



**SITRA**

Finnish National Fund for  
Research and Development

**Annual Report 2004**

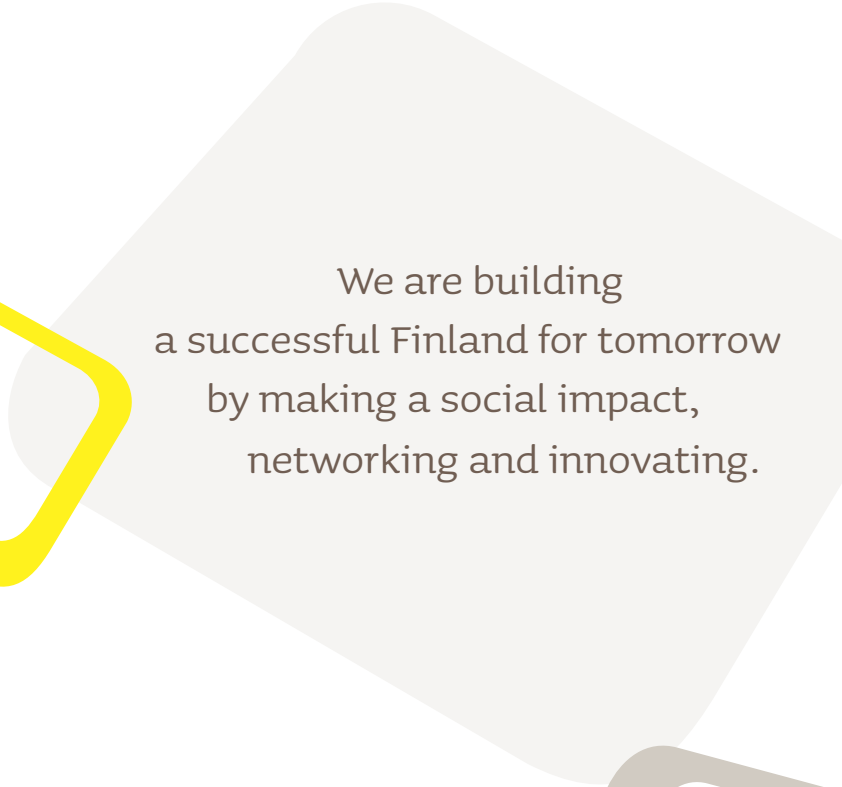
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## The Finnish National Fund for Research and Development

### Annual Report 2004




We are building  
a successful Finland for tomorrow  
by making a social impact,  
networking and innovating.

The Finnish National Fund for Research and Development (Sitra) is an independent public foundation under the supervision of the Finnish Parliament. By law, it is our duty to promote a stable and balanced development in Finland, the qualitative and quantitative growth of its economy and its international competitiveness and cooperation.

Our goal is to have a strong social impact by focusing our competencies on selected programme areas.

The programme areas are Innovation, Health Care, Nutrition, Environment, Russia and India. The programmes comprise research, training, innovative projects, business development and corporate funding. Sitra's activities are financed by the yield from its own endowment capital and financing activities.



Finland is facing three great challenges: globalisation, increasing competition for competencies, and an ageing population.

## FINLAND'S NEW COURSE TO SUCCESS: LEADERSHIP IN INNOVATIVE APPLICATIONS

Globalisation is not a new phenomenon but its influence is spreading faster than ever before, reaching all areas of life.

We have traditionally been successful in the competition for competencies thanks to strategic investments in education, research and technology, where we are among the global elite. Our greatest challenge, however, lies in applying technology, where we need to progress rapidly to become the leader.

The ageing of the population does not mean only that there will be a considerably larger number of pensioners in the near future, causing increasing pressure on social and health care services and the pension system. It also means that those who work will get older.

Together, these three forces of change have set strict terms for the future success of Finland. In global competition, success depends on a society's creativity, flexibility and capacity for renewal. We must improve in all three despite the ageing population.

Sitra is the ideal organisation to take on this responsibility.

### **New strategy to renew the content of operations**

In spring 2004, the Supervisory Board approved Sitra's new strategy for 2005–2007. Under the new strategy, we will improve the effectiveness and enhance the social impact of our operations by concentrating our resources in a small number of focus areas. We will organise our operations into six programmes with a definite term. They will deal with innovation, health care, environmental technology, nutrition, Russia and India.

The new strategy allows us to respond immediately and effectively to the principal challenges to Finland's economic expansion. We intend to make the best of Sitra's independent and autonomous status and the advantages provided by the unique tools at our disposal. At the same time, we will look for solutions that promote the wide use of new technologies.

### **Agent of change and bearer of risk**

Sitra is also an agent of change. There are many sectors in Finnish society where there is wide agreement on the need for change and the technological means required. However, effecting change often encounters obstacles placed by organisations, existing operating models, and attitudes.

I believe that we can accelerate reforms with Sitra's experiments and pilot projects in both the private and public sector and especially where the two meet. Thanks to Sitra's recognised and independent status, we can also promote projects that are disputed and risky.

Sitra is at its best as a forerunner and an experimenter. We are also looking for a stronger international dimension.



### Sitra commits to partnership

One of Sitra's strengths is its ability to engage in cooperation. In each of our programme areas, success is founded on close and confidential cooperation with both Finnish and international partners. What is more, experience has shown that with Sitra's help, partnerships are possible even between unlikely parties.

Finland is a small country in the far north, away from the big markets. Small size can also be an asset, however, if we are able to use the flexibility and low hierarchies to our advantage. When everyone knows and trusts everyone else, it is easy to build modern and competitive networks both in the private and the public sector, and – even more important – between them.

### People bring the result

The results for 2004 show that Sitra has been in good hands.

President Aatto Prihti led Sitra from 1997 to the end of June 2004. During his term, the volume of Sitra's operations tripled. Aatto Prihti left me with a respected and dynamic organisation that is in good shape and prepared to face new challenges.

The Board of Directors and the Supervisory Board lay down Sitra's strategy. They have shown that they appreciate what we do and given us their full support. We have succeeded together with skilled and able partners.

The year 2004 was a year of change at Sitra. This often causes uncertainty and demands ability to adjust. We at Sitra have surveyed our need for change and are inspired with the challenges the future will bring. There are good, hard-working people at Sitra and I can assure there will be plenty to do.

I want to express my deepest gratitude to everyone for your constructive and effective work for Sitra.

Sitra's reputation and status provide us with a good starting point for implementing our new strategy. 2005 will be the beginning of a new chapter in Sitra's success story.

*In global competition, success depends on a society's creativity, flexibility and capacity for renewal.*

Esko Aho  
President

We apply Sitra's tools where they best serve the improvement of Finland's productivity and long-term growth.

## CENTRALISATION WILL BRING GREATER EFFECT

### Sitra's programmes

- innovation
- health care
- nutrition
- environment
- Russia
- India

In its September 2002 report, an international team of experts who evaluated Sitra's activities considered focusing of resources and increasing cooperation between Finnish actors and international networks the key issues that Sitra needs to tackle.

"The report of the evaluation team encouraged us to develop our activities," says Vice President **Kari Tolvanen**.

"Sitra began to develop capital investment in Finland in the latter half of the 1980s. Since then, many private investors have entered the market. We have done a rather good job as a pioneering venture-capital investor in the Finnish innovation system. After public venture capital financing was begun as a comprehensive joint effort with other public sector partners, it was time for Sitra to look for other areas of focus."

#### Programmes for six key areas

Sitra focuses on major challenges to Finnish society. "Based on basic assessments, Sitra's Board decided to launch six programmes. They focus on innovation, health care, nutrition, the environment, Russia and India. The programme areas differ substantially from each other. In fact, it is Sitra's duty to look at the challenges of Finnish society from new angles," Tolvanen explains.

Distinct and measurable goals have been set for each programme. The common goal is to have a broad influence on decision-making and capacity for renewal in Finland.

"Whether the programmes are successful or not depends on how we succeed in bringing the key partners on board. The programmes also include built-in meters of effectiveness and assessment systems. External evaluators assess results annually. We have retained the option of pulling out of projects if their chances of success prove to be minimal."

In addition to the programmes, Sitra continues to look for signals, even weak ones, which could reveal future challenges to Finland. Advance information is needed in selecting programmes and improving their effectiveness and in enhancing Finland's capacity to change.

#### New venture-capital investment in programme areas

Sitra's activities are funded with investment income from its endowment capital and financing activities.

"Investments have to be gauged and activities adjusted according to current markets. The market value of Sitra's endowment capital was 573 million at year-end and the return on it was 7.1%. There are some 100 portfolio companies in the capital investment portfolio and some 40 equity funds," says **Magnus Sjöblom**, Director of Finance and Corporate Funding.

Sitra's role in the seed financing stage is about to change. Under its new strategy, Sitra will only invest in companies that operate in one of its programme areas.

"Initially, new capital investments will focus on the health care, environmental technology, and nutrition. We actively seek investment targets that best support the needs of our programmes."



## Sitra focuses on major challenges to Finnish society.

“Whether the programmes are successful or not depends on how we succeed in bringing the key partners on board.”

*Kari Tolvanen, Vice President*



### Sitra's tools

#### Research

The research projects funded by Sitra provide knowledge and perspectives on themes relevant to the programmes. We also engage in foresight activities to anticipate Finland's future challenges.

#### Training

We use training and development programmes to deepen the knowledge base of decision-makers and mutual understanding and networking between actors in different sectors.

#### Innovative experiments

The purpose of innovative experiments is to find and test new procedures that can accelerate societal reforms.

#### Business Development

We have two tools at our disposal: Development Programme for Business Incubators Yrke and the PreSeed services.

#### Corporate funding

We target new capital investment at businesses operating in our programme areas. They must also have the opportunity, capacity and will to expand to international markets.

The Learning Regions project OSKU, which ended in spring 2004, was an example of a project which employed a range of Sitra's tools. OSKU taught that the human factor is of key relevance in the development of the information society. Experiences from OSKU now benefit new projects, such as the Citizens' Information Society Programme in Turku.

A bold and reliable financier is still needed on the market. Under a proposal made by the Ministry of Trade and Industry, Sitra's work would be continued by Finnvera and Finnish Industry Investment.

"It is vital to the Finnish innovation system that promising companies in the seed or early stage will continue to have access to long-term risk investments," says Sjöblom.

### Portfolio undergoing reorganisation

During the year under review, Sitra exited from many of the companies in its Industry Ventures portfolio.

"We will continue to exit especially from companies in the growth and reorganisation stage, but we do want to ensure that they have a secure future ahead," Sjöblom says.

Since 1997, Sitra has played an active part in creating the Finnish life sciences cluster. Many of the companies in its Life Sciences portfolio have reached a stage where they need more capital and also international investors. Sitra is no longer able to fund its portfolio companies' development projects, which may continue for several years and require hundreds of millions euros in additional venture capital.

"We seek to secure the funding of life sciences companies with a venture-capital process which may lead to a new fund based on both Finnish and international capital. The aim is to build up sufficient capital during 2005. We will still make further investments in 2005 to retain the value of the investment and secure development work in the companies," says Sjöblom.

### Best practices to develop new business

Sitra uses two tools to develop early-stage companies: Development Programme for Business Incubators Yrke and the PreSeed services.

"In Yrke, we seek to identify best practices and create a pathfinder network for business incubator companies. Yrke operates in collaboration with key public-sector financiers and the owners of the companies, local authorities and regional councils. In 2005, the project will expand to include 11 locations with a science park," Sjöblom says.

Sitra's PreSeed financing service is a technology commercialisation expert and organiser of start-up financing. It is a development process that promotes the access of good business ideas to capital investment.

