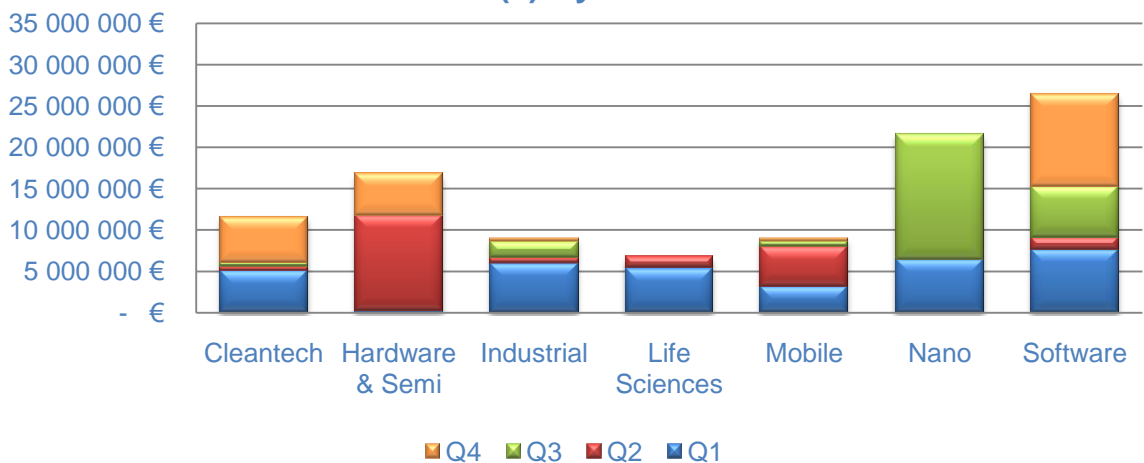


3.3 Quarterly Investments by Industry

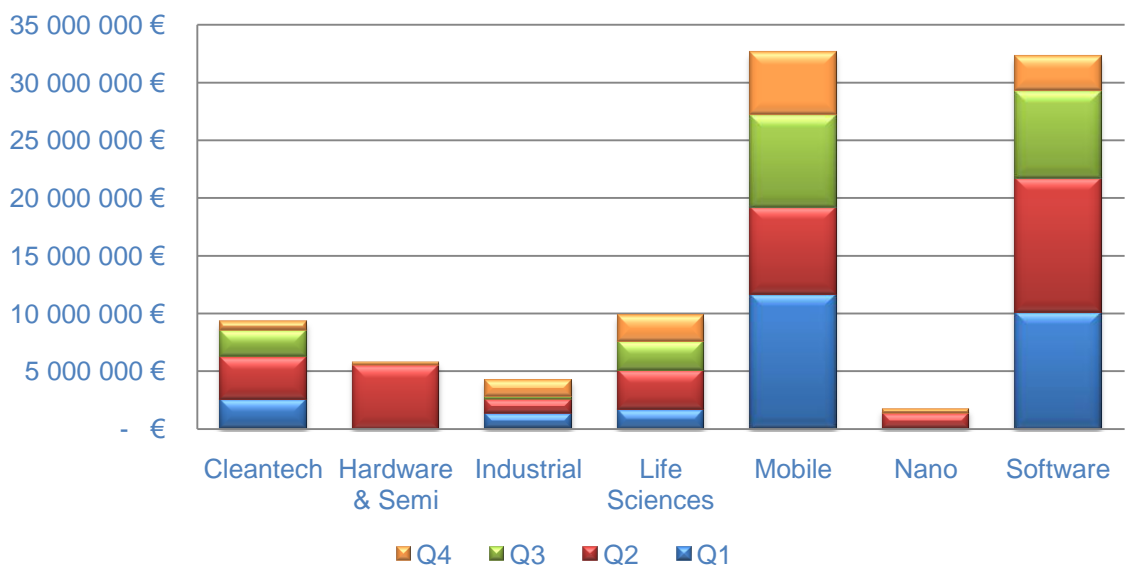
The distribution of investments temporally over 2009 has been rather erratic within industries. Q1'09 was active in all industries except in hardware & semiconductors, which received most of its investments in Q2'09 along with mobile industry. Q3'09 was especially good for nanotechnology industry with Heptagon closing its second round with €15 million. In Q4'09 the cleantech, hardware & semiconductors, and software industries received funding quite evenly.

Within the software industry especially investments in Profit Software and Fruugo raised substantially the total sum invested. The cleantech industry was led by Ecolator Finland's first round and the hardware & semiconductor industry by European Batteries' first round. In 2008 the investments were spread more evenly across the quarters. 2008 was clearly a bigger year for the mobile industry to receive funding, while in 2009 software was the dominant industry

Investments (€) By Quarter 2009



Investments (€) By Quarter 2008



4.0 Trends for 2010

While the amount of venture capital activity clearly declined in Finland, it mirrors what happened in the world's major venture capital markets. According to most sources, venture investing activity declined on the order of 30% in the USA, Europe and Israel, with both Euro amounts and number of deals suffering. However, as Dow Jones reports, Q4 in the USA showed a rebound, so the question is, will Europe (and Finland!) follow suit, since the USA usually is a leading indicator for Europe.

