

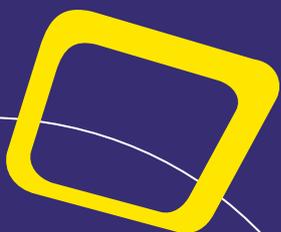




The Finnish National Fund for Research and Development (Sitra) is an independent public foundation under the supervision of the Finnish Parliament. By law, it is our duty to promote a stable and balanced development in Finland, the qualitative and quantitative growth of its economy and its international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

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

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



We are building
the successful Finland of
the future through social impact,
networks and innovation.

SITRA

Annual Report 2005

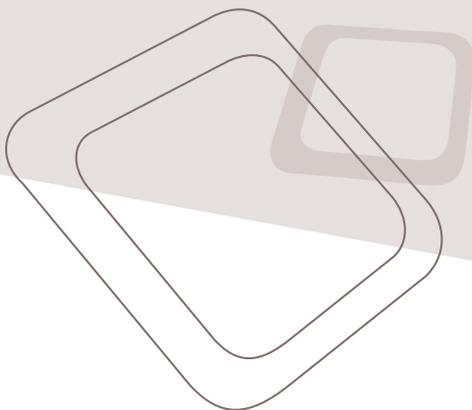
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» In our six programme areas, we have gained the partnership of all key national actors.

Well-being through innovation

The increasing pressure on efficiency and competitiveness from globalisation and the ageing of the population are raising fears concerning the future of the welfare society. Will we be able to cover the costs of first-rate education and proper pension security or meet the growing demand for social and health-care services?

There are two alternate responses to this scenario: either we isolate ourselves from the rest of the world or we take the challenge. There is no third alternative when it comes to economic and technological globalisation.

It is in the best interest of Finland and Europe, in general, to participate in globalisation. In this day and age, this response will mean entering a tough and taxing competition.

Fortunately, there are options that are efficient and economically and socially responsible all at once.

We want to help build a more competent Finland

Under its approved strategy, Sitra has, since 2004, concentrated its efforts on carefully selected areas in which

we want to be involved, namely improving Finnish know-how and competitiveness. In this process, we will be creating tools and methods for resolving the financial crisis threatening the welfare society in a socially sustainable and humane way.

The focus areas that we have selected – reforming the innovation system, health care, food and nutrition, the environment, Russia and India – have proven both challenging and very promising. They are suitably different and provide opportunities for interaction and, as a result, innovation.

The key is to make technology work for us

Developing electronic health-care services is an excellent example of projects with which higher quality and greater efficiency can be achieved at the same time. It is also proof of how effective and useful a tool information technology can be in solving the problems caused by the ageing of the population.

We must remember, however, that technology is only a tool, a means to an end. What will decide Finland's



future success is how well we will be able to use the fruits of technological progress to our advantage. We need effective markets, flexible and creative organisations, open minds and a willingness to take risks.

Sitra's operating model and tools are perfectly suited to developing and implementing organisational and functional innovations to take the best possible advantage of technology investments. In our six programme areas, we have gained the partnership of all key national actors in both the private and the public sectors.

One of the areas we particularly emphasise is internationality. Besides developing new knowledge and technology, we need skills to effectively benefit from what has been invented and developed abroad. To this end, we are building close and dynamic contacts abroad to gain access to the best know-how in Europe, North America and Asia.

Both the rapid implementation of our programme-based model and its many promising results have been based on the strong commitment by every-

one at Sitra. I want to express my most heartfelt gratitude to the Board of Directors and the Supervisory Board for their input to and support for implementing the new model. I also want to thank Sitra's personnel, who have welcomed new challenges with enthusiasm and openness.

Esko Aho
President

→ *Rapid decision-making is part of our competitiveness. To achieve this, we must use foresight to prepare for the future. It is a definite strength that in Finland, different parties engage in foresight work together in a coordinated manner, says **Pirjo Kyläkoski**, Tekes' Chief Technology Adviser in charge of foresight. She is a member of Sitra's foresight network.*

Competitive innovation environment

The objective of the Innovation Programme is to reinforce Finland's status as a leader in social and economic innovation.



» *What we need is a dynamic and more international innovation environment.*

Timo Kekkonen, Executive Director

The global economy has entered an innovation-oriented stage. The trends of globalisation challenge Finland to make increasingly bold reforms.

"Never in its history has Finland been up against such fierce international competition. To succeed we must be able to turn our skills and competence into innovative business. We must adopt new attitudes, structures and procedures," says **Timo Kekkonen**, who has been the Executive Director of the Innovation Programme since February 2006.

"What we need is a dynamic and more international innovation environment to attract ideas, professionals and investment. Investment in skills and competence and research and development will not be enough. We must also be able to create an encouraging and stimulating innovation culture where new approaches and entrepreneurship are desired and accepted," says Kekkonen.

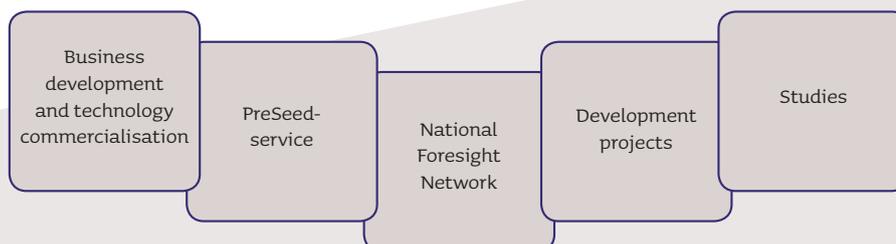
Finland must stay ahead

Sitra invited 24 of the top Finnish decision-makers and experts to survey what measures are needed to enhance the Finnish innovation environment. Their report *Making Finland a Leading Country in Innovation* was published in April 2005. It sets out a Finnish innovation strategy and presents a 27-point action programme to achieve leadership in innovation. The report is the foundation of Sitra's Innovation Programme.

The action programme has a solid basis and it covers all key areas of the innovation environment. Its aim is to ensure that Finland will be a leading innovator even in 15 years' time. Preparation has begun for all proposed measures. Sitra will assume leadership of some of the proposals and evaluate the success of the programme. The first follow-up seminar will take place in spring 2006.

Among other things, Sitra is identifying ways to better exploit foreign innovations. One of Sitra's development projects is setting up an innovation centre in California in collaboration with Finpro, Tekes, VTT and the Academy of Finland. The project is managed by **Antti Hautamäki**, the former director of the Innovation Programme who is now conducting research in California.

Sub-areas of the Innovation Programme





”Innovation is born in the workplace. Short-term capitalism leaves too little time and too little room for innovation. We are working on a model for an innovation workshop that could easily be adapted by businesses and the public sector.”

Sitra will build a National Foresight Network. Its purpose is to recognise challenges and opportunities that are significant for Finland’s future, to make better use of foresight in decision-making and to strengthen the knowledge base of the strategy processes of the network’s organisations.

Financing to feed growth

The programme comprises functions that are part of the initial stages of the innovation system.

Business development activities concentrate on the development of the operating models of technology incubators and financing. Incubators engage in extensive collaboration and share experiences openly with one another. Innovative ideas arise in universities and research institutions. Sitra is ready to use its network to back their development into commercial success stories.

PreSeed service coaches early-stage growth companies to deal with the venture-capital industry. It provides initial financing and develops private investment domain. Sitra’s network includes some 400 business angels who are experienced business professionals and who can provide new companies with capital and business expertise. The companies selected by Sitra will have an opportunity to introduce themselves to investors at INTRO Venture Forums.

→ As a new and important shareholder, Sitra has given new wind to Coxa's operations. Sitra has also had a positive impact on Coxa's image. The common goal is to develop Coxa's sector – endoprosthesis surgery – and the way it produces its services so that the experiences gained will benefit the entire nation, says Coxa Ltd CEO **Matti Lehto** (left).

Power to health care

Sitra's Health Care Programme looks for new solutions to develop Finnish health-care services. The programme focuses on reforming treatment practices and support services, and on information management and strengthening the customer-supplier model.



» **Sitra's involvement is based on partnerships and collaboration.**

Hannu Hanhijärvi, Executive Director

The future will be paperless

A national objective for the near future is to create a national electronic health-record system, which should be as uniform as possible. The technology already exists. Implementing the strategy will require mutual trust, collaboration and commitment to common goals from all actors in health care.

”Existing systems are regional and do not communicate with each other. The next step will be to harmonise patient records across the country. A common structure and common categories are required for entering patient data into the system. With patient consent, data can then be used later for each new treatment the patient requires and in documentation. The electronic health-record system will make all information available from a single source. This makes treatment safer and more effective.

This will be a great benefit to patients,” says Executive Director **Hannu Hanhijärvi**.

A uniform system and up-to-date records will improve the division of labour between health-care organisations and their collaboration, and also make it easier to manage care chains. With the system in place, the outcomes of care can be monitored more easily and the quality of processes can be developed sustainably.

”We are building national definitions and data system architecture in collaboration with the Ministry of Social Affairs and Health. What is more, Sitra is participating in a project to develop an electronic prescription system.”

The National Health Portal project will make all essential information on protecting one's health, preventing and treating diseases and health care and hospital services accessible to everyone in Finland.

”Customers will have easy and quick access to information from a single address. People can enter information on their health into their personal electronic health card, which is available through the portal. This information can then help doctors determine the correct treatment.”