### Sitra's know-how in varied use

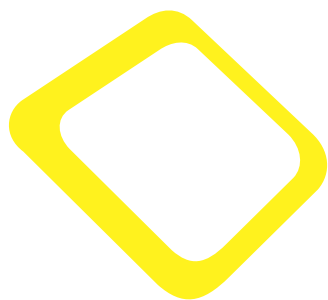
In its programmes, Sitra exploits research, training, innovative experiments, business development and corporate funding flexibly based on the needs of the programmes and their stage. Previously these tools were used separately on their own.

"The new matrix organisation serving the programmes provides our people with an opportunity to improve themselves and make more diverse use of their know-how. Working in several programmes with others at Sitra and different partners has the effect of broadening horizons," says Kari Tolvanen.

The new operating model also requires a new kind of collaboration. In terms of the future it is important that information and experiences are shared more openly and rapidly. We have sought to improve the dissemination of information within Sitra by setting up an electronic discussion forum. In addition, we hold a meeting six times each year where we take a look at the future and discuss common issues.

A manager-training programme implemented to support the change was completed in spring 2004. Training will continue at manager forums four times a year. The forums deal with topical themes supporting the development of a shared manager culture that is based in Sitra's values and reinforce the leadership skills of our managers.

"Our basic values are still the same. They guide our activities and are especially important when change is taking place," adds Tolvanen.



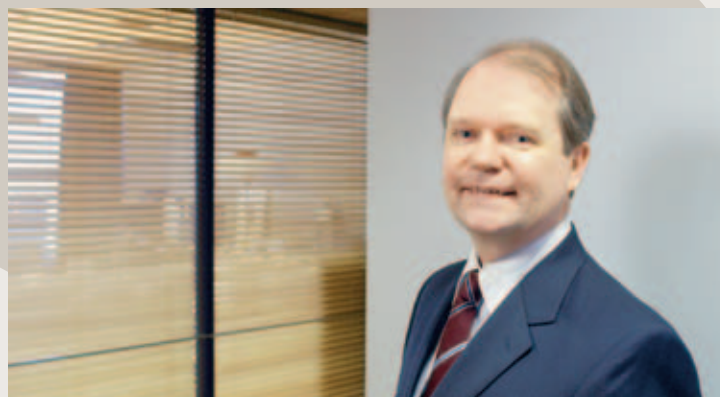


*Sitra's role in the seed financing stage is about to change.*

*"Under its new strategy, Sitra will only invest in companies that operate in one of its programme areas."*

*Magnus Sjöblom,*

*Director of Finance and Corporate Funding*



*The new operating model also requires a new kind of collaboration.*

Finland's success is founded on knowledge and skill. Finland has worked resolutely to improve its educational system, research and development, and business. In fact, Finland has consistently received top marks in comparisons of competitiveness and innovation.

## TOWARDS LEADERSHIP IN INNOVATION

### Innovation Programme 2004–2008

#### Goals

- entrepreneurship based on strong know-how
- an innovation system with strong capacity for renewal
- securing excellence
- efficient search for and use of information in society
- collaboration between private and public sector
- adequate input in innovation and its proper focusing
- international networking of innovation activities
- an innovative, regenerative public sector with high productivity

#### Focus areas

- top-class education and research
- best know-how procedures in the world
- adaptable and stimulating structures
- globally competitive businesses

#### Principal partners

Ministry of Trade and Industry, Ministry of Education, Ministry of Finance, National Technology Agency of Finland Tekes, Academy of Finland, Technical Research Centre of Finland VTT and Finpro

#### Senior Advisor

Professor Juhani Kuusi

The global economy and business models are changing fast and competition for skilled people, investment and business is getting tougher. New countries have emerged to compete with the traditional industrialised countries with cheap labour and a skilled workforce.

“Finland has obvious advantages and disadvantages. The global economy offers even a small country great opportunities. However, if we do not make good use of our resources and actively grab every opportunity, we risk a collapse, even a rapid downfall,” says **Antti Hautamäki**, Director of the Innovation Programme.

“Finland must also maintain its first-class innovation environment in the future. Problems have to be resolved, but that alone will not suffice. The innovation system itself must be made flexible and very responsive, and it must be capable of constant renewal. Entrepreneurship plays an important role in achieving this. We must be able to produce competitive innovation and attract investment, skilled workers, and enterprises to Finland,” Hautamäki adds.

“By developing innovation activities we can generate and develop business in Finland that is based on know-how, is profitable and creates jobs. Successful businesses convert national input into wealth and welfare.”

#### The goal: a common vision

The goal of the Innovation Programme is to form a vision of a competitive innovation environment of the future that is shared by all key players, to create an action programme based on it, and to launch development projects. The objective of the Innovation Programme is to make the Finnish innovation environment one of the best according to all key indicators by the year 2010.

“Finland has no-one to look up to, we have to take the first steps in creating a new environment for innovation ourselves. The goal is to make Finland a leader in social, economic and technological innovation. This will require an ability to learn and constant renewal,” says Hautamäki.

#### Customer at the centre of innovation

Innovation is required everywhere in society. Within the programme, the concept of innovation covers technological, organisational, legislative, business, and social and cultural innovation.

The Finnish population is ageing and public finances are becoming ever scarcer. Hautamäki believes that social innovation will play an increasing role. It will require reforms of regulatory systems, policies, organisations, and operating models that improve the economic and social capacity of a society. Social innovation is needed to reform the public sector, but it also involves business and civil society.

Hautamäki points out that innovation is not simply new products and services. Above all, it is about new practices made possible by services and products. It is the users that make the innovation – the final link in the value chain steers the entire chain. Hence customer orientation and business development form the core of innovation.

*“Finland must also maintain its first-class innovation environment in the future.”*

*Antti Hautamäki, Director of the Programme*



“Understanding the market and operating in it are big challenges for a small and remote market area like Finland. The focus in business operations shifts from production and technology to applications, content, services and culture. Broader and more multi-disciplinary skills are needed in a creative economy. Technology should be applied innovatively in services and traditional industries.”

“International business know-how is one of our biggest challenges. Collaboration with top international experts and partners is a key aspect of the Innovation Programme.”

The Finnish health care system is facing serious challenges because of an ageing population and an increasing demand for health care services.

## HEALTH CARE MUST CHANGE WITH THE NEEDS OF ITS CUSTOMERS

The care guarantee system took force in March 2005. Under the system, local authorities must provide every citizen with speedy access to care within a definite period of time regardless of their place of residence or financial status.

“What we now need are new approaches to make the services more effective,” says **Hannu Hanhijärvi**, Director of the Health Care Programme.

### Better service through exportable means

The Health Care Programme is Sitra’s largest programme to date. Its challenges include finding ways to develop the service sector that supports health care. The genuine partnership between public and private service producers is still in its early stage in Finland. We can also make more efficient use of new applications developed in the information society. New service concepts, application of technology and new financing instruments will also generate new business on the international market.



*“The Health Care Programme is looking for new solutions to provide citizens with better service and make the sector even more effective.”*

*Hannu Hanhijärvi, Director of the Programme*



“The Health Care Programme is looking for new solutions to provide citizens with better service and make the sector even more effective. Sitra has no statutory role in the sector and our activities are based on partnership and collaboration. We bring suitable partners together to take health care to the level required by the future. We want to be a part of creating positive change where success breeds more success.”

#### **Best practices bring effectiveness and quality**

“The Finnish health care system is the fruit of decades of development. The structures change slowly but with cooperation, we can remove the obstacles to reform. The crucial issue is to identify the best practices and help them take root and spread nationally. For instance, specialised care can be made more effective by concentrating heart and joint surgery in units that observe best practices. This would shorten waiting and treatment times and improve results.”

“The goal of the programme is also to improve medical advice and support services so that customers can get full professional service without having to visit a health centre. By optimising visits we can save time for customers and staff while reducing costs.”

Information technology could also be used more comprehensively. Under the programme, pilot projects will be implemented to develop new national information systems and models that make electronic services easier to use. To promote the programme, Sitra is engaging in close collaboration with Tekes in the FinnWell technology programme, from which local authorities and hospital districts can also apply for partial funding for joint development projects.

“The process of improving health care support services can be accelerated through public and private partnerships. Development could focus on clinical laboratories, training and nutrition services, and facilities and their management.”

#### **Corporate funding to boost development of health services**

Sitra will continue to invest in such innovative enterprises whose business operations support the goals of the Health Care Programme. The goal is to develop new products and services to generate new business in Finland and internationally.

Sitra is already in the process of setting up a new fund. With its investment activities we can, for example, promote the privatisation of health care support services.

“Ownership alone is not Sitra’s purpose. What we want is to join forces with the other parties to improve whatever we engage in. We are looking for a powerful mechanism to spread best practices and make activities more effective.”

#### **Health Care Programme 2004–2009**

##### **Goals**

- to improve the status of customers
- to increase profitability and effectiveness
- to promote comprehensive use of new technologies in health care
- to generate new business in Finnish and foreign markets

##### **Focus areas**

- modernising care methods
- information management
- modernising support services
- reinforcing the demand-supply model

##### **Key partners**

National Technology Agency of Finland Tekes, Ministry of Social Affairs and Health, Ministry of Finance, key local authorities and municipal federations, The Social Insurance Institution of Finland, Academy of Finland, Finpro, National Research and Development Centre for Welfare and Health Stakes, NGOs and top businesses in the sector

##### **Senior Advisor**

Professor Jussi Huttunen

Disorders related to obesity have become an important public health issue and also an economic problem. Excess weight heightens the risk of adult diabetes, cardiovascular disease and musculoskeletal disorders. These rapidly increasing disorders are related to standards of living.

## FINLAND TO THE FOREFRONT OF HEALTHY NUTRITION

Nutrition Programme  
2004–2007

### Goals

- to generate new business in Finland in the field of healthy nutrition
- to promote public health by improving Finnish nutrition culture
- to make Finland known as a leader in healthy nutrition

### Focus area

- healthy nutrition

### Key partners

Ministry of Trade and Industry, Ministry of Social Affairs and Health, Ministry of Agriculture and Forestry, Ministry of Education, Finnish National Board of Education, Ministry of Defence, National Public Health Institute, National Technology Agency of Finland Tekes, Finpro, National Food Agency Finland, Finnish raw material producers, the food industry, food retailers, business incubator organisations, patients' associations, research institutions, relevant schools and organisations, industrial kitchens, consumer organisations and the media

The United States and Japan are the world leaders in functional foods, but Finland is also renowned for its achievements in the research and development of the field. Development of functional foods has been going on in Finland longer than elsewhere in Europe and there are some 100 Finnish products on the market, including Benecol, Gefilus, Evolus, low-lactose products and xylitol, which has been used in dental health care since 1975.

“The goal of the Nutrition Programme is to generate both significant public health and new business activity. We intend to put Finland at the forefront in healthy nutrition,” says **Anu Harkki**, Director of the Programme.

### Weight control demands knowledge and motivation

“Obesity is a rapidly increasing problem in the industrialised countries, of which the World Health Organization WHO is also aware. Products, services and technologies that promote weight-management can have a positive impact on public health and provide access to a huge global market. Sitra is a promoter of the Nutrition Programme, while the development projects are implemented by actors in the sector itself. Sitra's contribution to the setting of shared goals within the field and in achieving them is substantial. Sitra joins various parties to work together to produce social benefits. The programme has been received with enthusiasm,” says Anu Harkki.

The Nutrition Programme covers the entire food product chain and related research and authorities. The programme seeks to increase knowledge of nutrition and motivation and to generate new innovative business.