Lets first look at what has happened so far in 2010 (as of this writing, Feb 07, 2010). So far, eight deals have been announced in 2010:

Deals Announced during first 40 days of 2010

Company Name	Round	Size (M€)	Lead Investor
Footbalance System Ltd	First	7.0	Scope Capital
MHG Systems Ltd	Seed	n/a	Veraventure
Confidex Ltd	Second	2.7	Aura Capital
Music Portal Ltd (AKA SongHi Entertainment)	Seed	n/a	Veraventure
Conmio Ltd	First	1.4	Inventure
XIHA Ltd	First	0.7	Veraventure
ScanNanoTek Ltd (AKA Scannano)	First	1.2	Inventure
Rightware Ltd (Spinoff from Futuremark)	Seed	3.0	Inventure
TOTAL		8	17.0

This compares to exactly the same number of deals in 2009, and a slightly lower total volume:

Deals Announced during first 40 days of 2009

Company Name	Round	Size (M€)	Lead Investor
WOT Services Ltd (AKA Against Intuition)	Second	n/a	Open Ocean Capital
Conformiq Software Ltd	Second	3.0	Nexit Ventures
SAIMA Soft & People Ltd	Undiscl.	n/a	Canelco Capital
Eniram Ltd	Second	5.0	Ferd Venture
Axel Technologies Ltd	Second	2.4	Nexit Ventures
Silecs Ltd	Third	6.0	Innovations Kapital
Sopima Ltd	Pre-seed	n/a	Jukka Kosonen
PlexPress Ltd	Seed	2.1	Conor Ventures
TOTAL		8	21.5

(Both tables make qualitative assumptions regarding undisclosed deal sizes)

Thus, the kickoff to both years is qualitatively the same. In 2009, 10 deals were announce during the remainder of Q1, making it the biggest VC quarter of the year. We know of several more deals to be announced, but only time will tell whether they surpass Q1 2009. So at least we can say that Q1 is not likely to exceed greatly 2009 if at all.

For the rest of 2010 to have a significant uptick, we would highlight the following areas. They all have both "controllable (by entrepreneurs, policymakers, local VCs) and "uncontrollable" elements:

- **Megadeals** - We have highlighted the impact of WinWind and Blyk on the overall numbers. This is of course something to keep an eye on, and realize that in general all HUGE visions will need an "Aha!" type investment (or customer's relationship even better) to put them on the global stage.

- **New VC funds announced** – Last year we saw some new VC funds announced, and very much more will come this year, in particular in the form of existing VCs getting new funds targeted at early and expansion investments.
- **VIGOs** – The new government-sponsored program is now fully formed and six good teams are in place. We are seeing the first announcements of their participation in seed and first round funding, and hope to see that continue.
- **Exits** – 2009 saw the announcement of ZERO significant exits. 2010 must start to see more. Valimo being acquired by Gemalto was a good start, but many more are necessary to prove the VC market in Finland is capable of generating great returns for limited partners.
- **International Investment** – As reported earlier, there was a big reduction of international VC money flowing into Finland. This must change, fast! Scope Capital's 7m Euro investment into Footbalance is a good start there.

Finally, we would like to see the discussion stop focusing on "the Finnish VC Market", and all the challenges. We are actually one region in a Baltic/Nordic market. We must convince investors locally and globally not that

"There is enough good deal flow in Finland to create its own VC market",

But instead, that

"Finland produces a significant amount of deal flow within the Baltic/Nordic Region" (which by the way includes St. Petersburg also!)

The more we can accomplish capturing mindshare around that this concept, the more inbound flow of investment we will see, and the more critical Finland will become to global innovation.

Watch for some interesting new initiatives around this theme from Technopolis!

Appendix 1 – Funded companies

Logo	Company Name	City	Industry	Website
	7signal Ltd	Helsinki	ICT Software	www.7signal.com
	Aava Mobile Ltd	Oulu	ICT Mobile Telecoms	www.aavamobile.com
	Abacus Diagnostica Ltd	Turku	Life Sciences	www.abacusdiagnostica.fi
	Afore Ltd	Turku	Industrial	www.afore.fi
	APL Systems Ltd	Kuopio	ICT Hardware & Semiconductors	www.apl.fi
	Astarte Ltd (AKA Helpten)	Espoo	ICT Mobile Telecoms	www.astarte.fi
	Axel Technologies Ltd	Turku	ICT Mobile Telecoms	www.axel.fi
	Balancion Ltd	Espoo	ICT Software	www.balancion.com
	Bidray Group Ltd	Espoo	ICT Software	www.bidray.com
	CCS City Cool Solutions Ltd	Äänekoski	Cleantech	www.citycoolsolutions.com
	Chat Republic Games Ltd	Helsinki	ICT Software	www.chat-republic.com
	Cognitive Maps Ltd (AKA Hitlantis)	Helsinki	ICT Software	www.hitlantis.com
	Conformiq Software Ltd	Espoo	ICT Software	www.conformiq.com
	Dodreams Ltd	Helsinki	ICT Software	www.dodreams.com
	E.S.T. Equestrian Sport Textiles Ltd	Tampere	Industrial	www.est-europe.com
	Ecolator Finland Ltd	Oulu	Cleantech	www.ecolator.fi
	Eniram Ltd	Helsinki	Cleantech	www.eniram.fi
	EpiCrystals Ltd	Tampere	Industrial	www.epicrystals.com