Pilots of the health portal will be conducted as regional projects in collaboration with local authorities and hospital districts.

Key areas in Health Care Programme





Cross-border collaboration

Sitra wants to increase collaboration across hospital districts. The Health Care Programme will launch experiments in specialised health care, which will be based on best practises. In spring 2005, Sitra became a shareholder in Coxa Oy, a joint replacement hospital in Tampere.

”Today, endoprosthetic surgery is provided by more than 60 hospitals with quite widely varying results. It is our objective to have Coxa’s operating model adopted nationally so that there would be five prosthetic centres in Finland.”

Sitra and Tekes cross borders and open doors to Finnish companies in Japanese and US markets in the collaborative Access Program project. Together, they have

» *With peer review we can build high-standard processes and services in Finland which can evolve into exportable products.*

become a member of Health Tech, a research and training organisation in San Francisco. Their membership will provide the Health Care Programme with access to health-care development carried out in the USA and to best US practices. ”With peer review we can build high-standard processes and services in Finland which can evolve into exportable products,” says Hanhijärvi.

→ The entire food sector benefits from the collaboration of some 20 experts and industry leaders covering the entire chain. Our participation in the strategy process turned a new leaf in Juustoportti's and my life, says Juustoportti Oy CEO **Timo Keski-Kasari** (right).

Foods of the future to international markets

The objective of the Food and Nutrition Programme (ERA) is to reinforce the international competitiveness of the Finnish food industry in healthy nutrition.



» We are taking Finland to the forefront of healthy nutrition.

Anu Harkki, Executive Director

Finland is widely known for functional foods and the related technology. Its national health programmes have for decades served as models for similar programmes in other countries.

”By making the correct strategic choices and further improving co-operation across business sectors, we will have an excellent chance at success,” says **Anu Harkki**, Executive Director of the ERA programme.

The programme’s strategy process was launched in autumn 2005, with the goal of forming a common vision between partners on the keys to Finnish success in global food markets. Leaders in the food industry, trade, organisations, research and the public sector will define common strategic objectives and establish what measures are needed to attain them.

A common food and nutrition strategy and an action plan will be publicised in spring 2006.

Promoting well-being and reducing risks from illnesses are national economic challenges to which the nutrition sector must also pay closer attention. ERA will create a basis for a nutrition cluster that will develop and reinforce Finland’s competitiveness in health-promoting nutrition.

”The cluster will lead to new functional foods and concepts based on the competence of several sectors. The programme will provide opportunities to reinforce operating principles that promote health and to develop concepts suitable for export,” says Harkki.

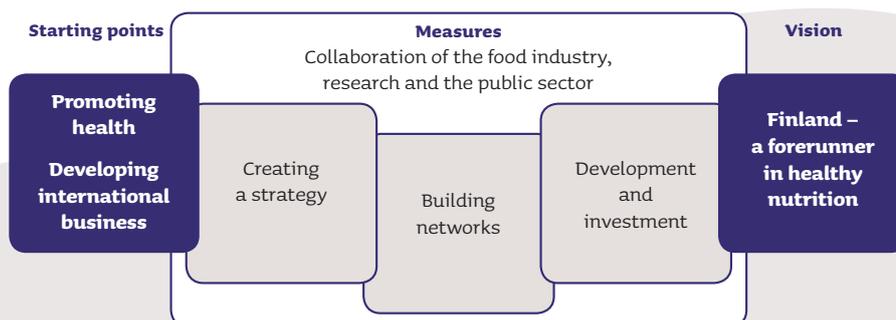
Research in food and nutrition will be exploited better by focusing on key strategic areas. The goal is to coordinate research in collaboration with Tekes and other programme actors.

Better margins from processed products

One of ERA’s goals is new business development. The programme will make substantial venture-capital investment, which will also accelerate the internationalisation of SMEs.

”Venture capital is available to companies and projects that support the objectives of the ERA programme. Dozens of companies have applied for the programme and a few have been included in Sitra’s project

Nutrition cluster





flow and will be reviewed further. The first investment will take place in the first half of 2006.”

There are only a few major companies in the food sector but a large number of small ones. SMEs need support and innovation to develop their businesses. ERA will set up mini-clusters and support SMEs through mentoring.

Anu Harkki believes that there is great potential in, for example, Finnish cultivated and wild berries and Finnish cereals, and in increasing their degree of processing.

The ERA programme implements projects that promote health in collaboration with industry, trade, organisations and public sector. Its principal target groups are children and young people, whose nutrition can be

» *Venture capital is available to companies and projects that support the objectives of the ERA programme.*

improved by developing school meals, for example.

”We must also influence the nutrition skills of adults, that is, parents and decision-makers. Healthy living includes healthy food as well as exercise and caring for yourself. Turning these principles into concepts that interest consumers – tasty products, high-quality services and operating models – can improve national health and generate business,” says Anu Harkki.

→ Finnish environmental know-how has great potential for export and for subcontracting to the export industry. Know-how is not enough for a company, however, it must also have the capacity for effective marketing. To this end, Sitra’s networks are very useful, says Consultant **Jukka Jaatinen** (left) from Synchron Tech Oy.

Finnish environmental know-how in global demand

The objective of the Environmental Programme is to develop environmental technology and know-how into an important growth sector for Finland. The aim is to reinforce Finland’s position as a leading country in environmental technology.



» **Environmental technology will become an interesting and significant target for investment.**

Jukka Noponen, Executive Director

Year after year, Finland has been placed first in the World Economic Forum’s Environmental Sustainability Index. It has received the highest score in, for example, science and technology, competitiveness, water quality, private-sector responsiveness and environmental governance.

Moreover, environmental technology is expected to be one of the principal growth sectors of this century. It has a global market currently valued at a minimum of EUR 550 billion and is expanding in excess of 10% annually. Regulation, climate change and energy prices drive the expansion of investments and markets in the environmental sector.

”Despite Finland’s good reputation and the potential of the market, export growth has not matched expectations and

the sector rests on a few leading companies,” says Executive Director of the Environmental Programme **Jukka Noponen**.

The Environmental Programme searches for solutions to boost exports in environmental technology and know-how and to expand the sector. To start with, the programme has concentrated on four principal themes: providing publicity for the sector and its companies, improving the monitoring of market data, providing tools for anticipating trends and trend information, and improving the sector’s prospects for venture-capital investment. This knowledge base serves both businesses and venture-capital investors.

”Environmental technology will become an interesting and significant target for investment. We believe that Finland has a lot to offer to the market. What we now need in Finland is more customer and market-oriented investment in exports, and to defragment and strengthen the sector, and to improve SME networks with leading companies and international partners. The market expects integrated and comprehensive life-cycle solutions.”

Environmental Programme project fields and focuses





Promoting business by benefiting the environment

"We are building a common brand for internationalising companies called Cleantech Finland™. It will cover all environmentally advanced technologies and widen the established environmental field of view. Cleantech Finland™ will distinguish businesses from environmental protection as such and will reinforce the image of the environmental sector as a business with great potential."

Venture capital is a key tool of the Environmental Programme. Sitra's investment portfolio is intended for environmental technology companies and networks that have the desire and capacity to grow and want to become international operators. Fields of interest include clean

» Venture capital is a key tool of the Environmental Programme.

and energy-saving technologies, water and wastewater treatment, waste management, environmental monitoring and, in general, all technologies that are less harmful to the environment than their alternatives. Sitra has already made investments and has also taken steps to encourage a general increase in investment in the environmental sector.

In the final year of the Environmental Programme, we will draw up a national environmental strategy and action programme to ensure export growth.

→ *Sitra's Russia Programme has provided our company with a great deal of knowledge about Russia, and training and contacts. Sitra has been an important source for information and the programme's consultants have been especially useful to our project. There is good demand at the moment on the Russian market for our metal coating products. The future looks bright, says Technical Director **Risto Sirviö** (left) from Aurajoki Oy.*

Closer partnership with Russia

The Russia Programme is creating a broad framework for collaboration between the Finnish and Russian economies. It includes three sub-programmes: Strategy, Integration and Forum.



» **Finland cannot afford to be a bystander.**

Maaret Heiskari, Executive Director

Russia has one of the fastest growing economies in Europe and it is Finland's biggest trading partner. Finnish exports to Russia grow at an annual rate of almost 30 per cent.

"In recent years, the biggest foreign investments to Finland have come from Russia and for many Finnish businesses, Russia offers the only opportunity for expansion. Our goal is to help, in particular, small and medium-sized companies to partner and network with Russian companies. Partnership is the key to success," says **Maaret Heiskari**, Executive Director of the Russia Programme.

"Competition calls for a presence in all markets: businesses must become part of the Russian market."

In early 2005, Sitra invited 34 leading Finnish Russia experts from various sectors of industry to envision the future of economic relations between Russia and Finland. Their debates formed the basis of the Finnish economic strategy for Russia entitled *From Trade to Partnership*.

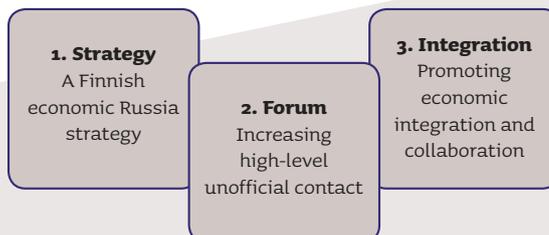
The strategy and the measures it proposes were published in autumn 2005 in Finland and Russia. Its message is clear: Finland cannot afford to be a bystander to Russia's economic progress.