“It is not easy to choose the healthy alternative in the midst of plenty,” Anu Harkki says. To observe a healthy diet requires knowledge and personal motivation. To increase both of them we need a high standard of nutrition education and advice, education campaigns, peer support. It is also vital to follow the weight of target groups and trends in public health.

### Favouring Finnish raw-materials

According to some forecasts, functional foods will comprise as much as a third of the food market in industrialised countries in the near future. It is a priority for the programme to develop Finnish raw-materials and ingredients to be used in healthy and functional food.

“It is our aim to influence regulation affecting functional foods both in Finland and in the European Union.”

“The goal of the Nutrition Programme is to generate new business activity.”

*Anu Harkki, Director of the Programme*



In a few years' time, Russia could be Finland's number one trading partner. It is currently the second biggest importer of Finnish goods and third biggest exporter.

## RUSSIA IS AN OPPORTUNITY FOR THE FINNISH ECONOMY

Russia Programme  
2004–2007

### Goals

- to form a Russia strategy for Finnish industries
- to establish a high-level informal connection with decision-makers in Russia
- to integrate Finnish companies with the Russian economy

### Selected business clusters

- establishers
- industrial village project
- construction cluster
- subcontracting cluster

### Key partners

Ministry of Trade and Industry, Ministry for Foreign Affairs, Finnish-Russian Chamber of Commerce, Finpro, Confederation of Finnish Industries EK, Technology Industries of Finland, research institutions and consultancies in South, Southeast and East Finland, in Russia, the authorities, regional administrations and experienced consultants and actors in trade

### Senior Advisor

Russia expert,  
consultant Seppo Remes

“Many countries, Germany and Italy for example, are already well integrated in Russia. Finland must not become a bystander,” says **Maaret Heiskari**, Director of Sitra's Russia Programme.

“With its the World Trade Organization (WTO) membership, Russia will become an even more important partner in international trade, and bilateral relations will be easily forgotten.”

Russia has become politically stable and its economy and domestic market are expanding rapidly. Moreover, costs are much lower than in Finland. Finnish companies now have a new, unprecedented opportunity to expand their business in Russia.

“Russia also offers companies an alternative to improve competitiveness on the global market. It offers new strategic opportunities for growth and better profitability.”

### Strength for cooperation from strategy

The goal of Sitra's Russia Programme is to set up a broad framework for cooperation between Finnish and Russian industries. The programme consists of three sub-programmes: Strategy, Forum and Integration.

“In June 2004 Sitra arranged a contact seminar that included decision-makers from companies and organisations involved in cooperation regarding Russia. A group was set up to develop an economic strategy for Russia, and it will start work in spring 2005. Sitra has produced a comparative report on the competitiveness of Finland and Russia for the benefit of the group's work on drafting commercial and economic strategies,” says Maaret Heiskari.

The purpose of the forum is to inspire open and informal discussion between high-level decision-makers in Finland and Russia. The forum convenes several times a year to debate and innovate new forms of collaboration in support of the strategy process.

### New opportunities for businesses

In November 2004 Sitra conducted a survey on the plans concerning Russia of about 1,000 Finnish businesses. More than 130 of them were interested in the integration sub-programme of the Russia Programme, from which Sitra selected 80 from various sectors and grouped them into four clusters based on their goals and needs. Each cluster will be provided with an operating plan with a timetable and intermediate goals.

“We want to provide especially SMEs with new opportunities for conducting business and forming networks in Russia and Finland. We help them become established, set up companies and start subcontracting. The Integration Programme will be implemented with the valuable contribution of Finnish and Russian consultants. The regions that most interest businesses are Northwest Russia, especially St Petersburg, the Republic of Karelia and Moscow, which may provide resources for, for example, subcontracting and manufacturing. Some of the companies in the programme are planning to set up their own company in these regions. They already have definite financial goals for the near future.”

### Natural continuation for Sitra's Russia projects

Russia and Sitra have collaborated since the 1980s. Sitra has conducted several projects involving corporate finance and venture capital, research and training of journalists and decision-makers.





*“The goal of Sitra’s Russia Programme is to set up a broad framework for cooperation between Finnish and Russian industries.”*

*Maaret Heiskari, Director of the Programme*



# ENVIRONMENTAL TECHNOLOGY TO BOOST FINNISH EXPORTS



*Jukka Noponen, Director of the Programme*

## Environmental Programme 2004–2009

### Goals

- Finland remains a global leader in environmental technologies
- the environmental field develops into a significant export
- Finland produces top-ranking innovations, including social and administrative practices
- Finnish companies become major global actors in selected applications

### Focus areas

- new operating models and financing instruments
- developing the innovation environment
- improving the business opportunities of SMEs
- building an extensive cooperation network
- Finnish companies in the environmental field attract international investment

### Key partners

Ministry of Trade and Industry, Ministry of the Environment, Ministry for Foreign Affairs, Employment and Economic Development Centres, Technical Research Centre of Finland VTT, Helsinki University of Technology, National Technology Agency of Finland Tekes, Finpro, Finnvera, Finland's environmental administration, Confederation of Finnish Industries EK, Finnish Meteorological Institute, and companies, organisations and international actors in the field

Finland is known around the world as a leader in environmental technology. This reputation is an ideal foundation on which to develop the export of products, services and administrative practices in environmental technology.

The purpose of the Environmental Programme is to upgrade Finnish business activities and improve competitiveness in environmental technology on the global market.

Another goal of the programme is to accelerate the growth and development of exportable businesses and to promote efficient application of environmental technology and the management of related practices in Finland.

The programme is being carried out in close collaboration with the public sector and other actors in the field. The aim is to produce a widely endorsed plan for the environmental technology field in Finland, introducing new approaches and interpreting the still weak signals regarding the direction the sector will take in the future.

“According to the definition by the EU, environmental technologies are technologies that are less environmentally harmful than their alternatives,” explains **Jukka Noponen**, Director of Sitra's Environmental Programme.

Sitra has taken active interest in environmental issues since the early 1980s. Know-how in capital investment and SME networking provide a good foundation for successful execution of the Environmental Programme.

### Sitra invests in environmental technologies

The Environmental Programme develops new methods for funding companies and looks for innovative models to facilitate the financing.

The programme surveys Finnish SMEs and related clusters in the field of environmental technology. The clusters are screened for potential business networks and systems suppliers, while larger companies are welcome to serve as flag ship companies for the networks. Sitra will select the best projects as venture-capital investment objects.

“We are actively searching the environmental field for new investment targets that would have social and environmental significance,” says Noponen.

### International partnerships for the good of the environment

Building international cooperation networks and keeping close tabs on latest developments in the environmental field are central to the Environmental Programme.

Sweden has been a very good partner, as it is also a leading country in the field. We also play an active role in developing the field within the EU. All our environmental legislation comes from Brussels nowadays.

The new Member States will implement extensive environmental projects in the near future. They provide an opportunity for the export of Finnish products and know-how.

We are familiar with the China's emerging role in the global economy, but what about India? According to the boldest forecasts, India will become the third largest economic power in just a few decades.

## FINLAND TO JOIN THE INDIA PHENOMENON

The Indian economy is increasingly based on excellence in know-how and providing services. British and US companies especially have outsourced much of their production of IT services to India. Currently, the focus in providing these services is moving up along the value chain from corporate applications to systems design and consultation.

In recent years, India has deregulated its economy by opening its market to international competition and lowering its customs tariffs.

India's economic expansion and the pace of its social change are among the fastest in the world; in the last six years, its Gross Domestic Product (GDP) has increased annually by about 6%. Services already account for more than half of the GDP. It will soon also have more people than China. Despite large income differences and a large number of very poor people, it has a rapidly growing middle class with considerable purchasing power.

As an example of the speed of India's change, it has been recently estimated that there are more than 40 million mobile phone users currently in India, but the figure will rise to reach the 100 million mark in 12 months.

A large number of the world's top IT companies are Indian. Many of them are already operating in Finland. For example, Finnish companies contract Indian companies to do computer programming.

The purpose of Sitra's programme is also to promote scientific and technology cooperation between Finland and India. India's growth sectors include energy, health care and pharmaceuticals, building, environmental technology and business services.

An interest for India has already emerged in Finland. However, there is little understanding of India and the opportunities it offers.

### Foundation for a productive collaboration with India

India is the smallest of Sitra's programmes. It will initially focus on producing information and building networks. Its basic assessment will concern the current status of India's economy and society and the outlook for it, and Finland's investment in India to date. Based on this, themes will be selected for special assessment in spring 2005.

India offers good opportunities for cooperation with both Finnish and foreign partners. The advantages from information on India will probably be seen only in ten years or so, but they are nevertheless potentially very significant. A decision whether to implement the third stage of the programme will be made in the spring of 2006. If we decide to continue with the programme, we will make use of Sitra's other powerful tools – training and corporate funding. The purpose is to create cooperation of which both Finland and India will benefit.

### India Programme 2004–2006

#### Goals

- to build a foundation for better India know-how in Finland
- to assess the importance of India to the Finnish economy
- to evaluate Sitra's role in the collaboration between Finland and India

#### Implementation

- first stage: basic assessment in spring 2005
- second stage: special assessment by March 2006
- third stage: decision whether to continue the programme and launch activities based on the assessments

#### Potential partners

Ministry for Foreign Affairs, Finpro, National Technology Agency of Finland Tekes, Academy of Finland, Technical Research Centre of Finland VTT, universities, Finnish experts on India, organisations and businesses, and international partners from India, the UK, USA and the Nordic countries

#### Coordinator of the programme

Research Manager Vesa-Matti Lahti



## Sitra Publications in 2004

### Sitra series

**Communities of Networked Expertise. Professional and Educational Perspectives**  
Elsevier Ltd.

K. Hakkarainen, T. Palonen,  
S. Paavola, E. Lehtinen, Sitra 257

**Transatlanttinen suhde. Yhdysvallat Euroopan unionin peilinä**  
(The Transatlantic Relationship – the US a Reflection of the European Union)  
P. Ekholm, Sitra 261

**Sykettä ja suvaitsevuutta. Globaalien osaamisen kansalliset rajat**  
(The National Limits of Global Know-How)  
A. Forsander, M. Raunio,  
P. Salmenhaara, M. Helander, Sitra 262

**Työpaikkana maailma. Lähtijöiden näkökulmia globaaliin talouteen**  
(The World as a Workplace – Expatriate Views of the Global Economy)  
M. Ruckenstein (ed.), Sitra 263

**Yliopistojen kolmas tehtävä**  
(The Universities' Third Task)  
K. Kankaala, E. Kaukonen, P. Kutinlahti,  
T. Lemola, M. Nieminen, J. Välimaa, Sitra 264

**Onko koolla väliä? Pienet maat EU:n päätöksenteossa**  
(Is Size Important? Small Countries in the EU Decision-Making Process)  
E. Antola, Sitra 265

**Luovaan talouteen. Kulttuuriosaaminen tulevaisuuden voimavarana**  
(Towards a Creative Economy – Cultural Know-How a Resource for the Future)  
M. Wilenius, Sitra 266

**Geenitieto kuuluu kaikille**  
(Genetic Information for All)  
O. Kuusi, Sitra 267

**Globalisaation portinvartijat**  
(Gatekeepers of Globalisation)  
E. Grundström (ed.), Sitra 268

**Kansainvälistyvä yliopisto. Suomalaisen yliopistojärjestelmän haasteet**  
(The Internationalising University – a Challenge to Finnish Universities)  
K.-E. Michelsen, Sitra 270

**Sosiaaliset innovaatiot ja yhteiskunnan uudistumiskyky**  
(Social Innovations and Society's Ability to Reform Itself)  
T.J. Hämäläinen, R. Heiskala, Sitra 271

The series is published by Edita Publishing Oy, unless otherwise mentioned. The reports can be purchased from Edita customer service and bookshop, as well as bookshops throughout Finland.

