



BOARD REPORT AND
FINANCIAL STATEMENTS

2007

Sitra, the Finnish
Innovation Fund

2007 ANNUAL REPORT OF SITRA,
THE FINNISH INNOVATION FUND, TO PARLIAMENT

To Parliament

Under Section 9, subsection 1, paragraph 9 of the Act
on Sitra, the Finnish Innovation Fund (717/1990),
Sitra's Supervisory Board hereby respectfully submits its annual report
on Sitra's operations in 2007 to Parliament.

Helsinki, 27 March 2008

On behalf of Sitra, the Finnish Innovation Fund

Timo Kalli
Chairperson

Anton Mäkelä
Secretary

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2007 Statutory Report of Sitra, the Finnish Innovation Fund, to Parliament

Under the Act on Sitra, the Finnish Innovation Fund (717/1990), Sitra's Supervisory Board comprises the Supervisory Council of the Bank of Finland, which is appointed by Parliament. Under Section 9(1)(9) of the Act, the Supervisory Board must submit an annual report on Sitra's operations to Parliament.

This statutory report for 2007 includes the Supervisory Board's statement, Sitra's financial statements and report on operations, and an audit report by the auditors appointed by Parliament.



THE SUPERVISORY BOARD'S STATEMENT

2007 was the 40th year in the history of Sitra, the Finnish Innovation Fund. During 2007, Sitra focused on programme-based operations in its chosen focus areas, in accordance with its strategy. The Health Care, India and Food and Nutrition Programmes all continued according to plan. In 2007, the Russia Programme and the Environmental Programme were concluded according to plan. At the end of the year under review, two new programme areas were selected: the energy sector and the mechanical industry sector. A new unit, the Innovations and New Solutions unit, was founded during the year in support of programme operations and to implement strategy processes to be decided separately.

In the spring, the Innovations and New Solutions unit implemented two workshop processes dealing with Finland's future challenges and opportunities on the themes 'Innovation activity and policy' and 'The environment and energy'. A training programme for members of parliament was arranged, dealing with the key national and global challenges for the Finnish economy and society. In addition to these, several workshops were arranged during the autumn, for instance, in preparation for the Helsinki Design Lab event and creating an overview of business skills needs.

The Maisema project, which was started to improve the cost structure, productivity and quality of health care services, continued in cooperation with municipalities in the regions of Vaasa, Jämsä-Jämsänkoski and Raisio, using the 'Raisio model'. Work on developing the ICT systems progressed to a point where it will be possible to introduce online prescriptions starting in 2008. The SAINI project, connected with the Health Care Programme, produced a proposal for a national structure for online health-care services. The TERVA project, which is in progress in the Päijät-Häme region, is testing the potential for caring for patients with long-term illnesses in their own home environment, using expert phone advice to guide home care.

The new mini-cluster model that has been created within the Food and Nutrition Programme ERA in support of SMEs in the sector has been tested for just over a year now with three pilot clusters: the Coeliac, Berry and Russia mini-clusters. The Russia cluster founded Fintorus Oy, an export and logistics company, in summer 2007. The mentoring of SMEs started by the ERA programme was in full swing during the year. Schoolchildren's health was promoted through an extensive public-private project and a campaign by the Finnish Heart Association and various companies, which resulted in a website providing information on nutrition and healthy foods.

The measures in the Environmental Programme, which ended at the end of the year, aimed at improving the growth of Finnish environmental business and promoting internationalisation. Sitra launched the new Cleantech Finland brand to promote cooperation among companies in the environmental sector and marketing in the international arena. The task of the Environmental Programme in its last year of operations was to ensure the continuity of projects within the national plan for the sector. Other organisations continuing the operations of the Environmental Programme are the Finnish Cleantech Cluster and the environmental forum for businesses founded by the Confederation of Finnish Industries.

During 2007, the Russia Programme arranged three forums, in which new models for cooperation and partnership were created between influential parties in key Finnish and Russian business sectors. The industrial park project launched by Sitra has also acted as a model for other players and their new projects. The Environmental Programme and the Russia Programme's joint Russian network for environmental companies investigated projects in waste management and independent energy production in Russia. The programme ended at the end of 2007.

In 2007, the key aim of the India Programme was to promote an exchange of researchers and postgraduate students between India and Finland. Preparations were also made for seminars on various topics to be held in spring 2008, networking players in the areas in question both in Finland and India for cooperation. The India Programme will finish in spring 2008.

In 2007, the Technology Incubator Development Programme (Yrke) arranged a monitoring period for the Programme, with the aim of improving the competitiveness of incubators in a changing funding situation and provide training for the managers of incubators to commercialise incubator services. Yrke-Akatemia, a training programme for incubator managers and staff, was completed, and other measures connected with the completion of the Yrke project were prepared.

During the year, one national INTRO business forum and two international EASY forums funded by the European Commission. The aim set in connection with the drafting of the Government Programme, that Sitra's PreSeed operations would be transferred to Veraventure Oy and the Finnvera Group, was implemented at year end.

During the year, Sitra Ventures, which handles Sitra's venture capital investments, actively participated with programme organisations in the preparation and implementation new investments and in further financing of portfolio companies. The Sitra Industry Ventures investment portfolio included 47 companies at the end of the year under review.

The nominal value of Sitra's endowment capital is EUR 235 million and the market value of the capital was EUR 821 million at year end. The yield on endowment capital investments was 7.5 %. The endowment capital is invested in accordance with the investment policy confirmed by the Supervisory Board, and no changes were made to the policy during the year.

The composition of the Supervisory Board and the Board of Directors, and the names of the auditors are provided in the Board of Directors' Report.

According to the Supervisory Board's understanding Sitra's finances are stable and its operations well managed. At its meeting on 27 March 2008, the Supervisory Board adopted Sitra's profit and loss account and balance sheet as proposed by the auditors. At the same meeting, the Supervisory Board approved the Board of Directors' proposal to carry forward the net profit of EUR 66,089,035.59.