"We have assigned responsibilities to develop the measures and implement them. Everyone has accepted the challenge with enthusiasm."

Synergy in an industrial park

The Integration programme comprises 74 companies from various sectors, placed in one of four clusters according to their objectives: establishers, subcontractors, industrial park and construction. All of the clusters are operational. The SMEs in the Integration sub-programme have a common goal in founding a Finnish industrial park in St Petersburg or the Leningrad Oblast, where there are skilled workers and a market as big as Finland's. Sitra is financing the planning of the park concept. Finnish property investment companies are prepared to finance construction of facilities that will provide the businesses with long-term safe conditions. In the initial stage, 14 companies will take part in the industrial park project. As the project advances, more companies will be accepted. A wide range of companies will provide better access to financing and investment and a reduced risk per company.

Sub-programmes of the Russia Programme





Know your partner

Maaret Heiskari is concerned about the future: the imminent retirement of many Finnish Russia experts will cause a deficit in Russia know-how because there are not enough people to replace them.

”Finland must make a determined effort to invest in a high standard of expertise on Russia and the international commercialisation of this expertise. We must exploit and improve it especially in the selected strategic sectors in the forest industry, logistics, construction and technology. We must become the world’s leading Russia expert outside Russia itself and commercialise our know-how and services into exportable products.”

In order to be the leader, we must also dispel prejudices about Russia. Increasing a comprehensive and accu-

rate understanding of Russia is a challenge to the Finnish school system, Finnish industry and the Finnish media. We must understand Russian culture, history, society and language better than our competitors do. Moreover, it is also important to make Russians increasingly interested in Finland. To achieve this we must have close relations with all key Russian actors, and form strategic partnerships with them on the basis of our expertise and know-how.

» *Finland must make a determined effort to invest in a high standard of expertise on Russia and the international commercialisation of this expertise.*

→ India has registered very impressive economic growth in the past two decades. Liberalised trade and investment policies have led to stronger external balances. Technological changes have made India a source of IT services. As a result, there are many opportunities for business globally. The NCAER and Sitra joint study analyses potential for such opportunities for co-operation for India and Finland, says **Shashanka Bhide** (right), Sr Research Counsellor at NCAER.

Discovering India

Sitra's India Programme is laying the foundation for better India know-how in Finland and for assessing India's importance to Finland and Finnish businesses.



» **India provides new opportunities for Finland.**

Vesa-Matti Lahti, Research Manager

The programme's tools include generating information and disseminating it through publications, seminars and workshops.

"We have already achieved one of our goals: India has taken its place in public debate," says Research Manager **Vesa-Matti Lahti**, who heads the programme.

In the India Programme's initial stage in spring 2005, Sitra produced a background study, which was published in Finnish and English. The report, entitled *The India Phenomenon and Finland*, introduces the concept of the India phenomenon and the opportunities it has to offer to Finns.

"India's economy has reached a very interesting stage. Now is the time to form relationships and build co-operation. As the Indian economy continues to expand, many of its sectors will start to interest Finns. New opportunities will emerge in construction, environmental technology and health care, for example."

India's economic growth is no longer based as strongly on export industries as is the case in China but more on domestic businesses and capital and goods sold on the home market. Product and software development rank among the most important exports.

"In the second stage of the programme, we will focus on producing specialist reports to help Finnish businesses and organisations interested in India to succeed in collaboration with Indian partners," Lahti says.

"Another programme objective is to help people understand the changes taking place in the global econ-

omy, and to promote a globalisation that is based on good practises and reciprocity. The best collaboration and business are based on mutual benefits to Finns and Indians. Sitra cannot alter the course of globalisation itself but it can influence how we in Finland react to global challenges."

The India Programme has formed networks with Finnish and international partners. 2006 will see the completion of two international research projects which assess the potential for economic collaboration between Finland and India, particularly from the Indian point of view, as well as the status of the two countries in the new geography of science.

Four views of Finnish India

The publication project, *Finnish Indias*, which was launched in autumn 2005, produces information on the regions, growth centres, population groups and sectors of India that are meaningful and interesting to Finns. Material is collected by interviewing Finns working in India, Indians employed by Finnish companies, academics and Finnish and foreign businessmen.

» **We produce studies that will help companies succeed in co-operating with Indian partners.**

The information will be published in 2006 in the form of four reports. Their topics will be based on the conclusions made on the basis of the basic survey. The report *The India of Mobile Business* will focus especially on the port city of Chennai on India's east coast, *The India of the IT Service Sector* will focus mainly on Bangalore, *The India of Land, Forests and Metal* will have a strong focus on the Kolkata region and *The India of Buyers* will concentrate on Mumbai and its environs.



→ *Sitra's personnel come from very diverse training and experience backgrounds, which is a great asset for Sitra. It has clearly eased the transition to programme-based operations, says **Heli Anttonen** (right), who is in charge of personnel administration.*

Change begins at home

To fulfil its role as an agent of change in society, Sitra must also be ready to change itself. Today, Sitra's responsibility to develop new operating models in its six programme areas is more imperative than ever.

Sitra's new strategy and the changes demanded by the programme-based operating model permeate all of Sitra's activities. An extensive reorganisation was carried out in 2005, as a result of which programme work is now based on teams with comprehensive know-how. Sitra's tools – research, strategy processes, innovative experiments, business development and corporate funding – are in full and effective use by the programmes.

The change in operating method has demanded adaptability, new know-how and collaboration from our personnel. Personnel development was based on a skills survey in which everyone participated. The survey was also

The change in operating method has demanded adaptability, new know-how and collaboration from our personnel.

used to put together the teams in charge of the programmes.

Personnel are also encouraged to engage in open debate at common discussion sessions, and manager forums have been organised to discuss the challenges of change management. Our new way of working has taken root thanks to a concerted effort by everyone at Sitra.

Sitra's operating model



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



Sitra operates on a basis of openness. In knowledge-intensive expert organisations such as Sitra, building an organisational image and communication are everyone's responsibility. To this end, we have improved communication on many levels. The change is evident, for example, on Sitra's new website.

Easy progress of programmes also requires more effective information management. To this end, information systems will be upgraded and harmonised in 2006.

Sitra has set clear and measurable goals for its programmes, and independent experts will assess their results annually. Activities will be reviewed based on interim results in autumn 2006 and will be adjusted if necessary. A full evaluation of the entire programme period will be conducted by the end of 2007.

Active management of portfolio

Sitra's activities are funded with investment income from its endowment capital and financing activities. It must gauge its investments and adjust its activities according to current markets. The past year secured a solid financial basis for Sitra's operations. The budget for 2006 is approximately EUR 40 million.

The market value of Sitra's endowment capital was EUR 662 million at year end and the return on it was 17%. Just under a half of the endowment capital has been

invested in shares, some 40% in interest-bearing instruments and the rest in other instruments.

Sitra's venture-capital portfolio has 95 target companies and 37 equity funds, with commitments totalling EUR 150 million.

The minimum goal for Sitra's venture capital investments is to recover invested capital. Our divestment statistics show that, to date, this goal has been achieved.

Recovering invested capital as well as securing continued financing of companies are also the goals as and when Sitra exits from companies in its Industry Ventures and Life Sciences portfolios.

New investment only in programme areas

Under its strategy, Sitra makes market-based investments only in companies that operate in Sitra's programme areas. They must have the potential, the capacity and the desire to grow and enter markets abroad. In 2005, Sitra looked for targets for venture capital investment in health care, environmental technology and the food and nutrition sector. The first investments were made in spring 2005.

Sitra continues to support seed-stage companies through its PreSeed financing service. The purpose of PreSeed is to promote the access of good business ideas to venture capital.



Sitra publications 2005

Sitra series

Suomi maailmantaloudessa. Uuden ajan talouspolitiikkaa
(Finland in the Global Economy – Economic Policies of the New Age)
J. Kiander, J. Pekkarinen, P. Vartia, P. Ylä-Anttila, Sitra 269

Kahdeksan pilven takaa. Japanin murros ja nousu
(From Behind Eight Clouds. Japan's Transition and Rise)
T. Turkki, Sitra 272

Kiinan vaikeat valinnat. Yhteiskunnallisen murroksen tiellä
(China's Tough Choices. On the Path of Societal Transition)
L. Jakobson, Sitra 273

Valmistumisen vallihaudalla. Opintojen kesto 2000-luvun hyvinvointivaltiossa
(Almost Graduates. Duration of Studies in 21st Century Welfare Society)
E. Mannisenmäki, M. Valtari, Sitra 274

Ehetytty koulupäivä. Lapsilähtöinen näkökulma koulupäivän uudistamiseen
(Integrated School Day. Child-Oriented Approach to Restructuring the School-Day)
L. Pulkkinen, L. Launonen, Sitra 275

The series is published by Edita Publishing Oy. Sales: Edita custom service and bookshop, as well as bookshops through-out Finland.