### Sitra reports

**Advantage Northwest Russia. The New Growth Centre of Europe?**  
G. Dudarev, S. Boltramovich, P. Filippov,  
H. Hernesniemi, Sitra reports 33

**Open Innovation Networks. Project Report**  
J. A. Feldman, P. Himanen, O. Leppänen,  
S. Weber, Sitra reports 35, electronic publication only

**Monikulttuurisuus ja tietoyhteiskunta**  
(Multiculturalism and the Information Society)  
M. Pakarinen, Sitra reports 36

**OSKUn oppivuodet. Oppivat seutukunnat – hankkeen arvioinnin loppuraportti**  
(Final Report of the Learning Regions Project Evaluation)  
R. Karinen, P. Virtanen, H. Pekkala, Sitra reports 37, electronic publication only

**Tietointensiiviset palveluyritykset. Tutkimuksen nykytila**  
(Knowledge Intensive Services. Current State of Research)  
S. Kempplä, P. Mettänen, Sitra reports 38

**Suomi uuteen nousuun. Innovaatiot ja osaaminen huipputasolle**  
(Finland's New Rise. Taking Innovations and Know-how to the Top)  
A. Hautamäki, T. Lemola (ed.), Sitra reports 39

**Parantaako EU ympäristön? Laajentuneen EU:n ympäristöpolitiikka**  
(Will the EU Improve the Environment? EU Environmental Policy in the Enlarged EU)  
L. Järvinen, Sitra reports 40

**eWelfare. Tuottava tietotekniikka hyvinvointipalveluissa**  
(eWelfare. Productive Information Technology in Welfare Services)  
J. Jääskeläinen, Sitra reports 41

**EU vuonna 2020**  
(The EU in 2020)  
P. Ekholm, Sitra reports 42

**Toiveita ja pettymyksiä. Suomalainen yritysjohto ja EU**  
(Hopes and Disappointments. Finnish Management and the EU)  
P. Ekholm, Sitra reports 43

**Paikallisyhteisöt internetissä. Julkaisujärjestelmät ja kolmas sektori**  
(Local communities on the Web. Publication Systems and the Third Sector)  
H. Rantanen, Sitra reports 44

**Why they, why not we? An Analysis of the Competitiveness of Finland and Russia**  
A. Helanterä, S.-E. Ollus, Sitra reports 46

Published by Sitra. The reports are available both in print and as electronic publications, unless otherwise mentioned. You can order these reports from Sitra, email [julkaisut@sitra.fi](mailto:julkaisut@sitra.fi) or tel. +358 9 618 991, on the Internet [www.sitra.fi/eng](http://www.sitra.fi/eng).



## Sitra's Events in 2004

During 2004, Sitra organised 16 publication seminars and several press conferences, workshops, discussions and planning seminars related to the new focus areas.

The PreSeed service has intensified its operations by providing training to the stakeholders. In addition to INTRO companies, training has also been provided to INTRO investors and DIILI knowledge capital investors. In addition to training, PreSeed has organised regular INTRO and DIILI forums for companies and LIKSA networking and theme events.

In 2004, two courses of economic policy and one special course on economic policy for youth and youth work organisations were held. Furthermore, the Development Programme for Business Incubators Yrke and Competitive Innovation Environment development programme have been launched.

Sitra also organised a visit for labour market leaders to Beijing and Shanghai to familiarise themselves with the China phenomenon and its repercussions.

### Seminars and fairs

**The Impact of the Enlargement of the EU on Finnish Business**  
Sitra and Ministry of Trade and Industry  
19 January 2004

**Counter Trade Seminar**  
21 January 2004

**OSKU The closing seminar of the Learning Regions project**  
28 January 2004

**Software Industry Summit 2004**  
29-30 January 2004

**Portfolio Company Day**  
4 February 2004

**Wire and Mobile – Data Networks in Regional Development**  
Sitra and Helsinki Metropolitan Area Development Network  
18 March 2004

**Cooperation in Regional Development – eServices close to people**  
Sitra and Saarijärvi-Viitasaari region  
20 April 2004 Saarijärvi

**The closing ceremony for the project Cultural know-how as a component of national competitiveness (KULTA) and the opening of the exhibition The Sources of My Creativity (6-18 May 2004)**  
5 May 2004

### Discussions of the KULTA Project

- Cultural know-how and competitiveness  
11 May 2004
- Culture and business  
18 May 2004

### Greater China Seminar

Sitra, Finnish Institute of International Affairs and the Bank of Finland Institute for Economies in Transition  
2 June 2004

**Contact Seminar for the Russia Programme**  
14 June 2004

**Environmental Technologies Seminar**  
17 June 2004

### Finnish Futures

Demos, British Council and Sitra  
26-27 August 2004

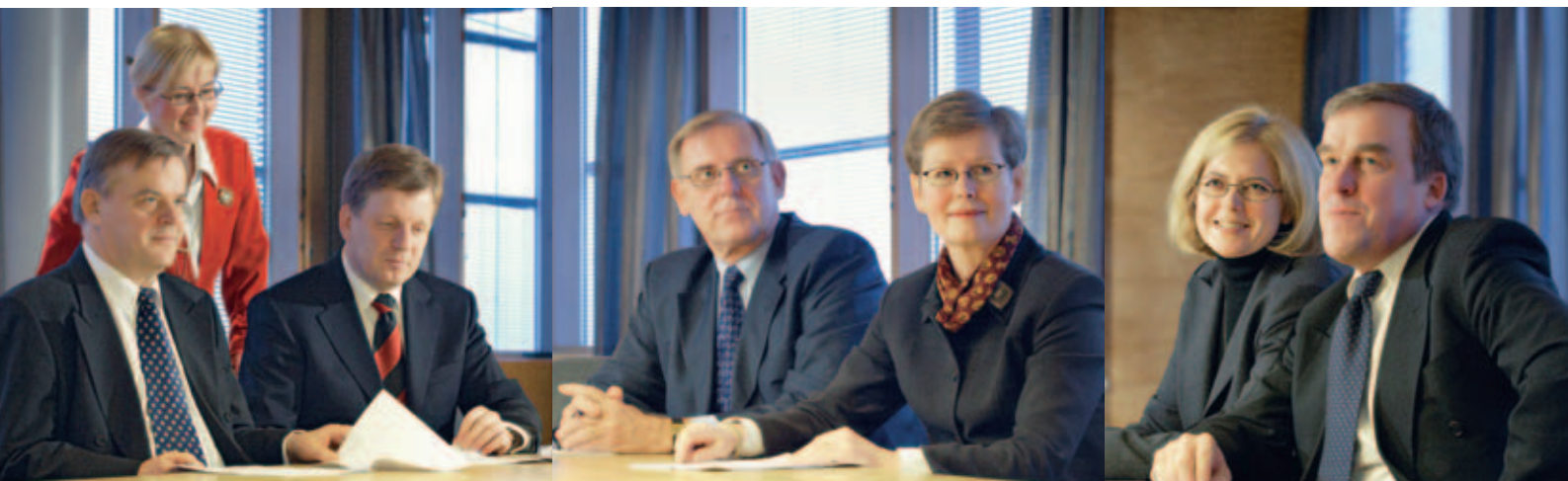
**BIOTEC 2004**  
22-23 September 2004

**BioJapan 2004**  
28-30 September 2004 Tokyo

**Citizens in a Network: Residents, new media and civic involvement**  
Sitra, Tietoyhteiskunta.fi and the Federation of Associations of Helsinki City Quarters HELKA  
13 October 2004

**The World Economic Situation Seminar**  
5 November 2004

# BOARD OF DIRECTORS AND SUPERVISORY BOARD



Raimo Sailas, Jaana Ekström and Esko Aho

Markku Linna and Hannele Pohjola

Satu Lähteenmäki and Erkki Virtanen

## Board of Directors

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**Raimo Sailas,**

Permanent State Secretary

Ministry of Finance

Member of the Board since 1995

Vice-chairman

**Erkki Virtanen,** Permanent Secretary

Ministry of Trade and Industry

Member of the Board since 1998

**Markku Linna,** Permanent Secretary

Ministry of Education

Member of the Board since 1995

**Satu Lähteenmäki,** Professor

Turku School of Economics and

Business Administration

Member of the Board since 2003

**Hannele Pohjola,** Chief Policy Adviser

Confederation of Finnish Industries EK

Member of the Board 1995–2004

**Pekka Pokela,** Director

Confederation of Finnish Industries EK

Member of the Board since 2005

**Esko Aho,** President

Sitra

Member of the Board since 2004

**Aatto Prihti,** President

Sitra

Member of the Board 1997–2004

Secretary

**Jaana Ekström,** Executive Assistant

Sitra

Secretary of the Board since 2004

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**Olavi Ala-Nissilä,** MP

Vice-chairman

**Eero Heinäluoma,** MP

**Arja Alho,** MP

**Janina Andersson,** MP

**Sirkka-Liisa Anttila,** MP

**Ilkka Kanerva,** MP

**Mari Kiviniemi,** MP

**Martti Korhonen,** MP

**Ben Zyskowitz,** MP

Secretary

**Anton Mäkelä,** L.I.B

# BOARD REPORT FOR THE YEAR 2004

The year 2004 was the 37th year in the history of the Finnish National Fund for Research and Development Sitra. In 2004, Sitra changed the strategic focus areas of its operations.

The upward trend of the global economy that started towards the end of the previous year continued strong during the year under review, with the growth rate almost reaching 5%. The favourable development is mostly attributable to Asia and the United States. Growth was much less rapid in the euro zone and Japan. However, growth slowed down in the second half of the year, partly due to a substantial increase in oil prices.

Expansion in the euro zone was clearly slower than elsewhere, as the strengthened exchange rate of the euro against the dollar weakened the price competitiveness of the euro zone. In Asia, economic growth was particularly rapid in China and India thanks to various reforms that made the countries more market-oriented and promoted favourable development. Economic growth in the United States was largely based on low interest rates and the boosting from tax cuts.

The growth of Finland's GDP improved to more than 3% during the year under review. Contrary to many previous uptrends, however, improvement in exports was only modest. Outlook for the global economy became weaker towards the end of the year, which was also reflected in the development of the Finnish economy.

In the international financial market the development of the equity market was weak in the first half of the year but the mood improved towards the end of the year. The Finnish equity market developed very favourably, attributable to improved earnings and additional dividend payments. The US Federal Reserve increased its key Federal Funds rate, which has been exceptionally low, several times during the year in order to control expectations of inflation. The European Central Bank, however, kept its key interest rates unchanged for the entire year.

Sitra's task is to promote stable and balanced growth in Finland, a quantitative and qualitative improvement of the economy and improve the country's competitiveness. Sitra's operations were evaluated and planned in detail in 2004 as a new course was being set for the strategy period 2005 to

2007. Intensifying the social impact of the operations became the main objective. To this end, Sitra reformed its operations and organisation so that from now on, it will focus its resources on a few key areas at a time and on related programmes. Health care, the innovation system, Russia, India, the environment and nutrition were chosen as the first focus areas.

Sitra finances its operations with the returns from its endowment capital and from its financing activities. Returns from the endowment capital increased to a moderate level during the year under review. Progress in the venture-capital market was also better than earlier. The volume of Sitra's investment decisions fell from € 32 million in the previous year to € 28 million. Sitra reported a net profit of € 7.6 million for 2004.