Helsinki, 27 March 2008

Timo Kalli

Martti Korhonen

Tanja Karpela

Antti Kalliomäki

Mika Lintilä

Marja Tiura

./ Anton Mäkelä

Liisa Jaakonsaari

Pekka Ravi

Ben Zyskowicz

SITRA'S FINANCIAL STATEMENTS FOR 2007

Board report

Operating environment

2007 was a time of strong growth in the global economy. As in the previous year, the developing economies acted as growth engines, but the Eurozone and Finland also attained growth figures in excess of the long-term averages. However, the problems on the US credit market which started early in the year exercised a negative effect on the international monetary and stock market, especially towards the end of the year.

During the year under review, the Finnish economy grew at a good rate, but the growth rate slowed down towards the end of the year. The current account surplus improved on the previous year, and the employment rate improved as a result of strong domestic consumption.

Sitra's operations

By law, it is Sitra's duty to promote stable and balanced development in Finland, the qualitative and quantitative growth of its economy, and its international competitiveness and cooperation.

Sitra's operations are funded with the profits accruing from equity capital and corporate financing. The yield was good from investments and funding during the year. The total sum of Sitra's investment decisions came to EUR 42.1 million and the profit for the year totalled EUR 66.1 million.

Focus areas of the programme-based operations

2007 was the 40th anniversary of Sitra, the Finnish Innovation Fund. During 2007, Sitra focused on programme-based operations in its chosen focus areas, in

accordance with its strategy. The programmes established national and international networks with leading authorities in their respective fields, with the aim of building a successful Finland for tomorrow.

In 2007, both the Russia Programme and the Environmental Programme were concluded according to plan. The new practices that were established during the programmes have been transferred to other players in the field.

The Health Care, India, and Food and Nutrition Programmes all continued according to plan. At the end of the year under review, two new programme areas were selected: the energy sector and the mechanical industry sector.

A new unit, the Innovations and New Solutions unit, was founded during the year in support of programme operations and to implement strategy processes to be decided separately.

Generating information

The means that Sitra's programme operations have at their disposal are reports, strategy processes, experimental projects, development of business operations and corporate funding. The methods used vary from programme to programme.

Reports and strategies were drawn up in, for instance, the Food and Nutrition Programme ERA, which worked with companies and researchers in the sector to compile a strategy report that outlines research and business development in the sector. The Russia Programme published a number of reports on the potential and requirements for business operations in Russia. Meanwhile, the India Programme provided information on the higher education system in India to Finnish partners in universities and business life.

During the year under review, the Technology Incubator Development Programme (Yrke) collected the commercialisation data of universities for 2000–2005. The results were turned into an international comparison with conclusions. The early part of the year also saw the completion of a report, drawn up in support of cooperation between higher education institutions and companies, concerning the contractual usage on the commercialisation of innovations associated with research.

Corporate funding within the programmes

Where corporate funding was concerned, the ERA Programme made its first foreign investment in the US company Efficas Inc. in the interests of transferring expertise and international business practices to Finland. The Environmental Programme raised awareness among Finnish venture capitalists and other financiers about cleantech companies as an investment, and preparation was also under way for a venture-capital fund that would make investments in the Nordic countries in order to reinforce funding for the environmental business. Preparations for the fund included the compilation of a database of 2000 Nordic companies for the fund's use.

The Health Care Programme was involved in establishing the Terveysrahasto Oy health-care fund. The flow of projects to the fund, which supports the development and renewal of commercial health services, was dynamic in 2007.

Innovation operations

During the year under review, a new Innovations and New Solutions unit was founded in support of programme operations and to implement national-level strategy processes. The operations of the unit comprise aspects such as forecasting changes in the operating environment in society at large. This forecasting will also be used to look for new programme ideas for Sitra. The national forecasting network will be reinforced by developing a national forecasting network service. The Innovations and New Solutions unit also organises the evaluation of the effectiveness of programmes upon their completion.

In the spring, the Innovations and New Solutions unit implemented two workshop processes dealing

with Finland's future challenges and opportunities on the themes 'Innovation activity and policy' and 'The environment and energy'.

A training programme for members of parliament was arranged, dealing with the key national and global challenges for the Finnish economy and society. In addition to these, several workshops were arranged during the autumn, for instance, in preparation for the Helsinki Design Lab event and to create an overview of business skills needs.

Programme operations

Health Care Programme

The Health Care Programme focuses on finding new solutions to improve health-care services and, in its third year of operations, the programme focused on four key subject areas: the evaluation of the demand for care and the associated care needs, improving the transparency of means of operation in the health-care services, improving the user friendliness of electronic patient databases, and improving the patient's own operating potential so that he or she can take part in his or her own care in a more independent capacity than previously.

The Maisema project, which was established to improve the cost structure, productivity and quality of health-care services, continued in cooperation with municipalities in the Vaasa, Jämsä-Jämsänkoski and Raisio regions, using the 'Raisio model'. The project has inspired nearly a hundred municipalities to consider joining the Maisema project.

Development of electronic patient databases has made progress as expected under the new legislation. The introduction of electronic prescriptions will begin in 2008. The electronic patient databases in use at present have proved more unreliable than expected and also more difficult to use. These problems may mean that the project will have to re-evaluate how to complete the development work so as to get the best possible end results.

During the year under review, the SAINI project, connected with the Health Care Programme, produced a proposal for a national structure for online health-care services; the report can now be used as a basis for developing a uniform online service. The purpose of the online service is to offer the patient comprehensive

and reliable information on both the operations of the health-care services and hospital care.

The TERVA project, which is in progress in the Päijät-Häme region, is testing the potential for caring for chronically ill patients in their own home environment, using expert phone advice to guide home care. Results from the project are expected at the end of 2009.

Food and Nutrition Programme

The Food and Nutrition Programme ERA looks for concepts that will help make Finland a model country for healthy and internationally competitive nutrition. The programme's operating plan for 2007 was implemented according to plan. There were slightly fewer venture-capital investments than planned and in accordance with a decision by the Board of Directors of the Finnish Food and Drink Industries' Federation, the industry decided to withdraw from the plan to establish a strategic centre for science, technology and innovation in the field of food and nutrition since the will and resources were clearly lacking. The preparatory work for the strategic centre has nevertheless promoted cooperation in the industry.