Sitra reports series

Kotityön markkinat
(The Market for Domestic Services)
J. Varjonen, K. Aalto, J. Leskinen, Sitra reports series 45

Suuri maa, pitkä kvartaali. Suomalaisyritysten kokemuksia Venäjän kehittyvästä kapitalismista
(Large Country, Long Quarterly. Experiences of Finnish Companies of the Emerging Capitalism in Russia)
T. Mäkinen, Sitra reports series 48

Nettikioskeja ja laajakaistaa. Kansalaisten tietoyhteiskuntaa rakentamassa
(Web Kiosks and Broadband. Building a Citizens' Information Society)
H. Rantanen, Sitra reports series 49

Virtuaalihalleja ja hyvinvointia. Suomalaisen tietoyhteiskunnan kehitys ja haasteet
(Virtual halls and well-being. The progress and challenges of the Finnish information society)
A. Kasvio, J. Nurmela, M.-L. Viherä, K. Hyvönen, J. Oksa, O. Hietanen, Sitra reports series 50

Pelit ja pelitutkimus luovassa taloudessa
(Games and game studies in the creative economy)
M. Eskelinen, Sitra reports series 51

Kuka opettaa ja ketä? Viro EU:n jäsenenä
(Who teaches and whom? Estonia as an EU Member State)
L. Järvinen, Sitra reports series 52

Suomi-Intia-osaajavaihto
(Finland-India competence exchange)
O. Eronen, Sitra reports series 54

The India Phenomenon and Finland. Background study for Sitra's India programme
E. Grundström, V.-M. Lahti, Sitra reports series 56
Available also in Finnish (Sitra reports 53)

From Trade to Partnership. Finland's Economic Strategy for Russia
S.-E. Ollus, N. Torvalds (ed.), Sitra reports series 58
Available also in Finnish (Sitra reports 55) and in Russian (Sitra reports 57)

Vientiä ympäristölle. Seminaariraportti
(Environmental Exports: Seminar Report)
L. Järvinen, E. Kuusisto (eds.), Sitra reports series 59

Other Sitra publications

Making Finland a leading country in innovation. Final report of the competitive innovation environment development programme
Available also in Finnish and in Swedish (electronic publication only)

The impact of offshoring on value creation in Finnish venture-backed software companies
V. Kyöstiä, W. Cardwell (electronic publication only)

The publisher is Sitra. Publications are available in print and in the web unless otherwise stated. They can be ordered from Sitra, e-mail julkaisut@sitra.fi or tel. +358-9-618 991, www.sitra.fi/en/publications



Sitra's events in 2005

In 2005, Sitra organised 15 book-launch seminars and numerous workshops, press conferences and discussions, as well as other seminars in Finland and abroad concerning its programmes.

The highlight of 2005 was the Open Doors Day held on 24 August. It brought our partners together to hear about Sitra's current activities and to talk about common topical interests.

Sitra participated in the ChemBio fair of the BioFinland 05 conference occupying a stand jointly with Tekes and FIB on 24–26 April 2005.

For more than a quarter of a century, Sitra has organised training in economic policy. In 2005, two courses were held, and they were the last ones offered under the current format.

KEY PROGRAMME EVENTS

Innovation Programme

The launching seminar of the Competitive Innovation Environment development programme and the closing of the course

27 April 2005

Does Finland have the best network of technology incubators in the world? seminar

31 October 2005

Japanese Innovation Environment seminar

15 November 2005

The PreSeed financing service built its network and trained its stakeholders in 2005. Training was provided to INTRO companies and also to INTRO investors and DIILI knowledge capital investors. Besides training, PreSeed organised business forums and theme events. In the Yrke business development programme, workshops were held in Jyväskylä, Kuopio, Naantali, Tampere and St Petersburg.

Health Care Programme

Linjanvetoa II seminar on innovations in health care

7–8 June 2005

Digitalisation of Health Care seminar

28 September 2005

Keys to change – How will local authorities finance their services? training programme

Sitra, Association of Finnish Local and Regional Authorities and the Helsinki Region Chamber of Commerce
8 December 2005 Seminar
13, 14 and 15 December 2005
Small groups

Food and Nutrition Programme

Launch seminar for the strategy process of the Finnish food sector

17 August 2005

Workshop: Commercialising Research and SMEs

4 October 2005

Workshop: Consumers and Promoting Health

12 October 2005

Environmental Programme

Demand for environmental know-how seminar

Sitra and the Finnish Environment Institute
18 October 2005

Environmental sector foresight seminar

1–2 November 2005

Water and Environment Networking seminar, St Petersburg

Sitra, Finnish-Russian Commission for Scientific and Technological Co-operation
15–16 November 2005

Russia Programme

Bilateral economic forum

12 August 2005

Launch seminar of Finland's Economic Strategy for Russia

8 September 2005

Launch seminar of Finland's Economic Strategy for Russia, Moscow

5 October 2005

India Programme

Launch seminar of the programme: Is the India Phenomenon a mega-trend of the 2000s?

26 January 2005

Launch seminar of The India Phenomenon and Finland report

3 June 2005

Launch seminar of the report The impact of offshoring on value creation in Finnish venture-backed software companies

22 June 2005



From top left
Markku Linna, Pekka Pokela,
Erkki Virtanen and Jaana Ekström.
From bottom left Satu Lähteenmäki,
Raimo Sailas and Esko Aho.

Sitra's Supervisory Board and Board of Directors

Board of Directors

Chairman

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

Pekka Pokela, Director

The Confederation of

Finnish Industries EK

Member of the Board since 2005

Esko Aho, President

Sitra

Member of the Board since 2004

Secretary

Jaana Ekström,

Executive Assistant

Sitra

Secretary of the Board since 2004

Supervisory Board

Chairman

Olavi Ala-Nissilä, MP

Vice-chairman

Jouni Backman, MP

Arja Alho, MP

Janina Andersson, MP

Sirkka-Liisa Anttila, MP

Timo Kalli, MP

Ilkka Kanerva, MP

Jyrki Katainen, MP

Martti Korhonen, MP

Secretary

Anton Mäkelä, L.I.B

Board report for the year 2005

2005 was the 38th year in the history of the Finnish National Fund for Research and Development, Sitra. In 2005, Sitra's focus was its programme operations, in keeping with its new strategy.

The global economy expanded a good 4% in terms of GDP in the year under review. The focal point of the expansion was still China and the rest of South-East Asia, although growth was substantial in India, too. The rising price of oil had surprisingly little impact on economic growth. US growth remained brisk, although the hurricanes of early autumn were a cause for concern. Growth was positive also in Europe, largely thanks to an improvement in exports.

In Finland, growth fell slightly below the expected rate and was 1.5%. Expansion was promoted by increasing domestic demand and consumption. Exports and imports also increased markedly but, following an unexpected and considerable decrease in investment in machinery and equipment early in 2005, investment growth was at 0%.

In the international financial market, stocks improved strongly in 2005. This was the result of continuing strong global growth, the predominantly moderate valuation of shares and the continued excellent performance of businesses. The best returns – in excess of 50% – came from emerging markets, although the markets in the USA, Europe and Finland also brought in double-digit euro figures. In the interest rate market, the US Federal Reserve continued to tighten its monetary policy by increasing its discount rate eight times to just over 4%; in Europe, the ECB raised its rate only once.

During 2005, Sitra aimed at achieving the strongest possible social impact with its new programme operations. Its programme areas are innovations, health care, food and nutrition, the environment, Russia and India. The tools Sitra applies to implement its programmes are research, strategy processes, innovative experiments, business development and corporate funding.

Sitra finances its operations from its endowment capital and income from investment activities. Returns from the endowment capital were excellent in 2005, and those from venture-capital investments more than doubled on 2004. The total sum of Sitra's investment decisions came to EUR 28.9 million and the result for 2005 was EUR 45.8 million.

PROGRAMMES

Innovation Programme

The objective of the Innovation Programme is to make Finland a leader in innovation.

The final report of the competitive innovation environment development programme was completed in spring

2005. It proposed 27 measures, which are being implemented by several Finnish organisations. Sitra itself took responsibility for launching and leading some of the proposed measures. It also monitors and evaluates the progress of the overall project.

In the year under review, Sitra set up a National Foresight Network, the objective of which is to recognise challenges and opportunities that are significant for Finland's future. Procuring and exploiting foresight information generated abroad is a special emphasis of the network. The network's management group convened twice during the year.

During the year, Sitra published studies on the social transitions of Japan and China, on restructuring the school day and on marketing domestic help services. Reports were also published on Internet kiosks and broadband, on the duration of studies in the 21st century welfare state and on the development challenges of the Finnish information society.

The objective of the Innovation Programme is to identify, evaluate and cost-effectively commercialise innovations that have market potential. The incubator development project (Development Programme for Business Incubators, Yrke) defined the principal development needs of the technology incubators in twelve locations. Sitra co-ordinates and steers this project, launched by the Ministry of Trade and Industry, in collaboration with other partners. A decision was made to choose a joint definition of processes, common contract models, customer register definitions, indicators and incubator experts' tools for consulting customer companies as key targets for improvement. In addition, a co-operation model for the third mission of the universities was drawn up. The project has set up a national monitoring and classification system for companies that rely heavily on know-how and use the services of technology incubators.