## PROGRAMMES

The general objective of the programmes is to extensively influence social decision-making and the capacity of the Finnish society to renew. The programmes develop new procedures and practices with public and private interest groups. The implementation of the programmes is based on Sitra's methods, which include research, training, innovative experiments, new business development and corporate funding.

The objective of Sitra's Health Care Programme is to develop the service sector that supports health care. The programme aims to create new business in both Finnish and international markets through new service models, financial instruments and technology applications.

The Innovation Programme will produce a vision of a competitive innovation environment for the future shared by key actors in Finland, create an action programme based on it and initiate projects to develop it.

The Russia Programme will create an extensive framework for economic cooperation between Finland and Russia. The strategic part of the programme will prepare a Russia strategy for Finnish industries in collaboration with parties engaged in Russian trade. The forum part will provide for a dialogue between Finnish and Russian top decision-makers in industry and society. The integration part will create new opportunities for operations and networking in Russia and Finland particularly for small and medium-sized companies.

The objective of the India Programme is to improve Finland's competence regarding India. The programme will conduct a basic survey and a specific survey based on it.

The Environmental Programme will strengthen the environmental cluster and improves the efficiency of the application of environmental technology. Another objective of the programme is to provide a national shared forum for different players, to develop and propose new innovative ways of action, and to serve as a catalyst to attract Finnish and foreign venture capital to the sector.

The Nutrition Programme will develop an action programme based on healthy nutrition that can generate major public health benefits and significant new business.

The programmes started full-scale operations in the end of the year.

### RESEARCH AND DEVELOPMENT

During 2004, Sitra conducted research on technological and social innovation processes, the Finnish innovation system, the information society, the challenges to reform faced by Finnish universities, the utilisation of genetic information, the effects of globalisation, the competitiveness of Russia and the development of the European Union.

During the year, Sitra published research on the degrees of reform in the innovation system, the relationship between cultural competence and competitiveness, expert networks, social innovations and Finland's capacity for renewal. Sitra's publications also included research reports on the utilisation of information and communication technology in social, health care and educational services, the development of social innovations and local communities.

Sitra's research projects also addressed the nature of the new social role of the universities, its effect on their activities, and the structural challenges to reform within Finnish university education. Research on the financial effects of educational policy continued during the year as well.

The project regarding genetic information examined the ethical and social questions of collecting genetic information and considered how Finland could appropriately utilise the genetic information of its citizens in the future.

Research conducted during the period under review also addressed the effects of globalisation from the viewpoints of mobility of international experts, Finnish experts living abroad and the international purchasing operations of the trade sector. Reports were also published on the interaction of multi-culturality and the information society, and Finland's competitiveness in attracting international businesses.

Two research reports provided for a foundation for Sitra's new Russia Programme. These surveyed opportunities for economic development in Northwest Russia from the viewpoint of industrial clusters and compared the competitiveness of Finland and Russia.

A project concerning the European Union analysed the relationship between the EU and the United States and the EU's environmental policy. Finnish corporate managers' attitudes towards the EU, the position of small countries in EU decision-making and the future of the EU were also analysed.

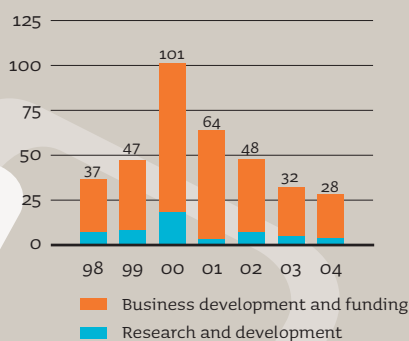
As a part of its training activities, Sitra launched a programme to develop a competitive innovation environment started in the autumn. Its objective is to define a vision and target state for an innovative Finland and present a clear roadmap for reaching the target. The participants in the work include key decision-makers in the Finnish innovation system and innovation experts. The development programme is associated with Sitra's Innovation Programme.

Furthermore, two economic policy courses and a special economic policy course for the management of youth organisations and organisations involved in youth work were arranged during the year. A delegation from CAFIU, the Chinese Association for International Understanding, visited Finland in the spring. In the autumn Sitra arranged a visit to China to an invited delegation of labour market leaders jointly with a group appointed by the Prime Minister's Office to study Finland's position in the changing global economy.

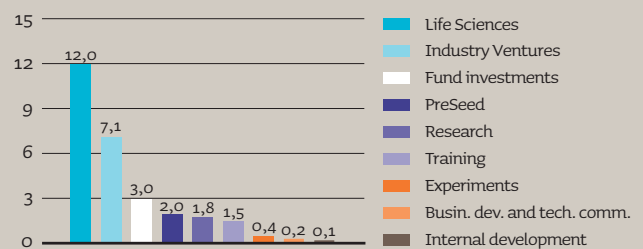
Several long-term experimental projects were completed during the year. The most important of these included Learning Regions, the top project for the Information Society strategy and the Eastern Finland centre for social innovations.

The most important task in Sitra's internal development during the year under review was to mobilise the new strategy

Funding decisions 1998–2004  
€ million



Funding decisions in 2004 by unit  
€ million





and create an operating model in accordance with it. A Programme Operations Manual was drafted on the basic principles of the model. On the basis of the development work, projects associated with the impact evaluation of the activities and the development of staff competence were initiated towards the end of the year. A new practice was introduced in the form of President's days, engaging the entire staff to debate Sitra's strategy and its implementation.

## BUSINESS DEVELOPMENT AND FUNDING

### Business Development and Technology Commercialisation

The Business Development and Technology Commercialisation function creates and develops new innovative enterprises by means of a network of incubators, and commercialises technology originating in universities and other institutions of higher education and research.

The national project to improve the performance of business incubators (Yrke) initiated by the Ministry of Trade and Industry continued during the year under review. The project is implemented jointly by Sitra, the Ministry and the National Technology Agency Tekes, and Sitra is responsible for its coordination. The national project is based on networked cooperation between public-sector parties, including the Employment and Economic Development Centre (TE Centre) of each region, and local authorities and regional councils that hold shares in business incubators. The objective is to use business incubator companies to increase the number of new innovative enterprises, improve their viability and accelerate their growth. The business incubators' own financing is simultaneously improved towards longer-term solutions, and their operating models are reformed to better respond to the needs of customer companies. There are 14 regional business incubators involved in the project. Their objective is to double the number of enterprises being evaluated and taken to an incubator during the course of the project.

An extensive programme was initiated to develop the operating models of business incubators, specifying the cen-

tral processes and verifying the best practices and tools on an interactive basis. During and after the program, it will be ensured that the development measures are taken and their results will be monitored. The first periods specified a joint operating process, the tools to use in own operations and the associated development needs.

Direct investment to technology commercialisation companies will not be increased any more. Sitra's strategy for the commercialisation of technology was revised during the year so that the activities of companies in growth stage will be improved, and Sitra will exit from mature companies. At the end of the year, Sitra sold its shares in HY Holding Oy to the funds of the University of Helsinki.

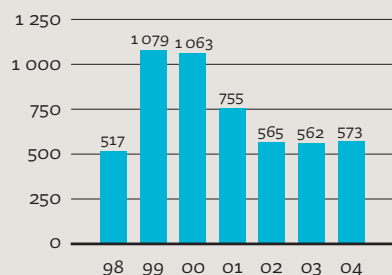
### PreSeed Funding Services

The purpose of the PreSeed service is to improve the investment facilities of start-up enterprises within a wide range of technologies and arrange initial funding. PreSeed develops and maintains the INTRO marketplace for selected companies on the one hand and the entire venture-capital industry on the other hand. The importance of private investors (business angels) is particularly emphasised. PreSeed can make joint investments with private investors and funds in its selected portfolio companies and administer third-party capital going into these investments. PreSeed promotes private investments in Finland by participating in European activities in the sector and, for example, bringing knowledge of proven training and taxation practices into Finland.

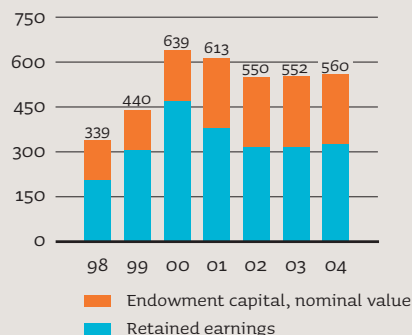
PreSeed manages Sitra's and Tekes' joint LIKSA funding scheme for improving the business plans of start-up enterprises. It also recruits experienced business experts to these enterprises through the DIILLI service. PreSeed offers the services of the INTRO marketplace to arrange initial funding for enterprises that have achieved sufficient facilities for investment.

During 2004, PreSeed negotiated a share of funding and administration in the VeraTek fund of Veraventures Oy. Furthermore, PreSeed was engaged in negotiations with the European Investment Bank, the Enterprise Directorate-General of the European Commission and private investors

Market value of endowment capital 1998–2004  
€ million



Sitra's equity 1998–2004  
€ million



regarding the establishment and management of a joint fund. PreSeed has also prepared the implementation of a selective change-of-owner service as part of the INTRO marketplace jointly with the Federation of Finnish Enterprises. PreSeed has been involved in European cooperation as a Member of the Board in EBAN (European Business Angels Network) and a member of the three-year SUN&SUP development programme of the European Commission. SUN&SUP develops new services for start-up technology enterprises to be implemented all over Europe.

In 2004, 91 enterprises applied for LIKSA funding, and funding was granted to 25 enterprises. 37 companies introduced themselves as potential investments in INTRO. 85 people applied for inclusion in the DIILI register, and 35 were accepted.

### Sitra Industry Ventures

The Sitra Industry Ventures investment portfolio included 53 companies at the end of the year under review. Total investments amounted to € 48.7 million. SIV exited from several companies during the year. The objective is to continue divestment particularly from current portfolio enterprises in growth and structuring stages, so that the investments and the continuity of the enterprises' operations are secured.

Almost 110 new investment proposals were considered, roughly the amount as in the three previous years. Five initial investment decisions and six decisions on further financing of portfolio companies were made during the year under review. The total amount of investment decisions was € 6.9 million.

A survey group appointed by the Ministry of Trade and Industry submitted its proposal on reforming the seed financing and service system for start-up innovation enterprises (the so-called AISP strategy) at the end of the year. Sitra submitted to the Ministry its own offer regarding a seed-phase fund model that would apply asymmetric distribution of profits and serve the Finnish innovation and funding system. Sitra offered administration services for the potential new fund.

Close cooperation continued with other public partners, mainly the Employment and Economic Development Centres, Tekes, Finnvera plc, Finnish Industry Investment Ltd and

Finpro. The Club of Excellence, which is a cooperation group of public organisations and Sitra, also continued its activities during the year under review.

### Sitra Life Sciences

Since 1997 Sitra has been involved in the construction of the so-called life sciences cluster as a key initiator and risk-bearer. The cluster has mostly been developed with Finnish venture capital. At the end of 2004, Sitra's Life Sciences portfolio included 36 enterprises, and the value of invested capital was € 97.8 million. One new initial investment and five exits were made during the year. The total amount of investment decisions came to € 11.8 million.

The market conditions in the Life Sciences industry remained challenging during the year under review. A crucial problem was how to find leading international investors to make additional investments in portfolio enterprises. For this reason, Sitra initiated a capitalisation process concerning about 20 of the portfolio enterprises during the year, intended to secure the foundations for financing. The outcome may be a new Life Sciences fund financed by Finnish and international capital. A third-party investment bank is involved in the process as a financial expert and manager. The enterprises involved in the arrangement belong to the most advanced part of the Life Sciences portfolio, which means that their development will require much more financing than before and an extension of their ownership base. The intention is to bring the process to completion by the end of 2005.