The new mini-cluster model that has been created in support of SMEs in the sector has been tested for just over a year now with three pilot clusters: the Coeliac, Berry and Russia mini-clusters. Some 15 players have taken part in the operation of the Coeliac cluster during the year. Several companies capable of international operations stand out among the group. The companies in question together with the Finnish Coeliac Society and a coeliac research team from the University of Tampere arranged events promoting internationalisation during the year. The internationalisation of smaller companies that still operate only on the domestic market is supported through a project started with Foodwest Oy and Finpro, concentrating on improving export capacity in addition to actual internationalisation measures.

The Russia cluster founded Fintorus Oy, an export and logistics company, in July. In addition to Sitra and the Northwest Russia Fund, the shareholders in the company include 17 other companies. Fintorus Oy set up a subsidiary in St. Petersburg called Finprodi. The company will be operational in early 2008.

The mentoring of SMEs started by the programme was in full swing during the year.

The ERA programme focused on promoting the

health of schoolchildren through an extensive public-private partnership project. In addition to this, young people's nutrition was promoted through a campaign by the Finnish Heart Association and various companies, which resulted in a website providing information on nutrition and healthy foods. The Smart Snack vending machine project was carried out by companies in cooperation with the University of Turku, and it showed that a vending machine is a good way of encouraging young people to choose healthy snacks. The concept that was developed on the basis of the results is now commercially available.

Environmental Programme

The challenges and opportunities of the environmental business and clean technology became topics of public interest during the year as a consequence of the debate on climate change and energy production and energy use.

The measures in the Environmental Programme, which ended at the end of the year, aimed at improving the growth of Finnish environmental business and promoting internationalisation. As the programme ended, a report by Sitra showed that the sector was growing rapidly in a profitable way and company order books were full.

The task of the Environmental Programme in its last year of operations was to ensure the continuity of projects within the national plan. The cooperation built up during the programme made it possible to successfully transfer tasks to other players. In addition to this, the aims of the national plan were incorporated into the Government Programme.

The Environmental Programme launched the new Cleantech Finland brand to promote cooperation among companies in the environmental sector and marketing in the international arena. Responsibility for developing the brand was transferred to Finpro when the programme ended. The Environmental Programme developed the way statistics are kept in the sector in Finland and in Europe. Statistics Finland will start monitoring the business operations and keeping statistics on them in 2008. The forecasting of future trends will be transferred to the Ministry of the Environment in 2008. The international networks created will also continue operations.

Other organisations continuing the operations of the Environmental Programme are the Finnish

Cleantech Cluster and the environmental forum for businesses founded by the Confederation of Finnish Industries. The founding of the forum was one of the key goals of the national plan.

Russia Programme

The Russia programme strives to raise awareness about Russia, providing companies with up-to-date information on Russia and the opportunities available there. The programme ended at the end of 2007.

During 2007, the Russia Programme arranged three forums in which new models for cooperation and partnership were created between influential parties in key Finnish and Russian business sectors. The forums were the Finnish-Russian environmental sector forum held in March, the innovation and funding forum dealing with potential cross-border cooperation held in St. Petersburg in October, and the Finnish-Russian Partnership Forum, which was also the closing event for Sitra's Russia Programme. A great many new contacts were forged and, on the Russian side, there were representatives of new commercial players for the future, which served to reinforce faith that Russia is opening up and becoming part of the international economic community and cooperation within it.

The Integraatio project built networks between Finnish SMEs in Finland and in Russia, and many of the companies in the project had already established operations in Russia or had started subcontractor operations. The industrial park project is awaiting building permission. The industrial park project launched by Sitra has also acted as a model for other players and their new projects.

The Environmental Programme and the Russia Programme's joint Russian network for environmental companies investigated projects on waste management and independent energy production in Russia, and international sources of funding for cooperation projects between the private and public sectors.

India Programme

In 2007, the key aim of the India Programme was to promote an exchange of researchers and postgraduate students between India and Finland. The Sitra Fellowships grant system was established in order to promote contacts and exchanges between the universities and research institutions in the two countries concerned. The implementation of the Sitra Fellowships project is

the responsibility of the Centre for International Mobility (CIMO), and cooperation has been a success.

By Christmas 2007, 73 applications had been received and grants were awarded to 16 highly qualified applicants. Most of the grants were awarded to Indian postgraduate students and researchers coming to Finland.

During 2007, preparations were also made for seminars on various topics to be held in spring 2008, networking players for cooperation in the areas in question both in Finland and India. The India Programme will finish in spring 2008.

New programmes

During the year under review, there were also preliminary studies for new programmes to be selected in the following fields: new production models for municipal services, the global structures of the mechanical industry, the energy sector and security technology. On the basis of the preparatory work, the Board of Directors decided in the autumn to start two new programmes as of the beginning of 2008: the Energy Programme and the Growth Programme for the Mechanical Industry. The year 2008 will also see the preparation of a third new programme, which will deal with the reform of municipal service production. It will be launched at the beginning of 2009.

Business Development and Corporate Funding

Technology Incubator Development Programme (Yrke)

In 2007, the Technology Incubator Development Programme (Yrke) arranged a monitoring period for the Programme, with the aim of improving the competitiveness of incubators in a changing funding situation and to provide training for the managers of incubators to commercialise incubator services. The incubators were also given commercialisation training for a fee, and a mentoring event where early-stage venture capitalists participated was arranged. Yrke-Akatemia, a training programme for incubator managers and staff, was completed.

During the project, which started in 2003, the number of new incubator companies per year seems to have stabilised at about 160, compared with about 100 at the start of the project. The best company list grew even more than this, and the number of new growth-oriented companies in product business grew from 70 at the outset to 130 companies.

During the year under review, preparation to wind up the project started. This included preparing to transfer responsibility for the reporting system created within the programme, for organising the stakeholder seminar and for awarding the incubator company of the year award to the Finnish Science Park Association.

Sitra's holdings in three technology commercialisation companies, Licentia Oy, Innokarelia Oy and Tuotekehitys Tamlink Oy, were sold.

PreSeed Services

The purpose of Sitra's PreSeed service, started in 2000, is to improve the investment facilities of technology start-up enterprises and to arrange initial funding for them.