The objective of the PreSeed financing activities is to improve potential growth companies' attractiveness to investors on a national level, arrange preseed capital and develop the private investment sector. During 2005, a total of 116 companies used PreSeed services. LIKSA funding was granted to 24 companies while in INTRO, 37 companies were introduced to investors. Sixtythree new investors joined the service, 23 of which were under the DIILI principle. Investments were made in 13 enterprises through the INTRO service. In addition, four investors invested under the DIILI principle. By the end of 2005, a total of nearly 300 companies had used the services of PreSeed, 46 of which found the investment they were looking for. There are a good 400 investors in the network.

PreSeed activities were improved by both training and interaction to become more dynamic. At the same time, the success of initial funding was promoted. Besides training, PreSeed organised business forums and theme events.

Sitra has participated in the role of an expert in the Ministry of Trade and Industry's AISP strategy, the purpose of which is to reform the seed financing and services to starting innovative companies. Sitra signed an agreement with Veraventure Oy on the partial administration of the Aloitusrahasto Vera Oy seed fund. PreSeed will function as the general manager of the fund especially in the case of joint investments by the fund and business angels. Vera is a seed fund set up by Finnvera Oyj under the AISP strategy and it invests in starting growth companies. In 2005, Sitra made a decision to invest one million euro in the fund.

Sitra has formed networks with key public incubators to improve the development opportunities of growth companies. During the year, Sitra took part in European co-operation to improve business-angel activities in the European Union. In this context, Sitra was a founding member on the board of directors of the European Business Angels Network, EBAN. Sitra also took part in the three-year SUN&SUP programme of the European Commission. The objective of the programme is to develop new tools and procedures to accelerate the growth of European start-up companies.

Health Care Programme

The Health Care Programme looks for new solutions in health care to provide citizens with better service and further improve the sector's efficiency.

Sitra's role in the project, which is developing a national patient record system, was one of the key projects of 2005. A proposal, including architecture and specifications, to create a joint national image archive for health care was rapidly drawn up. The proposal included provisions for expanding the project at a later date to evolve into an electronic patient record system for the entire health-care sector. In autumn, Sitra drafted a project plan on commission from the Ministry of Social Affairs and Health on developing a national electronic prescription system. It also took part in developing electronic monitoring systems to support self-

care of chronic illnesses and illness prevention with Tekes' FinnWell programme and various experts. The programme is actively involved in promoting the establishment of a national body to steer the development of the electronic patient record system with support from legislation.

MediNeuvo Oy, in which Sitra is a partner, established its operations in Kotka, Mikkeli, Joensuu and Vaasa. The company provides services to health-care customers and also acts as a consultancy. Its services also include surveys of care need, appointment systems, status monitoring of anticoagulant patients, social care on-call services, and surveys and evaluations of dental care.

In specialised health care, Sitra concentrated on orthopaedics. In the beginning of 2005, Sitra invested in Coxa Oy, which is a joint replacement hospital in Tampere. It handles hip and knee endoprosthesis surgery in the Pirkanmaa region surrounding Tampere. A report on reorganising endoprosthesis surgery in the Helsinki region was completed in late 2005.

In autumn, Sitra organised the international seminar entitled Digitalisation of Health Care. The objective of the seminar was to comprehensively shed light on the new opportunities paper-free health care provides for improving efficiency and quality. In summer, Sitra also took part in organising the Linjanveto II seminar in Mikkeli.

It also took part in organising the Muutoksen avaimet (Key to change) seminar series. The seminars were intended to inform municipal decision-makers and elected officials of new service models in health care.

Food and Nutrition Programme

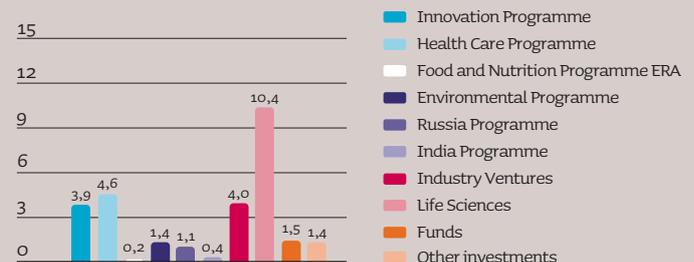
The Food and Nutrition Programme develops the competence of Finnish companies in conceptualising health-promoting foods and nutrition.

The programme implemented most of its strategy process in 2005. Thirty people were invited to form a group to draw up a common food sector strategy. They include actors in the sector and decision-makers. Work on the strategy was started with a workshop to analyse the challenges and to define goals for 2015. The work continued in autumn with strategy group visits to Italy and the United States to gather information on operating models for the

Funding decisions 1999–2005
€ million



Funding decisions by area of operations 2005
€ million



needs of the strategy's various elements. On the basis of the group's work, work will begin in early 2006 to define common national goals and to draft a strategy to improve the competitiveness of the sector.

In conjunction with the food sector strategy process, potential joint ventures and spin-offs for major companies were examined.

Sitra also studied the structure of growth of SMEs in the food sector and sought companies that want to internationalise their activities. Some 80 of these companies were considered potential targets for development and were interviewed. Sitra's aim is to develop the SME sector as a whole.

The objective of the programme is to finance businesses and also to form mini-clusters based on industrial sectors or product groups, which would provide a context for forming genuine subcontracting and co-operation networks for export purposes. Partners were requested to propose mini-clusters. In late 2005, nine mini-clusters were analysed from the point of view of business potential, for example.

In the Health promotion project, a clear health impact is illustrated by offering young persons tasty and healthy snacks and lunches. It also includes a survey of methods that affect the nutritional behaviour of the youth. The project was prepared during the year under review by concentrating on choosing a target group and participating organisations.

In autumn, Sitra organised two extensive workshops for the food and nutrition sector: Developing new business and entering international markets, and Consumers and health promotion. In the former, ideas were developed to reform companies in the sector and to promote the emergence of new sectors of business. The latter dealt with how to influence consumers' decisions concerning nutrition.

Environmental Programme

The objective of the Environmental Programme is to make environmental technology and know-how an important growth sector for Finland and to reinforce Finland's status as a leading country in the field. The key tools of the programme are to invest in venture capital, develop international business networks and draft a national action programme.

During the year, Sitra organised various events and launched development, pilot and report projects. Their purpose was to profile the environmental sector, introduce new markets and develop financing and networked business. Sitra organised a competition entitled European Business Awards for the Environment, an invited seminar on improving exports of environmental technology products and services with the Finnish Environment Institute and a corporate seminar on foresight in environmental technology looking ahead to 2015. It also organised a networking forum for water sector companies in St Petersburg. Moreover, Sitra took part in the preparation of the first World Meteorological Organisation (WMO) international congress, which will be held in Finland.

During 2005, Sitra launched a total of 12 report and co-operation projects. They included a background study of the environmental market in India, a report on financing and business models in environmental exports, defining what environmental business is and developing statistical systems. In addition, work was started on surveys of product development projects and research, venture capital investment in the environmental sector and foresight. In collaboration with Tekes, Sitra launched an important networking pilot entitled Joint technology transfer program between Finland and US North East States, which deals with co-operation between environmental sector companies in the North American markets. Sitra also participated in the Pyranet project, which is developing network-level performance indicators.

The Environmental Programme's collaboration with Sitra's other programmes dealt with building business networks in Russia, the Indian environmental market and improving foresight.

Russia Programme

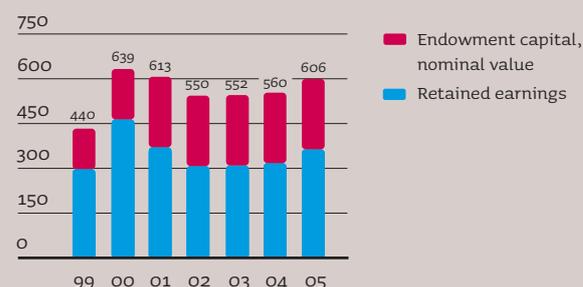
The objective of the Russia Programme is to create a broad framework for Finnish and Russian economic relations on various levels.

In autumn, an economic Russia strategy for Finland was completed by leading Finnish experts on Russia. It was published in Finnish and also in Russian in Moscow. The strategy defined the primary objectives for 2010, which are

Market value of endowment capital 1999–2005
€ million



Sitra's equity 1999–2005
€ million



to make Russia a key catalyst of Finnish growth, deepen economic integration between the two countries and make Finland the leading Russia expert in the world.

Further development and implementation of the strategy were initiated during 2005. The first substantial results will be publicised in a follow-up seminar to be held in early 2006. Sitra is in charge of drawing up reports on forming a Russia project fund for small and medium-sized companies and setting up a company providing expertise on Russia of an internationally high standard. Furthermore, Sitra is funding a survey together with the Ministry of Trade and Industry and Tekes on starting a project to establish an innovation centre in Russia.

In 2005, Sitra brought together important Finnish and Russian leaders of industry and society at a forum. In late summer, a bilateral economic forum was held in Helsinki, with introductions by Russian economic policy and industrial leaders and analysts.

Sitra accepted 74 companies out of almost 140 candidates to the Integration sub-programme of the Russia Programme. The companies were arranged into four main clusters: industrial park projects, establishers, subcontractors and construction. Finnish companies were also offered training and information to improve their chances of success in Russia. They also participated in several visits to Russia to look for partners and establish Finnish companies. Of the first-year results of the Integration sub-programme, starting the subcontractor activities and shaping the industrial park project were especially important to Finnish business.