	European Batteries Ltd	Espoo	ICT Hardware & Semiconductors	www.europeanbatteries.com
	EvoStem Finland Ltd	Turku	Life Sciences	www.evostem.fi
	Fenomen Creator Ltd	Espoo	ICT Mobile Telecoms	www.fenomen.fi
	Frosma Ltd	Helsinki	ICT Software	www.frosma.com
	Fruugo Ltd	Helsinki	ICT Software	www.fruugo.com
	Heptagon Ltd	Espoo	Nano Technology	www.heptagon.fi
	IHQ Innovation Ltd (AKA IHQLIFE)	Helsinki	Life Sciences	www.ihqlife.com
	Imbera Electronics Ltd	Espoo	ICT Hardware & Semiconductors	www.imbera.fi
	in4mo Ltd	Espoo	ICT Mobile Telecoms	www.in4mo.com
	Ironstar Helsinki Ltd	Helsinki	ICT Mobile Telecoms	www.ironstarhelsinki.com
	LinkoTec Ltd (AKA Dazzboard)	Espoo	ICT Software	www.dazzboard.com
	MediSapiens Ltd	Helsinki	Life Sciences	www.medisapiens.fi
	Microtask Ltd	Helsinki	ICT Software	www.microtask.fi
	Mopedi Ltd (AKA Epuuk)	Tampere	ICT Mobile Telecoms	www.epuuk.com
	MOS4 Ltd	Oulu	ICT Software	www.mos4.fi
	My Sites Ltd	Tampere	ICT Software	www.mysites.com
	Nexstim Ltd	Helsinki	Life Sciences	www.nexstim.com
	Norrhydro Ltd	Rovaniemi	Industrial	www.norrhydro.com
	Onbone Ltd (FKA Injectobone)	Espoo	Life Sciences	www.onbone.fi

	Pixolane Ltd	Kempele	ICT Software	www.pixolane.com
	PlexPress Ltd	Helsinki	Life Sciences	www.plexpress.fi
	Preseco Ltd	Espoo	Cleantech	www.preseco.eu
	Profit Software Ltd	Helsinki	ICT Software	www.profitsoftware.fi
	Protie Ltd	Espoo	ICT Software	www.protie.fi
	QAim Ltd	Espoo	ICT Mobile Telecoms	www.qaim.fi
	Safera Ltd	Vantaa	Industrial	www.safera.fi
	SAIMA Soft & People Ltd	Mikkeli	ICT Software	www.saimasoft.com
	SalesMAGNET Ltd	Oulu	ICT Software	www.salesmagnet.fi
	Scancool Ltd	Kokkola	Cleantech	www.scancool.fi
	ScanNanoTek Ltd (AKA Scannano)	Turku	Nano Technology	www.scannano.com
	Silecs Ltd	Espoo	Nano Technology	www.silecs.com
	Sopima Ltd	Helsinki	ICT Software	www.sopima.fi
	Suomen Verkkomaksut Ltd	Jyväskylä	ICT Software	www.verkkomaksut.fi
	There Corporation Ltd	Tampere	ICT Software	www.therecorporation.com
	Viola Systems Ltd	Turku	ICT Hardware	www.violasystems.com
	Wello Ltd	Espoo	Cleantech	www.wello.fi
	Whitevector Ltd	Helsinki	ICT Software	www.whitevector.com

	Widsen Ltd	Helsinki	ICT Mobile Telecoms	www.widsen.fi
	WOT Services Ltd (AKA Against Intuition)	Helsinki	ICT Software	www.mywot.com
	ZenRobotics Ltd	Helsinki	Industrial	www.zendroid.fi

Appendix 2 – Most Active Investors

Finnish investors

Rank	Logo	Investor	Type
1		Veraventure Ltd	Venture Capital
2		Finnish Industry Investment Ltd	Venture Capital
3		SITRA	Venture Capital
4		Nexit Ventures Ltd	Venture Capital
5		VNT Management Ltd	Venture Capital
6		Open Ocean Capital	Business Angel
7		Conor Venture Partners Ltd	Venture Capital
8	N/A	Ari Korhonen	Business Angel
9	N/A	Risto Siilasmaa	Business Angel
10		Inventure	Venture Capital

International investors

Rank	Logo	Investor	Type
1		Innovations Kapital	Venture Capital
2		Ferd Venture	Venture Capital
3		NorthZone Ventures	Venture Capital
4		Index Ventures	Venture Capital
5		Karolinska Development	Venture Capital
6		Tempo Kapital	Venture Capital
7		HealthCap Ventures	Venture Capital
8		Life Sciences Partners	Venture Capital
9		Innovacom	Venture Capital
10		GGV Capital	Venture Capital