During the year, one national INTRO business forum and two international EASY forums were funded by the European Commission in Helsinki and Estoril. The forums introduced a total of 51 companies, 17 of which were Finnish early-stage companies. A total of 400 or so business angels and other investors from 20 countries took part in the events. The international investment forums have worked in excess of expectations; for instance, seven out of 21 companies presented at the Helsinki EASY forum have already secured the investment they were seeking. The EASY forums and experience of them have led to the creation of the first trans-European fund concept. In addition to Sitra, the project includes partners from Italy, the UK and the US, and also the European Investment Fund. If implemented, the new fund would make investments in promising growth-oriented European companies in association with business angels. During the year, the project progressed to the point of funding negotiations.

The aim, set in connection with the drafting of the Government Programme, that Sitra's PreSeed operations would be transferred to Veraventure Oy and the Finnvera Group, was implemented at year end. In 2008, Sitra will continue to transfer certain projects, such as the EASY project, to Veraventure Oy.

Venture-capital investments – Sitra Ventures

During the year, Sitra Ventures, which handles Sitra's venture-capital investments, actively participated with programme organisations in the preparation and implementation of new investments and in further financing of portfolio companies. At the same time, the unit handled the management of venture-capital investments made by Sitra in previous years. There were 47 companies in the Ventures portfolio at year end. Resources were channelled according to the strategy into the preparation of investments in new programmes as exits from target companies permitted.

The market climate in venture-capital investments remained favourable and further funding of target companies was successful. In several cases, it was also possible to recruit new venture capitalists to secure the operations and growth of companies. A decision was made to continue investment in the case of fifteen portfolio companies, totalling EUR 8.8 million. Exits were implemented from 12 target companies. There were also partial exits from two companies. The exits returned assets of EUR 0.4 million more than had originally been invested in the companies in question. The year's biggest transaction was the exit from Neorem Magnets, a company in Ulvila that manufactures special magnets.

Active and long-term development of international contacts made it possible to obtain international capital for Finland and joint investments with foreign investors in Finnish companies. In addition to meetings with international venture capitalists, Sitra continued its cooperation with Nordic early-stage Life Sciences investors within the Nordic Life Sciences Seed Investor Network and participated in the operations of the Nordic Venture Network, founded by management companies investing chiefly in ICT.

Administration

Supervisory Board

Sitra's Supervisory Board is made up of the Supervisory Council of the Bank of Finland, which is appointed by Parliament. In 2007, the Supervisory Board convened five times. Its members were the following MPs at the end of 2007: Seppo Kääriäinen (Chairperson), Antti Kalliomäki (Vice-Chairperson), Liisa Jaakonsaari, Martti Korhonen, Mika Lintilä, Pekka Ravi, Tanja

Saarela (Karpela), Marja Tiura and Ben Zyskowicz. Anton Mäkelä, Senior Lawyer, acted as Secretary to the Board.

Board of Directors

Sitra's Board of Directors convened six times during the year. Its members were Raimo Sailas, State Secretary (Chairperson); Erkki Virtanen, Permanent Secretary (Vice-Chairperson); Harri Skog, Permanent Secretary; Anne Brunila, President; Satu Lähteenmäki, Professor and Esko Aho, Sitra's President.

Auditors

Sitra's auditors, appointed by Parliament, were the following at the end of 2007: Olli Nepponen MP as Chairperson (with Lenita Toivakka as Deputy), and members Eero Heinäluoma MP (Tarja Filatov), Esko Kiviranta MP (Jari Leppä), Markku Koskela, APA (Hannu Riippi, APA), and Kari Manner, APA (Eero Prepula, APA, CPFA). The Secretary was Professor Kalervo Virtanen, APA. The authorised public accounting firm PricewaterhouseCoopers Oy appointed by the Supervisory Board was responsible for Sitra's internal audit and for auditing the targets of Sitra's financing activities. The auditor in charge was Juha Wahlroos, APA.

Personnel

During the year, there were six staff events where the topics dealt with included Sitra's strategic choices. Two manager forums that develop managerial work were held and a separate project for the evaluation and development of managerial work was started. There was also language training for staff, and members of staff also took part in various training events to boost their personal expertise.

In information management, the project for new client and event management, project management and document management was almost completed. At year end, training for the whole staff in using these new tools was started. The training will continue well into 2008.

The efficiency of administrative services was improved by outsourcing the telephone switchboard and replacing the entire phone system.

Endowment capital

During the year under review, the market value of Sitra's endowment capital increased to EUR 821 million from EUR 767 million at the end of the previous year. The invested assets produced an annual yield of 7.5 per cent. Responsibility for managing most of Sitra's endowment capital has been entrusted to external asset-management companies.

Fifty-seven per cent of the market value of the endowment capital consists of Finnish instruments. ABN AMRO Omaisuuudenhoito Suomi Oy and Danske Capital, Sampo Pankki Oyj manage the Finnish equity portfolio, as well as the interest-bearing instruments in the Eurozone. Sitra has also invested in Finnish value shares in the OP-Suomi Arvo fund. Sitra has also invested in the OP Focus fund. In August, Sitra made an investment in the Sampo Yhteisökorokorahasto fund used in Sitra's cash management alongside ABN AMRO's Korko B-rahasto fund.

International equity mandates are managed by Morgan Stanley & Co. and JP Morgan Asset Management Ltd. In addition, Sitra has also made investments in the Handelsbanken Eurooppa Indeksi fund and in three funds that focus on emerging markets (JP Morgan Emerging Markets Equity, Carnegie East European and HSBC GIF Indian Equity). In December, investments were made in funds that invest in cleantech companies: Fondita 2000+ and eQ Clean Energy.

Sitra also has holdings in three hedge funds: Union Bancaire Privée's Selectinvest, ABN AMRO's Multi Strategy and OKO Equity Hedge. Additional investments were made in the two former funds in July 2007.

Some of Sitra's endowment capital is also invested in venture-capital funds and real estate, and an investment in ABN AMRO Property Securities Fund Europe. The Innopoli 2 property in Espoo was sold in August 2007.

Proposal for the Disposal of Profit

The Board of Directors proposes that the net profit for the year, amounting to € 66 089 035.59, be carried forward.