We gained practical experience of collaboration between Sitra programmes from a Finnish–Russian environmental seminar and a networking forum in St Petersburg, for example.

India Programme

The objective of the India Programme is to improve Finnish India know-how. The programme was launched at the beginning of the year with a seminar discussing whether the India phenomenon is the mega-trend of this decade. The seminar’s participants included scholars, business people, and representatives of special-interest organisations and cultural institutions.

In early summer, a background study for the India Programme was published, entitled The India Phenomenon and Finland. On the basis of the report, a decision was

made to implement four study projects within the programme. The Finnish Indias project, one of the four, comprises four sub-projects: India of mobile business, India of IT, Buyers’ India and India of land, forest and metal. The programme includes two international projects: Finland and India in the new geography of science and Assessing the potential for economic co-operation between India and Finland. A project on Finnish environmental technology companies’ opportunities in India will be implemented in collaboration with Sitra’s Environmental Programme. The report projects will be completed during 2006.

VENTURE-CAPITAL INVESTMENT

Sitra Industry Ventures

In 2005, the Sitra Industry Ventures team focused on developing the technology companies in Sitra’s venture-capital portfolio and preparing for and making exit. A decision to make further investments was made in the case of 15 portfolio companies, totalling EUR 3.8 million. Full exits were made from seven companies and a partial exit from one company. The divestment from Setec Oy was especially significant. Setec was sold in spring to Gemplus International S.A., which is quoted on the Paris exchange.

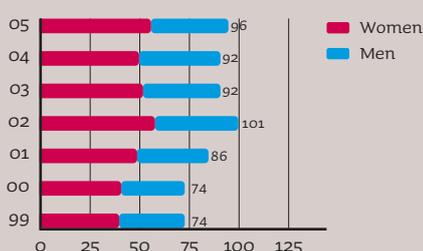
Sitra played an active role in the development of the Ministry of Trade and Industry’s AISP strategy, especially in the issue of financing of early-stage companies. Finnish venture-capital funds generate a low return in comparison to US funds. A solution to this issue was sought by investigating new asymmetrical fund models. Sitra also arranged a seminar for experts in the field. In autumn, a development project was started to survey the reasons for the discrepancies between returns from European and US venture-capital funds.

Sitra Life Sciences

Sitra’s venture-capital operations in life sciences improved during 2005. At year end, there were 31 companies in the Life Sciences portfolio. In accordance with Sitra’s strategy, all investment operations were concentrated on developing continued financing of portfolio companies in collaboration with other investors and owners. A decision was made to continue investment in the case of 12 portfolio companies, totalling EUR 10.3 million.

Compared to 2003 and 2004, the market improved in 2005. Several companies were successful in attracting ven-

Sitra’s personnel 2005



Distribution by education 2005



ture capital both from existing owners and from new investors. In the case of many of these companies, the success was aided by good progress in projects and the attainment of goals that have a substantial bearing on investment decisions. Thanks to continued favourable trends in 2005 and progress made by companies, the financial standing of an increasing number of companies improved.

Efforts to raise additional capital for 16 companies selected from the portfolio continued during the year. These companies have considerable international growth potential. Continued financing was proposed to investors in the form of a new fund. Negotiations were conducted with potential Finnish and foreign investors. Evaluation of alternatives and related decisions will be made in 2006.

Sitra Management Oy

Sitra Management Oy is a wholly owned subsidiary of Sitra, which manages holdings in management companies engaging in venture-capital operations. These companies are located in Finland or its neighbouring regions. It also monitors and develops Sitra's investments in venture-capital funds in neighbouring regions. During 2005, Sitra Management Oy sold its holding in Baltcap Management Oy, a management company operating in Estonia, and continued to promote the raising of funds for a new venture-capital fund which invests in European Russia.

Sitra Management Oy employed an average of two persons in 2005. It reported a profit of EUR 0.1 million for the year and the balance sheet total was EUR 5.3 million.

ADMINISTRATION

Sitra's Supervisory Board comprises members of the Supervisory Council of the Bank of Finland, who are nominated by the Parliament. In 2005, the Supervisory Board convened four times. Its members were Olavi Ala-Nissilä (Chairman), Eero Heinäluoma (Vice-Chairman), Arja Alho, Janina Andersson, Sirkka-Liisa Anttila, Ilkka Kanerva, Mari Kiviniemi, Martti Korhonen and Ben Zyskowitz. In 2005, the Parliament elected new members to replace those who resigned from the Board. Eero Heinäluoma, the Vice-Chairman, was replaced by Jouni Backman, Mari Kiviniemi by Timo Kalli and Ben Zyskowitz by Jyrki Katainen. The Board's Secretary was Anton Mäkelä.

The members of Sitra's Board of Directors are Chairman Raimo Sailas, Permanent State Secretary, Vice-Chairman Erkki Virtanen, Permanent Secretary, Markku Linna, Permanent Secretary, Professor Satu Lähteenmäki, Director Pekka Pokela and Sitra's President Esko Aho. The Secretary was Executive Assistant Jaana Ekström. The Board convened eight times during 2005.

The auditors, also appointed by the Parliament, were Matti Saarinen MP, Chairman (Deputy Susanna Huovinen), and members Esko Kiviranta MP (Mika Lintilä), Timo Seppälä MP (Olli Nepponen), Reino Majala, Dr.Sc.Econ., APA (Keijo Kauppinen, APA), and Veli Vanhanen, APA

(Arto Kuusiola, APA). In February, the Parliament elected Arto Bryggare MP (Deputy Sinikka Mönkkäre) to fill the seat of Matti Saarinen MP who resigned and Markku Koskela, APA, to fill the seat of Reino Majala, APA, who also resigned. Timo Seppälä MP was elected as the new Chairman. The Secretary was Professor Kalervo Virtanen, APA. The Supervisory Board put PricewaterhouseCoopers Oy, Authorised Public Accountants, in charge of Sitra's internal auditing and auditing Sitra's portfolio investments with Juha Wahlroos, APA, taking principal responsibility.

In the beginning of 2005, a competence survey including the entire staff was carried out. Appointments within programmes were discussed on the basis of the survey and internal training was planned. The needs of internal customers were surveyed to help assistants in their work. Two manager forums were organised, dealing with, for example, challenges to programme activities, managers' work and duties and well-being at work. Five staff days were organised to discuss common issues. In autumn, Sitra took part in a survey on the best places to work in Finland.

At the end of 2005, Sitra had a staff of 96 persons of whom 57 (59%) were women and 39 men (41%). The average age was 43 years.

ENDOWMENT CAPITAL

During the year under review, the market value of Sitra's endowment capital increased to EUR 662 million from EUR 573 million at the end of the previous year. 61% of the market value of the endowment capital consist of Finnish shares and 39% of foreign investment. Responsibility for managing most of Sitra's endowment capital has been entrusted to outside asset-management companies. Alfred Berg Omaisuuudenhoito Oy and Mandatum Omaisuuudenhoito Oy manage the Finnish equity portfolio, as well as the fixed-income investments in the euro zone. Sitra has also invested Finnish value shares in the Pohjola Finland Value fund.

International equity mandates are managed by Morgan Stanley & Co. and JP Morgan Asset Management Ltd. Sitra has also invested in the Handelsbanken Eurooppa Indeksi fund and has holdings in two hedge funds (Union Bancaire Privée's Selectinvest and ABN Amro's Multi Strategy). At the end of the year, investments totalling EUR 15 million were made in three funds (JP Morgan Emerging Markets Equity, Carnegie East European and HSBC GIF Indian Equity), which invest in emerging markets. The endowment capital also includes investments in capital-venture funds and real estate.

PROPOSAL FOR THE DISPOSAL OF PROFIT

The Board of Directors proposes that the net profit for the financial year, which is EUR 45,776,264.18, be carried forward.

Profit and loss account

(€ 1 000)

		1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
ORDINARY OPERATIONS			
Venture-capital investment			
Income			
Profit from sales		9 398	2 426
Income from investment funds		2 618	1 769
Income from other investments		1 025	868
	1)	13 024	5 063
Expenses			
Investment expenses	2)	-9 228	-17 084
Other expenses	3)	-231	-322
Share of general expenses		-2 223	-2 779
		-11 681	-20 185
		1 361	-15 122
Programmes and other research and development			
Income			
Income from projects	4)	100	79
Expenses			
Expenses from projects	5)	-5 865	-5 046
Other expenses	6)	-575	-253
Share of general expenses		-4 430	-2 544
		-10 870	-7 843
		-10 770	-7 763
Administration			
Expenses			
Personnel expenses	7)	-9 040	-7 742
Depreciation	8)	-303	-470
Other expenses		-2 224	-1 478
Transfer to operations		6 653	5 322
		-4 914	-4 368
Loss		-14 324	-27 253
INVESTMENT OPERATIONS			
Income from endowment capital	9)	64 084	42 959
Expenses from endowment capital	10)	-3 984	-8 064
		60 100	34 895
NET PROFIT		45 776	7 642

Balance sheet

(€ 1 000)