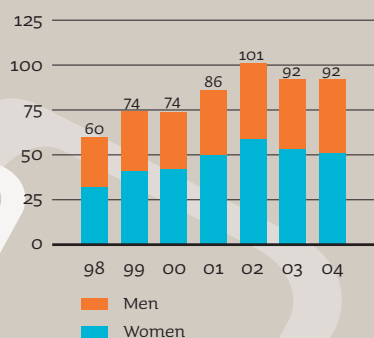
In order to support the development of its portfolio enterprises' business, Sitra continued the Japan Access Program in collaboration with Tekes. The pilot project is directed at the Japanese biotechnology market. Sitra appeared at the Bio Japan 2004 event together with nine portfolio enterprises.

### Sitra Management Oy

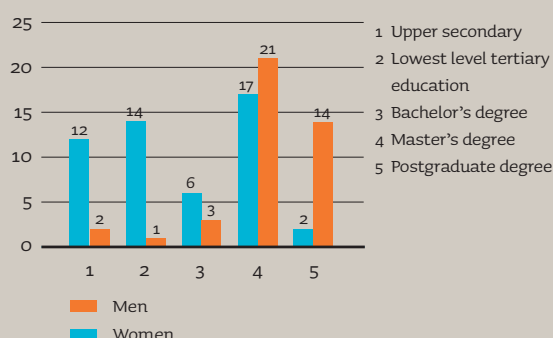
Sitra Management Oy is a wholly owned subsidiary of Sitra that manages holdings in management companies engaging in venture-capital operations.

During the year under review, Sitra decided to become a sponsor investor in a venture-capital fund in the start-up stage that will invest in the European part of Russia.

### Sitra's personnel 1998–2004



### Distribution by education



Sitra Management Oy reported a profit of € 0.1 million for the year and its balance sheet total was € 5.1 million.

## ADMINISTRATION

Sitra is a public fund under the supervision of Parliament. Its Supervisory Board is made up of Supervisory Council of the Bank of Finland, which is appointed by Parliament. The Supervisory Board met on five occasions during the year under review. The members consisted of MPs Olavi Ala-Nissilä (Chairman), Eero Heinäluoma (Vice-Chairman), Arja Alho, Janina Andersson, Sirkka-Liisa Anttila, Ilkka Kanerva, Mari Kiviniemi, Martti Korhonen and Ben Zyskowitz. Anton Mäkelä, L.I.B, acted as secretary to the Board.

Sitra's Board of Directors met ten times in the course of the financial year. Members of the Board of Directors were Raimo Sailas, Permanent State Secretary (Chairman), Erkki Virtanen, Permanent Secretary (Vice-Chairman), Markku Linna, Permanent Secretary, Prof. Satu Lähtenmäki, Hannele Pohjola, Chief Policy Adviser, as well as Sitra's Presidents, Aatto Prihti (until 30 June 2004) and Esko Aho (since 1 July 2004). Jaana Ekström, Executive Assistant, was Secretary to the Board. At its meeting on 8 December 2004, the Supervisory Board re-elected the Board of Directors for the next two-year term of office 2005–2006, replacing Hannele Pohjola with Pekka Pokela, Director, however. Raimo Sailas, Permanent State Secretary, will continue as the Chairman of the Board, and Erkki Virtanen, Permanent Secretary, will continue as the Vice-Chairman.

Auditors appointed by the Parliament for the year under review were Matti Saarinen MP as Chairman (deputy Susanna Huovinen), as well as Esko Kiviranta MP (Mika Lintilä), Timo Seppälä MP (Olli Nepponen), Prof. Reino Majala, APA (Keijo Kauppinen APA) and Veli Vanhanen APA (Arto Kuusiola APA). Prof. Kalervo Virtanen, APA, was secretary to the auditors.

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.

Sitra's President Aatto Prihti, DSc.(Econ.), retired on 30 June 2004. His successor, Esko Aho, M.Soc.Sc., started work as the new President of Sitra on 1 July 2004.

The change in Sitra's strategy that focuses competence and resources on certain focus areas requires more efficient cooperation and interaction between the different units and flexible movement of resources in accordance with the needs. Experience gained during a half-year training programme for managers was positive, and a decision was made to continue

joint manager meetings in the form of manager forums convening approximately three times annually. The first forum arranged in the autumn discussed management of change. A competence survey of Sitra's staff was scheduled for early 2005.

An extensive working community survey, to be implemented every other year, was completed during the year. According to the survey, Sitra is regarded as a valued player in society and a vantage point to the future for its employees.

At the end of the year Sitra employed 92 people. 51 of them (55 per cent) were women and 41 (45 per cent) men. The average age of the personnel was 44 years at the end of the year.

## ENDOWMENT CAPITAL

During the year under review the market value of Sitra's endowment capital increased to € 573 million from € 562 million at the end of the previous year. The nominal value of the endowment capital is € 235 million. Responsibility for managing most of Sitra's endowment capital has been entrusted to outside asset-management companies.

Finnish equity investments account for 35 per cent of the market value of the endowment capital, while 23 per cent is in Finnish interest-bearing instruments. The share of bonds issued by European governments is 16 per cent. Alfred Berg Omaisuudenhoito Oy and Mandatum Omaisuudenhoito Oy manage the Finnish equity portfolio, as well as the Finnish and European fixed-income portfolio. Sitra has also invested in the Pohjola Finland Value fund.

During the year under review Sitra terminated its asset management agreement with Lombard Odier Darier Hentsch & Cie. A part of this international equity mandate was transferred to international equity portfolios managed by Morgan Stanley & Co and JP Morgan Fleming Asset Management Ltd. An investment of € 8 million was made in the Selectinvest fund of hedge funds managed by Union Bancaire Privée. Sitra has another fund holding of approximately the same value in the Multi Strategy fund managed by ABN Amro. In addition, Sitra has invested in a European equity index fund managed by Handelsbanken.

Some of Sitra's endowment capital is also invested in venture-capital funds and real estate. A part of the real estate holdings in Uudenmaankatu in Helsinki was divested in the year under review.

## PROPOSAL FOR THE DISPOSAL OF PROFIT

The Board of Directors proposes that the net profit for the year, amounting to € 7,641,922.28, be carried forward.

# PROFIT AND LOSS ACCOUNT

(€ 1 000)

1 Jan–31 Dec 2004

1 Jan–31 Dec 2003

## ORDINARY OPERATIONS

### Business development and funding

#### Income

Profit from sales		2 426	975
Income from investment funds		1 769	653
Other income from investments		939	803

1)

5 134 2 430

#### Expenses

Investment expenses	2)	-17 777	-36 737
Other expenses	3)	-387	-627
Share of general expenses		-3 639	-3 551

-21 803 -40 915

-16 669 -38 485

### Research and development

#### Income

Income from investments	4)	8	13
-------------------------	----	---	----

#### Expenses

Investment expenses	5)	-4 422	-7 023
Other expenses	6)	-246	-273
Share of general expenses		-2 458	-2 273

-7 126 -9 569

-7 117 -9 556

### Administration

#### Expenses

Personnel expenses	7)	-7 742	-7 602
Depreciation	8)	-470	-499
Other expenses		-1 351	-1 376
Transfer to operations		6 096	5 824

-3 467 -3 653

### Loss

-27 253 -51 694

## INVESTMENT OPERATIONS

Income from endowment capital	9)	42 959	56 013
Expenses from endowment capital	10)	-8 064	-2 888

34 895 53 124

## NET PROFIT

7 642 1 430

# BALANCE SHEET

(€ 1 000)

		31 Dec 2004	31 Dec 2003
<b>ASSETS</b>			
<b>Fixed assets</b>			
Tangible assets			
Machinery and equipment		493	765
Shares and participations		14 518	14 518
Other investments		82	71
	11)	15 092	15 354
Funding operations			
Shares and participations		102 087	111 312
Capital loans		15 629	17 997
Other loans		8 204	9 241
	12)	125 921	138 551
Endowment capital investments			
Bonds and notes		107 521	112 570
Shares and participations		144 915	143 520
Fund investments		71 485	64 221
Real estate investments		35 794	46 963
Other investments		107 663	98 570
	13)	467 378	465 844
		608 391	619 748
<b>Current assets</b>			
Receivables			
Accrued income	14)	4 392	6 985
Cash and bank receivables		5 247	2 350
		9 639	9 335
<b>TOTAL ASSETS</b>		<b>618 030</b>	<b>629 084</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Endowment capital		235 463	235 463
Retained earnings		317 325	315 895
Net profit for the year		7 642	1 430
		560 430	552 788
<b>Accumulated appropriations</b>			
Reserves from funding operations		21 063	27 747
<b>Liabilities</b>			
Short-term			
Accrued expenses	15)	15 111	19 167
Liabilities from funding operations	16)	21 426	29 382
		36 537	48 549
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>618 030</b>	<b>629 084</b>

# NOTES TO THE FINANCIAL STATEMENTS

## ACCOUNTING PRINCIPLES

Sitra's accounts follow 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 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.

## 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 per-

formed 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 PROFIT AND LOSS ACCOUNT (€ 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.

## Business development and funding

	Industry Ventures		Life Sciences		PreSeed		Business development and technology commercialisation		Fund investments		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>1 Income from investments</b>												
capital refunds	2	10	0	14	71	76	0	17	0	0	73	117
shares in profit	0	0	0	0	0	0	0	0	1 769	653	1 769	653
interest payments	229	208	101	112	2	0	0	37	0	1	332	358
profits from sales	1 074	0	0	2	0	0	1 224	0	128	973	2 426	975
dividends	145	122	125	0	0	0	90	56	34	86	394	264
other income	126	44	14	11	0	8	0	0	0	0	140	63
<b>Total</b>	<b>1 576</b>	<b>384</b>	<b>240</b>	<b>139</b>	<b>73</b>	<b>84</b>	<b>1 314</b>	<b>110</b>	<b>1 931</b>	<b>1 713</b>	<b>5 134</b>	<b>2 430</b>
<b>2 Investment expenses</b>												
expenses	-838	-1 130	-440	-714	-565	-1 153	-232	-106	-6	-740	-2 081	-3 843
value adjustment	-4 200	-3 563	-15 518	-21 145	-87	-50	-600	-784	-1 975	-11 647	-22 380	-37 189
change in risk reserve	441	2 274	6 315	2 071	-72	-50	0	0	0	0	6 684	4 295
<b>Total</b>	<b>-4 597</b>	<b>-2 419</b>	<b>-9 643</b>	<b>-19 788</b>	<b>-724</b>	<b>-1 253</b>	<b>-832</b>	<b>-890</b>	<b>-1 981</b>	<b>-12 387</b>	<b>-17 777</b>	<b>-36 737</b>
<b>3 Other expenses</b>												
other expenses	-125	-249	-190	-297	-66	-67	-5	-2	-1	-12	-387	-627

## Research and development

	Research		Training		Experiments		Internal development		Programmes		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>4 Income from investments</b>	8	12	0	0	0	1	0	0	0	0	8	13
<b>5 Investment expenses</b>	-2 032	-1 532	-447	-1 243	-1 836	-4 097	-107	-151	0	0	-4 422	-7 023
<b>6 Other expenses</b>	-55	-47	-44	-57	-58	-70	-58	-99	-31	0	-246	-273

The areas of Research and Development included research, training, experiments and internal development. A total of 42 projects were funded during the year under review.