Profit and loss account

	1 Jan – 31 Dec 2007	1 Jan – 31 Dec 2006
	€	€
ORDINARY OPERATIONS		
Venture-capital investment		
Income		
Profit from sales	9 261 402,21	25 110 512,81
Income from investment funds	1 399 049,53	811 113,22
Income from other investments	3 136 636,75	2 517 228,94
	1) <u>13 797 088,49</u>	<u>28 438 854,97</u>
Expenses		
Investment expenses	2) -11 273 752,71	-6 027 432,23
Other expenses	3) -267 995,27	-442 866,63
Share of general expenses	<u>-2 612 950,13</u>	<u>-2 991 321,94</u>
	<u>-14 154 698,11</u>	<u>-9 461 620,80</u>
	-357 609,62	18 977 234,17
Programmes and other research and development		
Income		
Income from projects	4) 4 760,85	10 294,07
Expenses		
Expenses from projects	5) -5 345 168,26	-4 726 313,24
Other expenses	6) -716 696,86	-628 054,51
Share of general expenses	<u>-3 914 840,08</u>	<u>-3 716 707,79</u>
	<u>-9 976 705,20</u>	<u>-9 071 075,54</u>
	-9 971 944,35	-9 060 781,47
Administration		
Expenses		
Personnel expenses	7) -9 349 076,75	-8 959 373,85
Depreciation	8) -401 704,24	-289 544,00
Other expenses	-3 499 622,37	-3 065 932,37
Transfer to operations	<u>6 527 790,21</u>	<u>6 708 029,73</u>
	<u>-6 722 613,15</u>	<u>-5 606 820,49</u>
Profit/loss	-17 052 167,12	4 309 632,21
INVESTMENT OPERATIONS		
Income from endowment capital	9) 121 512 190,12	80 009 281,97
Expenses from endowment capital	10) <u>-38 370 987,41</u>	<u>-11 200 329,77</u>
	83 141 202,71	68 808 952,20
Net profit	<u>66 089 035,59</u>	<u>73 118 584,41</u>

Balance sheet

	31 Dec 2007	31 Dec 2006
	€	€
ASSETS		
Fixed assets		
Tangible assets		
Machinery and equipment	758 699,79	596 043,02
Shares and participations	14 518 176,31	14 518 176,31
Other investments	363 795,49	266 483,27
	11) <u>15 640 671,59</u>	<u>15 380 702,60</u>
Venture-capital investments		
Shares and participations	83 185 491,91	90 869 500,60
Capital loans	5 917 518,79	8 023 367,90
Other loans	1 883 108,06	3 247 644,32
	12) <u>90 986 118,76</u>	<u>102 140 512,82</u>
Endowment capital investments		
Bonds and notes	166 574 767,44	128 168 408,59
Shares and participations	174 483 043,02	217 156 724,11
Fund investments	172 794 475,81	106 546 650,71
Real estate investments	12 941 048,25	26 806 997,58
Other investments	143 498 715,82	119 664 573,06
	13) <u>670 292 050,34</u>	<u>598 343 354,05</u>
	776 918 840,69	715 864 569,47
Current assets		
Receivables		
Other receivables	14) 6 483 673,72	4 466 596,58
Cash and bank receivables	487 774,83	2 829 894,93
	<u>6 971 448,55</u>	<u>7 296 491,51</u>
Total assets	<u>783 890 289,24</u>	<u>723 161 060,98</u>
EQUITY AND LIABILITIES		
Equity		
Endowment capital	235 463 097,04	235 463 097,04
Retained earnings	443 861 844,03	370 743 259,62
Net profit for the year	66 089 035,59	73 118 584,41
	745 413 976,66	679 324 941,07
Accumulated appropriations		
Reserves from funding operations	13 551 149,70	17 527 496,85
Liabilities		
Short-term		
Other liabilities	15) 8 313 289,87	9 799 332,74
Liabilities from funding operations	16) <u>16 611 873,01</u>	<u>16 509 290,32</u>
	24 925 162,88	26 308 623,06
Total equity and liabilities	<u>783 890 289,24</u>	<u>723 161 060,98</u>

Accounting principles

Sitra's accounts observe the principles laid down in the Finnish Accounting Act with the following exceptions:

- In the case of early-stage investments (seed funding), a risk reserve is made in accordance with the principle of prudence (reserves from funding operations).
- Expenses incurred from PreSeed funding, business development operations and R&D related to programme activities are entered as expenses, and the same applies to associated debts the repayment of which is conditional.
- Repayments related to financing decisions (income) are recorded only after payment has been received and the right of possession to the instruments has been transferred.

Structure of the financial statements

The Profit and Loss Account and Balance Sheet have been adjusted to correspond to the new organisation. The figures for the previous year have been adjusted to make them comparable.

Valuation of investments

Shares, participations and bonds in endowment investments have been valued at the original acquisition cost or at market value in accordance with the lower of cost and market principle. Value adjustments have been effected according to acquisitions. Both Finnish and foreign shares have been entered according to their share price on the last day of the financial year.

Bonds and debentures have been valued according to the price given by Investment Research Finland Ltd.

The balance sheet value of investments in portfolio companies and funds is recorded at their historical acquisition value or a lesser sum determined by internal valuation. The internal valuation procedure for direct investments is performed twice a year and any necessary value adjustments made on the basis of the valuation at year end are included in the financial statements. The value of investments in venture-capital funds is calculated using the same principles where applicable. The basis of their value is the same as that given by the funds for their portfolios.

Valuation of fixed assets

Depreciation according to plan on fixed assets is calculated in equal instalments of the original acquisition value for the useful life of the asset.

Useful life as used in depreciation according to plan:	
other capitalised expenditure	5 years
renovation of office premises	10 years
machinery and equipment	5 years
computer equipment	3 years

Depreciation on invested assets has been calculated in the same way as depreciation on fixed assets.

Foreign currencies

Receivables and payables in foreign currencies have been translated into euros at the average exchange rate in force on the last day of the financial year.

Notes to the financial statements

Notes to the profit and loss account (in € 1,000)

Further details are given here of the different items in the Profit and Loss Account. The number refers to the corresponding entry in the Profit and Loss Account.