ASSETS

Fixed assets

		31 Dec 2005	31 Dec 2004
Tangible assets			
Machinery and equipment		488	493
Shares and participations		14 518	14 518
Other investments		77	82
	11)	15 083	15 092
Venture-capital investments			
Shares and participations		88 421	102 087
Capital loans		9 832	15 629
Other loans		6 803	8 204
	12)	105 056	125 921
Endowment capital investments			
Bonds and notes		122 617	107 521
Shares and participations		170 925	144 915
Fund investments		90 221	71 485
Real estate investments		34 396	35 794
Other investments		98 034	107 663
	13)	516 193	467 378
		636 332	608 391
Current assets			
Receivables			
Accrued income	14)	4 352	4 392
Cash and bank receivables		1 299	5 247
		5 651	9 639
TOTAL ASSETS		641 983	618 030

EQUITY AND LIABILITIES

Equity

Endowment capital		235 463	235 463
Retained earnings		324 967	317 325
Net profit for the year		45 776	7 642
		606 206	560 430
Accumulated appropriations			
Reserves from funding operations		10 708	21 063
Liabilities			
Short-term			
Accrued expenses	15)	11 245	15 111
Liabilities from funding operations	16)	13 823	21 426
		25 069	36 537
TOTAL EQUITY AND LIABILITIES		641 983	618 030

Notes to the financial statements

ACCOUNTING PRINCIPLES

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

- In the case of early-stage investments (seed funding), a risk reserve is made in accordance with the principle of prudence (reserves from funding operations).
- Expenses incurred from PreSeed funding and business development operations involving programme activities, 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 acqui-

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

Valuation of fixed assets

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

Useful life as used in depreciation according to plan

other capitalised expenditure	5 years
renovation of office premises	10 years
machinery and equipment	5 years
computer equipment	3 years

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

Foreign currencies

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

NOTES TO THE PROFIT AND LOSS ACCOUNT (in € 1,000)

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

Venture-capital investment

	Programmes		Industry Ventures		Life Sciences		Fund investments		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
1 Income from investments										
capital refunds	14	0	0	2	-14	0	0	0	0	2
shares in profit	0	0	0	0	0	0	2 618	1 769	2 618	1 769
interest payments	0	2	156	229	173	101	102	0	431	332
profit from sales	0	1 225	9 381	1 073	17	0	0	128	9 398	2 426
dividends	12	90	407	145	156	125	0	34	575	394
other income	0	0	20	126	0	14	0	0	20	140
Total	26	1 317	9 964	1 575	332	240	2 720	1 931	13 042	5 063
2 Investment expenses										
expenses	0	-102	-63	-839	-1 206	-440	0	-6	-1 269	-1 387
value adjustment	-5 079	-688	-4 135	-4 200	-12 818	-15 518	3 719	-1 975	-18 313	-22 381
change in risk reserve	2491	-73	2 382	442	5 481	6 315	0	0	10 354	6 684
Total	-2 588	-863	-1 816	-4 597	-8 543	-9 643	3 719	-1 981	-9 228	-17 084
3 Other expenses										
other expenses	0	-6	-98	-125	-133	-191	0	0	-231	-322

Programmes and other research and development

	2005	2004
4 Income from projects		
Innovation Programme	85	71
Health Care Programme	0	0
Food and Nutrition Programme	0	0
Environmental Programme	0	0
Russia Programme	0	0
India Programme	0	0
Other research and development activities	15	8
	100	79
5 Expenses from projects	2005	2004
Innovation Programme	-1 384	-777
Health Care Programme	-1 189	-26
Food and Nutrition Programme	-213	-8
Environmental Programme	-325	-33
Russia Programme	-673	-45
India Programme	-204	-29
Other research and development activities	-1 877	-4 128
	-5 865	-5 046
6 Other expenses	2005	2004
Innovation Programme	-131	-67
Health Care Programme	-138	-18
Food and Nutrition Programme	-134	0
Environmental Programme	-59	0
Russia Programme	-73	-12
India Programme	-13	0
Other research and development activities	-27	-156
	-575	-253

Administration

	2005	2004
7 Personnel expenses		
Personnel expenses		
wages and salaries	6 406	5 523
pension expenses	1 107	956
other statutory payroll expenses	788	648
other payroll expenses	739	615
	9 040	7 742
Personnel at year-end		
Venture-capital investment	16	32
Programmes and other research and development	38	27
Administration	42	33
	96	92
Wages and salaries and other payroll expenses from project personnel were € 0.1 million (€ 0.3 million in 2004) and are included in expenses from funding projects.		
8 Depreciation	2005	2004
Depreciation according to plan		
machinery and equipment	257	425
other capitalised expenditure	44	42
renovation of office premises	2	3
	303	470

Depreciation of investment assets € 0.8 million (€ 0.2 million in 2004) has been included in expenses from investment operations.

Investment operations

9 Income from endowment capital	2005	2004	10 Expenses from endowment capital	2005	2004
profit from sales	37 487	21 286	asset depreciations	2 033	2 870
interest income	7 832	8 319	regained depreciations	-4 488	-5 251
bond price gains	3 494	1 417	losses on sales	2 133	1 996
exchange rate gains	1 464	1 002	bond price losses	930	1 315
dividend income	10 863	8 040	exchange rate losses	667	2 473
rental income	2 453	2 713	asset management fees	625	547
shares in profit	491	182	real estate expenses	1 570	1 090
	64 084	42 959	value adjustment of real estate shares	500	3 042
			regained value adjustment of real estate shares	0	0
			other expenses	12	-18
				3 984	8 064

NOTES TO THE BALANCE SHEET (in € 1,000)

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

11 Tangible assets

During the year Sitra acquired fixed assets amounting to € 0.3 million (€ 0.2 million in 2004).

	Acquisition cost 1.1.2005	Increases	Decreases	Accum. pl. depreciation 31.12.2005	Book value 31.12.2005
machinery and equipment	3 131	236	1	3 105	261
other capitalised expenditure	473	41	0	438	76
renovation of office premises	617	0	0	616	1
other tangible assets	211	18	2	0	227
	4 432	295	3	4 159	565

	2005	2004
shares and participations		
shares in office premises	14 509	14 509
other shares	9	9
	14 518	14 518

12 Venture-capital investments	2005	change	2004
Programmes	6 346	-339	6 685
Industry Ventures	13 612	-7 170	20 782
Life Sciences	27 682	-5 880	33 562
Fund investments	56 934	-7 706	64 640
Other investments	482	230	252
	105 056	-20 865	125 921

Programmes

Shares, participations and other investments held by Sitra

	Shares and participations Holding %	Amount	Capital loans and other loans Amount	Invest- ment total
Innovation Programme				
Business development and technology commercialisation				
Culminatum Oy	3 %	13	0	13
Finn-Medi Tutkimus Oy	18 %	67	0	67
Helsinki Business and Science Park Oy	14 %	168	0	168
Innokarelia Oy	25 %	4	0	4
Innotalli Oy	43 %	170	0	170
Licentia Oy	31 %	435	505	939
OuluTech Oy	40 %	45	0	45
Tuotekehitys Oy Tamlink	34 %	341	0	341
		1 243	505	1 748
PreSeed				
Deltagon Group Oy	21 %	71	0	71
Helmi Technologies Oy	0 %	0	130	130
Staselog Oy	0 %	0	100	100
Vioseq Oy	0 %	0	50	50
Waterix Oy	11 %	80	0	80
		151	280	431
Health Care Programme				
Avain Technologies Oy	13 %	336	1 314	1 650
Coxa Oy	21 %	806	0	806
GeneOS Oy	60 %	3 470	529	3 999
Med-In Oy	50 %	6 045	1 439	7 484
Medixine Oy	17 %	1 026	0	1 026
Prowellness Oy	21 %	1 747	72	1 819
Respecta Oy	24 %	578	0	578
Suomen Terveystutkimus Oy	25 %	780	0	780
		14 789	1 314	18 142
Food and Nutrition Programme				
Neomed Oy	10 %	13	135	148
Environmental Programme				
Chempolis Oy	11 %	837	0	837
Syncron Tech Oy	15 %	144	0	144
		981	0	981
Programmes total				21 451
Cumulative change in value				-15 105
Book value				6 346

Investments in Industry Ventures' companies

Shares, participations and other investments held by Sitra

Industry Ventures	Shares and participations Holding %	Amount	Capital loans and other loans Amount	Invest- ment total
Add2phone Oy	21 %	1 960	0	1 960
Ailocom Oy	3 %	13	167	180
Aplicom Oy	28 %	796	0	796
B-Band Oy	14 %	151	0	151
Beveys Oy	28 %	1 523	250	1 773
Buildercom Oy	12 %	150	250	400
CadFaster Oy	3 %	0	386	387
DBC Management Oy	20 %	1 302	0	1 302
EC-Engineering Oy	18 %	700	0	700
Enterprise Software Ltd	22 %	22	658	680
Exomi Oy	14 %	666	0	666
Fathammer Oy	13 %	1 000	0	1 000
Fimet Oy	47 %	496	0	496
Fluid House Oy	10 %	150	520	670
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	33 %	1 561	620	2 181
IWS International Oy	6 %	1 933	0	1 933
Kielikone Oy	24 %	24	0	24
Kuntokumppanit Oy	29 %	833	844	1 677
Neorem Magnets Oy	40 %	808	836	1 644
Nesenta Oy	50 %	4	2 300	2 304
Okmetic Oyj	8 %	4 485	753	5 238
Oseir Oy	20 %	648	150	798
Panphonics Oy	36 %	1 134	0	1 134
Robogrind Oy	20 %	200	400	600
Sabriscan Oy	25 %	500	0	500
Seven Networks	1 %	1 405	0	1 405
Shanghai Fimet Medical Instruments Co. Ltd	13 %	278	0	278
Smilehouse Oy	0 %	0	225	225
Solibri Oy	14 %	150	450	600
Space Systems Finland Oy	15 %	250	750	1 000
Sysline Oy	21 %	59	0	59
Tieturi Vision Oy	51 %	1 944	0	1 944
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	400	560
VLSI Solution Oy	40 %	505	0	505
		29 549	10 707	40 256
Cumulative change in value				-26 644
Book value				13 612