### Research

Preparation and initiation of Innovation programme  
Preparation of India Programme  
Preparation of Russia Programme  
eWelfare – productive IT in well-being services  
Europe 2020  
Third task of the universities

### Training

Theme seminars  
Economic policy course  
Global changes and Finland  
– a competitive innovation environment

### Experiments

Learning Regions  
All-Day School  
Spearhead project for Information Society Strategy  
Eastern Finland centre for social innovations  
Preparation of Health Care Programme

### Internal development

Focused method of operation

## Administration

### 7 Personnel expenses

	2004	2003
Personnel expenses		
wages and salaries	5 523	5 392
pension expenses	956	1 004
other statutory payroll expenses	648	633
other payroll expenses	615	573
	<b>7 742</b>	<b>7 602</b>
Personnel at year-end		
Business development and funding	32	30
Research and development	27	31
Administration	33	31
	<b>92</b>	<b>92</b>

The wages, salaries and other payroll expenses for project personnel amounted to € 0.3 million (€ 0.6 million in 2003) and are included in expenses for funding projects.

**8 Depreciation**

	2004	2003
Depreciation according to plan		
machinery and equipment	425	447
other capitalised expenditure	42	49
renovation of office premises	3	3
	<u>470</u>	<u>499</u>

Depreciation of investment assets € 0.2 million (€ 0.2 million in 2003) has been included in expenses for investment operations.

**Investment operations****9 Income from endowment capital**

	2004	2003
profits from sales	21 286	32 938
interest income	8 319	7 856
bond price gains	1 417	4 016
exchange rate gains	1 002	243
dividend income	8 040	7 949
rental income	2 713	2 967
shares in profit	182	43
	<u>42 959</u>	<u>56 013</u>

**10 Expenses from endowment capital**

	2004	2003
asset depreciations	2 870	4 735
regained depreciations	-5 251	-10 493
losses on sales	1 996	2 754
bond price losses	1 315	2 129
exchange rate losses	2 473	2 840
asset management fees	547	515
real estate expenses	1 090	841
value adjustment of real estate shares	3 042	0
regained value adjustment of real estate shares	0	-437
other expenses	-18	3
	<u>8 064</u>	<u>2 888</u>

**NOTES TO THE BALANCE SHEET (€ 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 € 0.2 million (€ 0.2 million in 2003).

	Acquisition cost	Accum. pl. depre- ciation	Book value
	31 Dec 2004	31 Dec 2004	31 Dec 2004
machinery and equipment	3 131	2 849	282
other capitalised expenditure	473	395	78
renovation of office premises	617	614	3
other tangible assets	211	0	211
	<u>4 432</u>	<u>3 858</u>	<u>574</u>
	<b>2004</b>		<b>2003</b>
shares and participations			
shares in office premises	14 509		14 509
other shares	9		9
	<u>14 518</u>		<u>14 518</u>

**12 Funding operations**

	2004	change	2003
Industry Ventures	23 232	-553	23 785
Life Sciences	37 180	-5 769	42 949
PreSeed	151	-39	190
Business Development and Technology Commercialisation	466	-1 439	1 905
Fund investments	64 640	-4 547	69 187
Other investments	252	-2 376	2 628
	<u>125 921</u>	<u>-12 630</u>	<u>138 551</u>

**Investments in Industry Ventures companies**

During the year under review, three new Industry Ventures companies were added to Sitra's portfolio. A total of € 2 million has been invested in these companies. One company came to the portfolio from PreSeed operations. During the year eleven companies were removed from the portfolio. Of these six, have been sold, four went into liquidation and one was dropped from the active portfolio.

A total of € 48.7 million has been invested in the following 53 companies:



## Shares, participations and other investments held by Sitra

Portfolio company	Shares and participations		Capital and other loans Amount	Investment Total
	Holding%	Amount		
<b>Industry Ventures</b>				
Add2phone Oy	21%	1 960	0	1 960
Ailocom Oy	6%	13	167	180
Aplac Solutions Oy	10%	81	0	81
Aplicom Oy	28%	796	0	796
Avain Technologies Oy	13%	336	1 164	1 500
B-Band Oy	14%	50	101	151
Beveys Oy	28%	1 523	0	1 523
Buildercom Oy	13%	150	250	400
CadFaster Oy	3%	0	148	148
Chempolis Oy	11%	837	0	837
Clothing Plus Oy	28%	660	0	660
DBC International Ltd Oy	24%	1 302	0	1 302
Diomed Inc.	0%	292	0	292
EC-Engineering Oy	18%	700	0	700
Enterprize Software Ltd	22%	22	523	545
Exomi Oy	8%	660	0	660
Fathammer Oy	13%	1 000	0	1 000
Fimet Oy	47%	496	0	496
Geniem Oy	19%	336	200	536
Heptagon Oy	21%	2 848	0	2 848
Ion Blast Oy	4%	151	200	352
IST International Security Technology Oy	18%	1 037	620	1 657
IWS International Oy	6%	1 933	0	1 933
Kielikone Oy	24%	24	175	199
Kuntokumppanit Oy	29%	833	844	1 677
Lamicon Oy Ltd	20%	6	28	34
Mail Systems Oy	19%	219	0	219
Medixine Oy	17%	1 026	0	1 026
Megatrex Oy	36%	50	303	353
Nanoway Oy	26%	147	231	378
Neomed Oy	10%	13	139	151
Neorem Magnets Oy	40%	808	836	1 644
Nesenta Oy	50%	4	1 725	1 729
Okmetec Oyj	8%	4 485	753	5 238
Oseir Oy	20%	648	150	798
Panphonics Oy	23%	734	400	1 134
R 5 Vision Oy	26%	984	836	1 820
Robogrind Oy	20%	200	100	300
Sabriscan Oy	25%	500	0	500
Setec Oy	23%	5 071	0	5 071
Shanghai Fimet Medical Instruments Co. Ltd	13%	278	0	278
Smartner Information Systems Oy	11%	1 164	240	1 405
Smilehouse Oy	0%	0	225	225
Solibri Oy	14%	150	350	500
Source Code Finland Oy	40%	1 005	0	1 005
Space Systems Oy	15%	250	250	500
Syncron Tech Oy	15%	18	126	144
Sysline Oy	21%	59	120	179
Toolmakers Lahti Oy	31%	91	0	91
TR-Tech. Int. Oy	25%	147	0	147
u-NAV Microelectronics Corporation	1%	168	348	516
Viope Solutions Oy	15%	160	200	360
VLSI Solution Oy	40%	505	0	505
		36 929	11 752	48 681
value adjustment				-25 449
<b>book value</b>				<b>23 232</b>

## Investments in Life Sciences companies

During 2004, one new Life Sciences company was added to the portfolio (Chip-Man Technologies Ltd € 0.1 million). Furthermore, Sitra exchanged shares in Focus Inhalation Oy for shares in LAB International Inc. Focus Inhalation Oy became a subsidiary of LAB under the name LAB Pharma Oy. Five companies were removed from the portfolio. Of these, two have been sold and three went into liquidation.

A total of € 97.8 million has been invested in the following 36 companies:

## Shares, participations and other investments held by Sitra

Portfolio company	Shares and participations		Capital and other loans Amount	Investment Total
	Holding%	Amount		
<b>Life Sciences</b>				
Bio-Nobile Oy	3%	318	0	318
Biotie Therapies Oyj	23%	11 830	673	12 503
Boneca Oy	33%	750	1 250	2 000
BPM Group Oy	48%	885	53	938
Chip-Man Technologies Ltd	0%	0	80	80
CTT Cancer Targeting Technologies Oy	33%	1 000	1 500	2 500
Delfin Technologies Oy	37%	55	164	219
FibroGen Inc.	5%	3 515	0	3 515
FIT Biotech Oyj Plc	25%	1 323	3 255	4 578
Galilaeus Oy	51%	4 988	4 137	9 125
GeneOS Oy	48%	1 595	404	1 999
Hidex Oy	36%	735	605	1 340
Hormos Medical Oyj	19%	3 110	535	3 646
Innomedica Oy	51%	270	571	841
Innotrac Diagnostics Oy	24%	2 110	3 749	5 858
Ipsat Therapies Oy	18%	462	2 011	2 473
Juvantia Pharma Oy Ltd	39%	2 446	520	2 967
Kibron Oy	23%	257	888	1 145
LAB International Inc	5%	7 159	0	7 159
LAB Pharma Oy	0%	0	1 670	1 670
Labmaster Oy	30%	175	1 421	1 596
Medikro Oy	16%	112	17	129
Med-In Oy	51%	6 045	1 190	7 235
Mega Elektroniikka Oy	26%	210	141	352
Mehiläinen Oy	15%	4 064	0	4 064
Mobidiag Oy	33%	961	1 472	2 433
Nexstim Oy	20%	46	2 310	2 356
Optatech Oy	29%	674	883	1 558
Pharmatory Oy	22%	750	540	1 290
Polymer Corex Kuopio Oy	36%	1 503	0	1 503
Prowellness Oy	25%	1 747	72	1 819
Reactionlab Oy	38%	52	805	857
SafetyCity Ltd Oy	29%	11	526	536
Stick Tech Ltd Oy	13%	1 345	0	1 345
Unicrop Oy	33%	2 803	0	2 803
Vivoxid Oy	30%	1 513	1 509	3 022
		64 822	32 950	97 772
value adjustment				-60 592
<b>book value</b>				<b>37 180</b>

### PreSeed Funding Services

During the year under review, one investment has been made in one new company and one portfolio company has been transferred to Industry Ventures.

A total of € 0.3 million has been invested in the following three companies:

### Shares, participations and other investments held by Sitra

Portfolio company	Shares and participations		Capital and other loans Amount	Investment Total
	Holding%	Amount		
<b>PreSeed</b>				
Deltagon Group Oy	21%	71	0	71
Staselog Oy	0%	0	100	100
Waterix Oy	11%	80	0	80
		151	100	251
value adjustment				-100
<b>book value</b>				<b>151</b>

### Business Development and Technology Commercialisation

No new investment has been made in technology commercialisation companies during the year. Sitra has divested from one company.

A total of € 2.0 million has been invested in the following 9 companies:

### Shares, participations and other investments held by Sitra

Business Development and Technology Commercialisation	Shares and participations		Capital and other loans Amount	Investment Total
	Holding%	Amount		
AboaTech Oy Ab	49%	219	0	219
Culminatum Oy	5%	13	0	13
Finn-Medi Tutkimus Oy	18%	67	0	67
Helsingin Tiedepuisto Oy	14%	168	0	168
Innokarelia Oy	25%	4	0	4
Innotalli Oy	44%	170	0	170
Licentia Oy	31%	435	505	939
OuluTech Oy	40%	45	0	45
Tuotekehitys Oy Tamlink	34%	341	0	341
		1 462	505	1 967
value adjustment				-1 500
<b>book value</b>				<b>466</b>

### Fund investments

No new investment was made in funds during the financial year. Sitra divested from six management companies of the regional fund network.