VENTURE-CAPITAL INVESTMENT

	Programmes		Corporate funding		Fund investments		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
1 Income from investments								
capital refunds	0	0	147	48	0	0	147	48
shares in profit	0	0	0	0	1 399	811	1 399	811
interest payment	344	135	2 412	602	0	1 408	2 756	2 144
profit from sales	0	1 216	9 261	23 895	0	0	9 261	25 111
dividends	7	6	74	217	0	47	81	271
other income	2	0	150	54	0	0	153	54
Total	353	1 357	12 044	24 816	1 399	2 266	13 797	28 439
2 Investment expenses								
expenses	0	-580	-268	-1 355	-253	0	-521	-1 935
value adjustment	-1 087	551	-12 471	2 203	-1 171	-28	-14 729	2 726
change in risk reserve	-1 000	-887	4 976	-5 931	0	0	3 976	-6 818
Total	-2 087	-916	-7 763	-5 083	-1 424	-28	-11 274	-6 027
3 Other expenses								
other expenses	0	0	-268	-441	0	-2	-268	-443

PROGRAMMES AND OTHER RESEARCH AND DEVELOPMENT

	2007	2006
4 Income from projects		
Innovation Programme	0	0
Health Care Programme	0	0
Food and Nutrition Programme	0	0
Environmental Programme	0	0
Russia Programme	0	0
India Programme	0	0
Innovations and New Solutions Unit	0	0
Other research and development activities	5	10
	5	10
5 Expenses from projects		
Innovation Programme	-321	-1 217
Health Care Programme	-2 054	-740
Food and Nutrition Programme	-1 017	-632
Environmental Programme	-728	-1 134
Russia Programme	-612	-508
India Programme	-154	-347
Innovations and New Solutions Unit	-459	0
Other research and development activities	0	-148
	-5 345	-4 726
6 Other expenses		
Innovation Programme	0	-32
Health Care Programme	-133	-148
Food and Nutrition Programme	-192	-251
Environmental Programme	-145	-108
Russia Programme	-168	-73
India Programme	-8	-15
Innovations and New Solutions Unit	-70	0
Other research and development activities	0	-1
	-716	-628

ADMINISTRATION

	2007	2006	2005
7 Personnel expenses			
Wages and salaries	-6 785	-6 516	-6 406
Pension expenses	-1 088	-1 106	-1 107
Other statutory payroll expenses	-716	-596	-788
Other payroll expenses	-760	-741	-739
	<hr/>	<hr/>	<hr/>
	-9 349	-8 959	-9 040
 Personnel at year-end:			
Venture capital investment	20	24	29
Programmes and other research and development	34	32	25
Administration	46	42	42
	<hr/>	<hr/>	<hr/>
	100	98	96

Wages and salaries and other payroll expenses from project personnel were € 0.1 million (€ 0.1 million in 2006) and are included in expenses from projects.

	2007	2006
8 Depreciation		
Depreciation according to plan:		
machinery and equipment	-301	-224
other capitalised expenditure	-87	-53
renovation of office premises	-13	-13
	<hr/>	<hr/>
	-401	-290

INVESTMENT OPERATIONS

	2007	2006
9 Income from endowment capital		
profit from sales	94 224	55 512
interest income	13 023	8 664
bond price gains	1 219	148
exchange rate gains	189	364
dividend income	9 270	10 124
rental income	1 662	2 324
shares in profit	1 925	2 874
	121 512	80 009
10 Expenses from endowment capital		
asset depreciations	-20 929	-5 467
regained depreciations	1 110	1 980
losses on sales	-11 956	-2 635
bond price losses	-1 861	-1 707
exchange rate losses	-3 106	-2 163
asset management fees	-938	-710
real estate expenses	-283	-508
value adjustment om real estate shares	-413	0
other expenses	6	10
	-38 371	-11 200

Notes to the balance sheet (in € 1 000)

Further details regarding the contents of the balance sheet are given here. The number refers to the corresponding entry in the Balance Sheet.

11 Tangible assets

During the year Sitra acquired fixed assets amounting to € 0.7 million (€ 0.6 million in 2006).

	Book value 1.1.2007	Increases	Decreases	Depreciation for the financial period 31.12.2007	Book value 31.12.2007
machinery and equipment	349	455	0	301	503
other capitalised expenditure	154	197	0	87	264
renovation of office premises	113	0	0	13	100
other tangible assets	247	9	0	0	256
	862	662	0	401	1 123

	2007	2006
shares and participations		
shares in office premises	14 509	14 509
other shares	9	9
	14 518	14 518

12 Venture-capital investments

	2007	Change	2006
Programmes	8 142	1 530	6 612
Corporate funding	25 860	-9 901	35 761
Fund investments	56 391	-2 078	58 469
Other investments	593	-706	1 299
	90 986	-11 155	102 141

12.1 Programmes

Shares, participations and other investments held by Sitra

	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Health Care Programme				
Avain Technologies Oy	33%	1 500	359	1 859
IST International Security Technology Oy	32%	2 234	620	2 854
Medhelp Group Oy	50%	6 585	1 107	7 693
Medixine Oy	18%	1 026	0	1 026
Prowellness Oy	19%	1 747	272	2 019
		13 092	2 358	15 450
Food and Nutrition Programme				
Efficas Inc.	6%	1 007	0	1 007
Fintorus Oy	33%	70	0	70
Neomed Oy	10%	13	135	148
Kyrönmaan Juustomestarit Oy	14%	34	366	400
		1 124	501	1 625
Environmental Programme				
AW-Energy Oy	6%	500	0	500
Stellac Oy	15%	750	0	750
Syncron Tech Oy	27%	144	0	144
Waterix Oy	34%	410	0	410
Watrec Oy	25%	400	0	400
		2 204	0	2 204
			Program total	19 279
			Cumulative change in value	-11 137
			Book value	8 143

12.2 Corporate funding

Shares, participations and other investments held by Sitra

	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Business development and commercialisation of technologies				
Culminatum Oy	3%	14	0	14
Finn-Medi Tutkimus Oy	18%	67	0	67
Helsinki Business and Science Park Oy	14%	168	0	168
Innotalli Oy	43%	170	0	170
		419	0	419

Sitra Ventures	Shares and participations		Capital loans and	Investment
	Life Sciences	other loans	total	
	Holding	Amount	Amount	
Akela Pharma Inc.	7%	8 829	0	8 829
Biotie Therapies Oyj	16%	14 855	673	15 528
Boneca Oy	33%	750	1 250	2 000
BPM-Group Oy	45%	885	0	885
CTT Cancer Targeting Technologies Oy	50%	3 500	0	3 500
Delfin Technologies Oy	37%	55	164	219
FibroGen Inc.	3%	3 515	0	3 515
FIT Biotech Oyj Plc	63%	4 080	2 500	6 580
Galilaeus Oy	60%	5 026	4 662	9 688
Hidex Oy	38%	796	605	1 401
Innomedica Oy	51%	270	571	841
Ipsat Therapies Oy	15%	3 386	0	3 386
Juventus Pharma Oy Ltd	52%	2 946	1 155	4 101
Karyon Oy	48%	607	0	607
Karyon-CTT Oy	0%	0	405	405
KC-Holding 3 Oy	42%	2 000	0	2 000
Labmaster Oy	30%	175	2 221	2 396
Mobidiag Oy	43%	3 243	790	4 033
Nexstim Oy	46%	5 282	0	5 282
Pharmatory Oy	24%	759	540	1 299
QuatrX Pharmaceuticals Company	1%	3 895	0	3 895
Reactionlab Oy	38%	52	805	857
Stick Tech Ltd Oy	12%	1 345	0	1 345
Vivoxid Oy	35%	4 022	1 300	5 322
		70 273	17 641	87 914
Other portfolio companies				
Add2phone Oy	18%	1 960	0	1 960
B-Band Oy	25%	151	0	151
CadFaster Oy	3%	0	615	615
DBC International Oy	6%	1 302	0	1 302
Deltagon Group Oy	17%	71	0	71
EC-Engineering Oy	32%	948	0	948
Enterprise Software Ltd	22%	22	661	683
Fimet Oy	47%	496	0	496
Fluid House Oy	10%	150	1 000	1 150
Geniem Oy	17%	336	200	536
Heptagon Oy	19%	3 836	0	3 836
Kuntokumppanit Oy	29%	833	844	1 677
Nesenta Oy	50%	4	2 013	2 017
Panphonics Oy	36%	1 334	0	1 334
Robogrind Oy	20%	200	560	760
Sabriscan Oy	19%	500	0	500
Seven Networks Inc.	1%	1 653	0	1 653
Shanghai Fimet Medical Instruments Co. Ltd	13%	278	0	278
Solibri Oy	14%	150	472	622
Space Systems Finland Oy	13%	220	750	970
Staselog Oy	0%	0	100	100
u-NAV Microelectronics Corporation	1%	168	348	516
Vioq Oy	0%	0	50	50
		14 612	7 613	22 225
			Corporate funding total	110 558
			Cumulative change in value	-84 698
			Book value	25 860

12.3 Fund investments

Sitra's investments in funds

	Amount
Aloitusrahasto Vera Oy	2 000
Apple Tree Partners II L.P.	4 130
Atlas Venture Fund III	1 608
Baltic Investment Fund III	764
Baring Capricorn Ventures	211
Bio Fund Ventures I jatkosijoitusrahasto Ky	500
Bio Fund Ventures I Ky	7 567
Bio Fund Ventures II jatkosijoitusrahasto Ky	750
Bio Fund Ventures II Ky	2 104
Bio Fund Ventures III Ky	3 934
Boston Millennia Partners L.P.	1 559
Crescendo III, L.P.	1 890
Diamondhead Ventures L.P.	3 091
EBRD North-West and West Russia Regional Venture Fund	458
Eqvitec Teknologiarahasto I Ky	1 869
Eqvitec Teknologiarahasto II Ky	4 204
Finnventure II Ky	31
Finnventure III Ky	3
Hambros Advanced Technology Trust III L.P.	604
HealthCap 1999 K.B.	4 498
InnKap 2 Partners	955
InnKap 3 Partners	2 887
Matkailunkehitys Nordia Oy	3 229
MB Equity Fund Ky	7
Merlin Biosciences Fund L.P.	6 413
Norum Russia Fund III	4 000
PMI Venture Fund L.P.	1 897
Russian Technology Fund L.P.	200
Sitra Management Oy	470
Strategic European Technologies N.V.	4 354
Technologieholding Central and Eastern European Fund N.V.	1 202
Trident Capital Fund V	2 579
Terveysrahasto Oy	10 000
Ventech Capital II, L.P.	4 482
	84 450
	Cumulative change in value -28 060
	Book value 56 390

Sitra has holdings in the following management companies and carried interest units through its 100% subsidiary Sitra Management Oy.

Management companies:

3TS Capital Partners Oy
Baltic SME Management B.V.
BIF Management Ltd
Norum Russia General Partner Ltd
Oy Nordic Russian Management Company Ltd
Russian Technology Fund Management Ltd

Carried interest units:

BIF Management Ltd
Bio Fund Management Oy
Eqvitec Partners Oy
RTF Founders L.P.
TCEE FUND N.V.

12.4 Other investments

	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Chip-Man Technologies Ltd	0%	0	80	80
Dermagene Oy	0%	0	40	40
Detrexim Oy	0%	0	20	20
Easdaq S.A.	0%	138	0	138
Eigenvalue Oy	14%	432	0	432
Hi-Col Oy	0%	0	275	275
Kibron Oy	0%	0	823	823
Kitewing Sports Oy Ab	0%	0	17	17
Mega Elektroniikka Oy	0%	0	85	85
Navicre Oy	0%	0	252	252
Okmetec Oyj	0%	0	96	96
Oseir Oy	0%	0	150	150
Ras-Met Oy	0%	0	395	395
7signal Oy	0%	0	20	20
		570	2 253	2 823
			Cumulative change in value	-2 230
			Book value	593

	2007	2006
13 Endowment capital investments		
Long-term investments		
bonds and debentures	166 575	128 168
Finnish shares	92 460	135 559
foreign shares	82 023	81 598
mutual fund investments	159 069	89 318
private equity fund investments	13 725	17 228
real-estate investments	12 941	26 807
Short-term investments		
bonds and notes	9 215	5 467
certificates of deposit	130 614	107 560
cash accounts	2 670	6 438
other short-term investments	1 000	200
	<hr/> 670 292	<hr/> 598 343
Difference between the capitalised acquisition costs and market value of publicly quoted endowment capital securities		
total market value	470 438	464 739
corresponding book value	333 552	306 475
difference	<hr/> 136 885	<hr/> 158 264

14 Other receivables

Interest for the financial year has been entered as income from investment operations and came to € 6.1 million (€ 3.8 million in 2006).