A total of € 95.3 million has been invested in the following 36 funds and one management company:

### Sitra's investments in funds

Fund investments	Amount
Apple Tree Ventures II L.P.	4 063
Associated Venture Investors III	0
Atlas Venture Fund III	1 829
Baltic Investment Fund I	211
Baltic Investment Fund II	1 904
Baltic Investment Fund III	240
Baring Capricorn Ventures	619
Bio Fund Ventures I Ky	7 767
Bio Fund Ventures II Ky	3 358
Bio Fund Ventures II jatkosijoitusrahasto Ky	750
Bio Fund Ventures III Ky	3 935
Boston Millennia Partners LP	1 660
CIM Venture Fund for Creative Industries Ky	4 205
Crescendo III, L.P.	1 968
Diamondhead Ventures L.P.	4 291
Edison Venture Fund IV	1 016
Eqvitec Teknologiarahasto I Ky	8 557
Eqvitec Teknologiarahasto II Ky	5 000
European Renaissance Capital L.P.	149
Euroventures Nordica II B.V.	570
Finnventure II Ky	500
Finnventure III Ky	732
Global Private Equity II L.P.	0
Hambros Advanced Technology Trust III L.P.	739
HealthCap 1999 KB	4 793
InnKap 2 Partners	1 140
InnKap 3 Partners	3 000
Matkailunkehitys Nordia Oy	3 229
MB Equity Fund Ky	548
Merlin Biosciences Fund L.P.	7 000
Norum (Cyprus) Ltd	1 083
Russian Technology Fund L.P.	378
Strategic European Technologies N.V.	4 520
Technologieholding Central and Eastern European Fund N.V.	3 747
Trident Capital Fund V	3 002
Ventech Capital II, L.P.	4 997
Sitra Management Oy *)	3 840
	95 340
value adjustment	-30 701
<b>book value</b>	<b>64 640</b>

\*) Sitrans Oy (through Sitra Management Oy)

Sitra has holdings in 12 fund management companies through its 100% subsidiary Sitra Management Oy:

### Management companies

3TS Venture Partners Oy  
 Baltcap Management Oy  
 Baltic Investment Fund Management Ltd  
 Baltic SME Management B.V.  
 Baltic Venture Advisers Oy  
 BIF Management Ltd  
 Bio Fund Management Oy  
 Eqvitec Partners Oy  
 European Fund Investments Carried Interest Unit Trust  
 Nordic Russian Venture Partners Ltd  
 RTF Founders L.P.  
 RTF Management Ltd

## Other investments

Other investments	Holding%	Shares and participations		Investment Total
		Amount	Capital and other loans Amount	
Easdaq S.A.	0%	138	0	138
Eigenvalue Oy	14%	432	0	432
Fruit Wash Oy Ab	17%	17	67	84
Go Distance Oy Ab Ltd.	43%	25	295	320
GWM Systems Oy	0%	0	256	256
Hi-Col Oy	0%	0	275	275
Navicre Oy	0%	0	252	252
Optonex Oy	0%	0	170	170
Ras-Met Oy	0%	0	395	395
Skywings Oy Ab	0%	0	17	17
Tapvei Oy	0%	0	50	50
		612	1 778	2 390
value adjustment				-2 138
<b>book value</b>				<b>252</b>

## 13 Endowment capital investments

	2004	2003
Long-term investments		
bonds and notes	107 521	112 570
Finnish shares	95 956	76 638
foreign shares	48 959	66 882
mutual fund investments	52 084	42 937
private equity fund investments	19 401	21 283
real-estate investments	35 794	46 963
Short-term investments		
bonds and notes	6 266	14 886
certificates of deposit	97 632	80 734
cash accounts	3 739	2 920
other short-term investments	27	29
	467 378	465 844

Difference between the capitalised acquisition cost and market value of publicly quoted endowment capital securities

total market value	293 852	280 073
corresponding book value	196 999	186 460
difference	96 853	93 614

## 14 Accrued income

Interest for the financial year has been entered as income from investment operations and amounted to € 3.7 million (€ 4.5 million in 2003).

## 15 Accrued expenses

Accrued liabilities include € 10.9 million (€ 13.6 million in 2003) debts to private equity funds where agreement has already been reached and for which Sitra's liability exists.

## 16 Liabilities from funding operations

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

## LOANS DUE FOR REPAYMENT ENTERED AS EXPENSES 31 DECEMBER 2004

Loans due for repayment have been entered as expenses. They amounted to € 3.0 million at the end of the year (€ 2.9 million in 2003). Of these loans, € 0.1 million (0.1 million) are sums for which the condition for repayment is fulfilled and for which repayment follows a fixed schedule, and € 1.7 million (1.7 million) are sums for which repayment is bound to royalties instead of a fixed schedule. Loans for which the condition for repayment has not been fulfilled or for which the terms of repayment have not been agreed amounted to € 1.2 million (1.1 million).

## OFF-BALANCE SHEET LIABILITIES 31 DECEMBER 2004

Where funding has been agreed but no agreement yet signed	2004	2003
Industry Ventures	4 600	7 928
Life Sciences	9 215	7 731
PreSeed	4 302	886
Business Development and Technology Commercialisation	1 282	1 063
Fund investments	7 300	7 037
Research	1 142	2 313
Training	29	0
Experiments	420	2 665
Internal development	12	2 020
	28 302	31 643

Helsinki, 15 February 2005


  
Raimo Sailas

  
Erkki Virtanen

  
Markku Linna

  
Satu Lähteenmäki

  
Pekka Pokela

  
Esko Aho

# AUDITORS' REPORT

Having been appointed by the Finnish Parliament as auditors we have examined the financial statements, the bookkeeping and administration of the Finnish National Fund for Research and Development (Sitra) for the financial period 2004 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

7,641,922.28 have been drawn up in accordance with current legislation. The financial statements present a correct and adequate description of the Fund's activities and its financial position.

We recommend that the Profit and Loss Account and the Balance Sheet be adopted and that members of the Board of Directors and the presidents 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, 17 February 2005



Matti Saarinen



Esko Kiviranta



Timo Seppälä



Reino Majala,  
Authorised Public Accountant



Veli Vanhanen,  
Authorised Public Accountant



./. Kalervo Virtanen,  
Authorised Public Accountant

# SITRA AT YOUR SERVICE IN 2005



## **Finnish National Fund for Research and Development**

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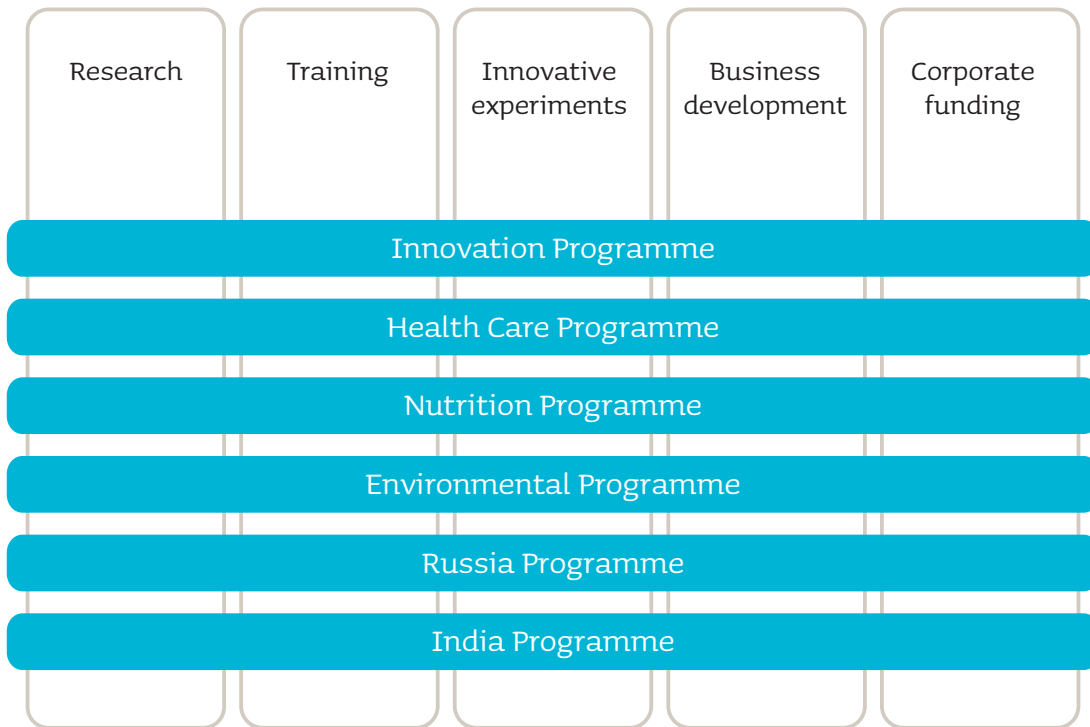
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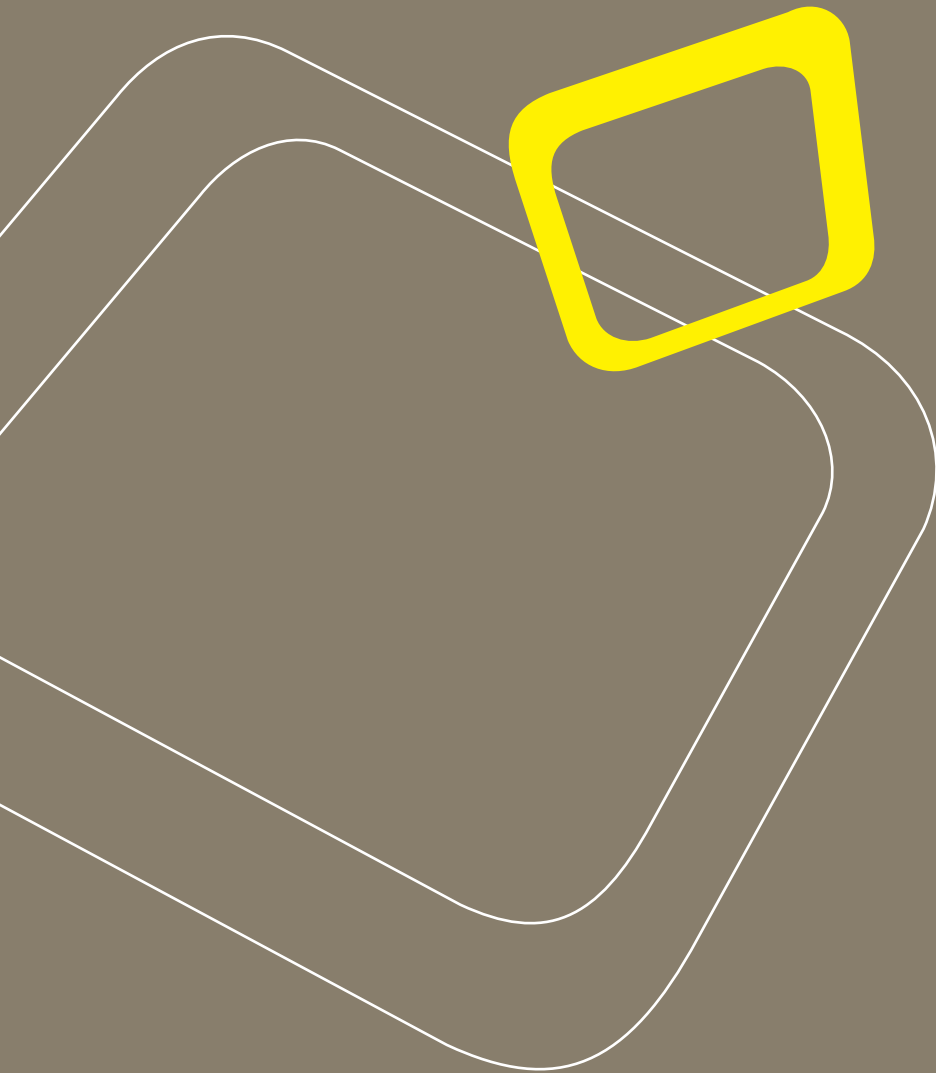
# SITRA'S OPERATING MODEL



In its programmes, Sitra exploits research, training, innovative experiments, business development and corporate funding flexibly based in the needs of the programmes and their stage.

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