15 Other liabilities

Accrued liabilities include € 3.5 million (€ 5.2 million in 2006) debts to private equity funds where agreement has already been made and for which Sitra's liability exists.

16 Liabilities from funding operations

Debts arising from funding agreements where agreements have already been made and for which Sitra is liable.

Loans due for repayment entered as expenses 31 December 2007

Loans due for repayment have been entered as expenses. They amounted to € 1.8 million at the end of the year (€ 2.2 million in 2006). Of these loans, € 0.7 million (0.8) are sums for which the terms of repayment have been fulfilled and the repayment of which follows a fixed schedule, and € 1.0 million (1.3) are sums for which repayment is bound to royalties instead of a fixed schedule. Loans for which the terms of repayment have not been fulfilled or for which the terms of repayment have not been agreed amounted to € 0.1 million (0.1).

Off-balance sheet liabilities 31 December 2007

	2007	2006
Where funding has been agreed but no agreement yet signed		
Programmes	6 780	6 993
Innovation Programme	0	596
Health Care Programme	2 167	3 684
Food and Nutrition Programme	1 610	1 781
Environmental Programme	2 224	496
Energy Programme	50	0
Russia Programme	173	0
India Programme	556	436
Innovations and New Solutions Unit	405	179
Corporate funding	4 189	7 135
Fund investments	18 000	2 061
Other investmentst	25	848
	29 399	17 216

Signatures to Sitra's Board Report and Accounts 2007

Helsinki, 10 March 2008

Raimo Sailas

Erkki Virtanen

Anne Brunila

Satu Lähteenmäki

Harri Skog

Esko Aho

AUDITORS' REPORT

Having been appointed by the Finnish Parliament as auditors we have examined the bookkeeping, the financial statements, the Board report and administration of Sitra, the Finnish Innovation Fund for the financial period 2007 to the extent required by good auditing practice.

Authorised Public Accountants PricewaterhouseCoopers Oy have performed the internal audit and audit of funded projects. We have familiarised ourselves with their reports of these audits.

The financial statements, which show a net profit

of € 66.089.035,59 have been drawn up in accordance with current legislation. The financial statements and the Board report present a correct and adequate description of the Fund's activities and its financial position.

We recommend that the financial statements be adopted and that members of the Board of Directors and the president be discharged of responsibility for the financial period covered by our audit. We recommend that the proposal for the net profit for the year made by the Board of Directors in their report be approved.

Helsinki, 13 March 2008

Olli Nepponen

Eero Heinäluoma

Markku Koskela
Authorised Public Accountant

Esko Kiviranta

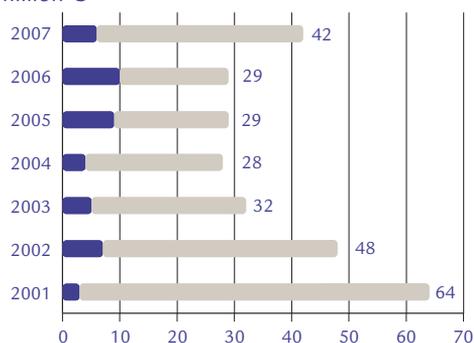
Kari Manner, KHT
Authorised Public Accountant

./. Kalervo Virtanen, KHT

Market value of endowment capital 2001–2007
million €

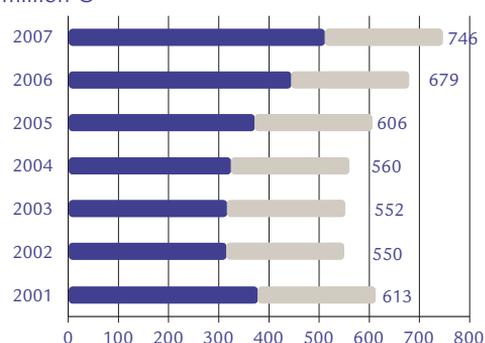


Funding decisions 2001–2007
million €



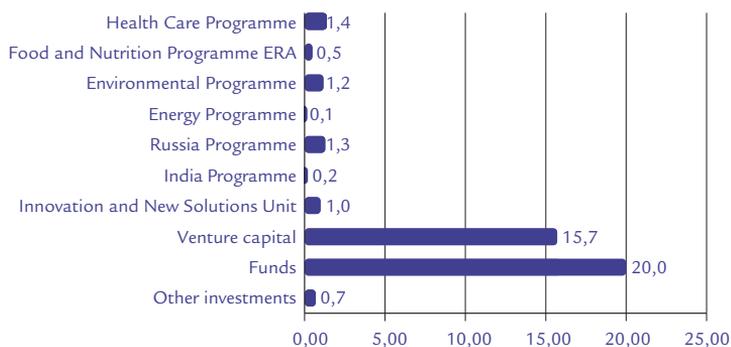
■ Programmes and other research and development
■ Venture capital

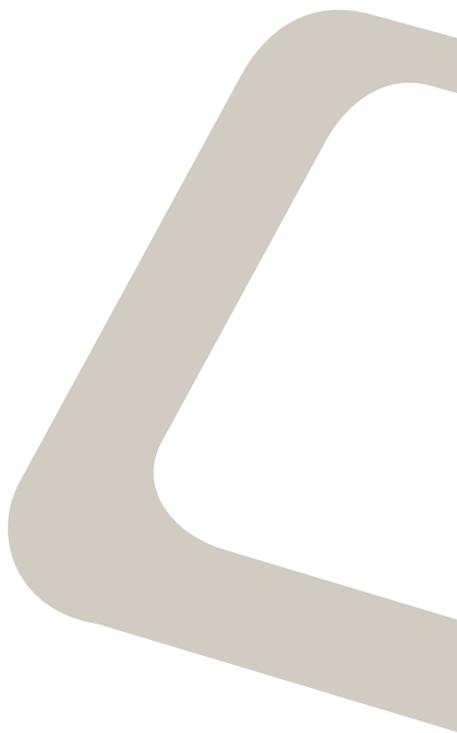
Sitra's equity 2001–2007
million €



■ Retained earnings
■ Endowment capital, nominal value

Funding decisions by area of operations 2007
million €





SITRA

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