Investments in Life Sciences' companies

Shares, participations and other investments held by Sitra

Life Sciences	Shares and participations Holding %	Amount	Capital loans and other loans Amount	Investment total
Bio-Nobile Oy	3 %	318	0	318
Biotie Therapies Oyj	24 %	13 855	673	14 528
Boneca Oy	33 %	750	1 250	2 000
BPM-Group Oy	48 %	885	53	938
Chip-Man Technologies Oy	0 %	0	80	80
CTT Cancer Targeting Technologies Oy	33 %	1 000	1 600	2 600
Delfin Technologies Oy	37 %	55	164	219
FibroGen Inc.	4 %	3 515	0	3 515
FIT Biotech Oyj Plc	26 %	1 325	4 255	5 580
Galilaeus Oy	60 %	5 026	4 512	9 538
Hidex Oy	38 %	796	605	1 401
Innomedica Oy	51 %	270	571	841
Innotrac Diagnostics Oy	24 %	2 110	3 749	5 858
Ipsat Therapies Oy	17 %	2 958	0	2 958
Juvantia Pharma Oy Ltd	50 %	2 946	1 020	3 967
Karyon Oy	69 %	607	405	1 012
Kibron Oy	23 %	257	888	1 145
LAB International Inc.	11 %	8 829	0	8 829
Labmaster Oy	30 %	175	1 821	1 996
Medikro Oy	18 %	129	0	129
Mehiläinen Oyj	14 %	4 064	0	4 064
Mobidiag Oy	46 %	2 043	390	2 433
Nexstim Oy	20 %	46	2 784	2 830
Optatech Oy	29 %	674	883	1 558
Pharmatory Oy	24 %	759	540	1 299
Polymer Corex Kuopio Oy	36 %	1 503	0	1 503
QuatrX Pharmaceuticals Company	3 %	3 646	0	3 646
Reactionlab Oy	38 %	52	805	857
Stick Tech Ltd Oy	13 %	1 345	0	1 345
Unicrop Oy	33 %	2 803	0	2 803
Vivoxid Oy	37 %	3 272	0	3 272
		66 014	27 047	93 061
Cumulative change in value				-65 379
Book value				27 682

Fund investments

Sitra's investments in funds

	Amount
Aloitusrahasto Vera Oy	1 000
Apple Tree Partners II L.P.	4 379
Associated Venture Investors III	0
Atlas Venture Fund III	1 818
Baltic Investment Fund I	2
Baltic Investment Fund II	0
Baltic Investment Fund III	1 364
Baring Capricorn Ventures	619
Bio Fund Ventures I jatkosijoitusrahasto Ky	500
Bio Fund Ventures I Ky	7 730
Bio Fund Ventures II jatkosijoitusrahasto Ky	750
Bio Fund Ventures II Ky	3 351
Bio Fund Ventures III Ky	3 935
Boston Millennia Partners LP	1 611
Crescendo III, L.P.	1 968
Diamondhead Ventures L.P.	4 452
EBRD North-West and West Russia Regional Venture Fund	872
Edison Venture Fund IV	1 016
Eqvitec Teknologiarahasto I Ky	2 817
Eqvitec Teknologiarahasto II Ky	4 790
Finnventure II Ky	154
Finnventure III Ky	274
Global Private Equity II L.P.	0
Hambros Advanced Technology Trust III L.P.	739
HealthCap 1999 KB	4 787
InnKap 2 Partners	1 135
InnKap 3 Partners	3 000
Matkailunkehitys Nordia Oy	3 229
MB Equity Fund Ky	254
Merlin Biosciences Fund L.P.	6 724
PMI Venture Fund L.P.	1 897
Russian Technology Fund L.P.	378
Strategic European Technologies N.V.	4 520
Technologieholding Central and Eastern European Fund N.V.	2 123
Trident Capital Fund V	2 906
Ventech Capital II, L.P.	4 861
Sitra Management Oy	3 840
Cumulative change in value	-26 860
Book value	56 934

Sitra has holdings in 11 fund management companies through its 100% subsidiary Sitra Management Oy:

Management companies

3TS Capital Partners Ltd

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	Shares and participations		Capital loans and other loans	Investment total
	Holding %	Amount	Amount	
Easdaq S.A.	0 %	138	0	138
Eigenvalue Oy	14 %	432	0	432
Hi-Col Oy	0 %	0	275	275
Mega Elektroniikka Oy	0 %	0	128	128
Megatrex Oy	0 %	0	101	101
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
		570	1 338	1 908

Cumulative change in value -1 426

Book value 482

13 Endowment capital investments 2005 2004

Long-term investments			
bonds and notes	122 617		107 521
Finnish shares	112 405		95 956
foreign shares	58 521		48 959
mutual fund investments	70 812		52 084
private equity fund investments	19 408		19 401
real-estate investments	34 396		35 794
Short-term investments			
bonds and notes	0		6 266
certificates of deposit	92 062		97 632
cash accounts	5 972		3 739
other short-term investments	0		27
	516 193		467 378

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

	2005	2004
total market value	377 952	293 852
corresponding book value	241 738	196 999
difference	136 214	96 853

14 Accrued income

Interest for the financial year has been entered as income from investment operations and came to € 3.3 million (€ 3.7 million in 2004).

15 Accrued expenses

Accrued liabilities include € 8.0 million (€ 10.9 million in 2004) debts to private equity funds where agreement has already been made and for which Sitra's liability exists.

16 Liabilities from funding operations

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

LOANS DUE FOR REPAYMENT ENTERED AS EXPENSES 31 DECEMBER 2005

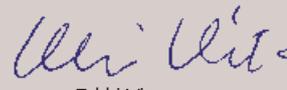
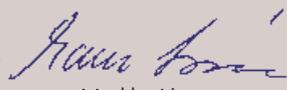
Loans due for repayment have been entered as expenses. They amounted to € 2.5 million at the end of the year (€ 3.0 million in 2004). Of these loans, € 0.8 million (€ 0.1 million) are sums for which the terms of repayment have been fulfilled and the repayment of which follows a fixed schedule, and € 1.4 million (€ 1.7 million) are sums for which repayment is bound to royalties instead of a fixed schedule. Loans for which the terms of repayment have not been fulfilled or for which the terms of repayment have not been agreed amounted to € 0.3 million (1.2 million).

OFF-BALANCE SHEET LIABILITIES 31 DECEMBER 2005

Where funding has been agreed but no agreement yet signed

	2005	2004
Innovation Programme	5 840	5 753
Health Care Programme	251	2 580
Food and Nutrition Programme	14	0
Environmental Programme	990	77
Russia Programme	0	42
India Programme	71	0
Programmes total	7 166	8 452
Industry Ventures	3 420	4 596
Life Sciences	8 427	7 331
Fund investments	5 487	6 468
Other investments	2 112	1 455
	26 612	28 302

Helsinki, 13 February 2006

Raimo Sailas

Erkki Virtanen

Markku Linna

Satu Lähtenmäki

Pekka Pokela

Esko Aho

Auditors' report

Having been appointed by the Finnish Parliament as auditors we have examined the financial statements, the book-keeping and administration of the Finnish National Fund for Research and Development (Sitra) for the financial period 2005 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 € 45,776,264.18 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 financial statements be adopted and that members of the Board of Directors and the president be discharged of responsibility for the financial period covered by our audit. We recommend that the proposal for the net profit for the year made by the Board of Directors in their report be approved.

Helsinki, 17 February 2006



Arto Bryggare



Timo Seppälä



Esko Kiviranta



Markku Koskela
Authorised Public Accountant



Veli Vanhanen
Authorised Public Accountant



./ Kalervo Virtanen
Authorised Public Accountant



Sitra at your service

Senior Management of Sitra

Esko Aho, President
Kari Tolvanen, Vice President
Magnus Sjöblom, Director of Finance and Corporate Funding

Development and Internal Services

Tapio Anttila, Director

Life Sciences

Pauli Marttila, Director

Industry Ventures

Heikki Ojanperä, Director

Legal Affairs

Jorma Jaalivaara, Head of Legal Affairs

Communications

Laura Niemi, Communications Manager

Innovation Programme

Timo Kekkonen, Executive Director

*Business Development and
Technology Commercialisation*

Anu Nokso-Koivisto, Director

PreSeed Services

Risto Kalske, Director

Health Care Programme

Hannu Hanhijärvi, Executive Director

Food and Nutrition Programme

Anu Harkki, Executive Director

Environmental Programme

Jukka Noponen, Executive Director

Russia Programme

Maaret Heiskari, Executive Director

India Programme

Vesa-Matti Lahti, Research Manager

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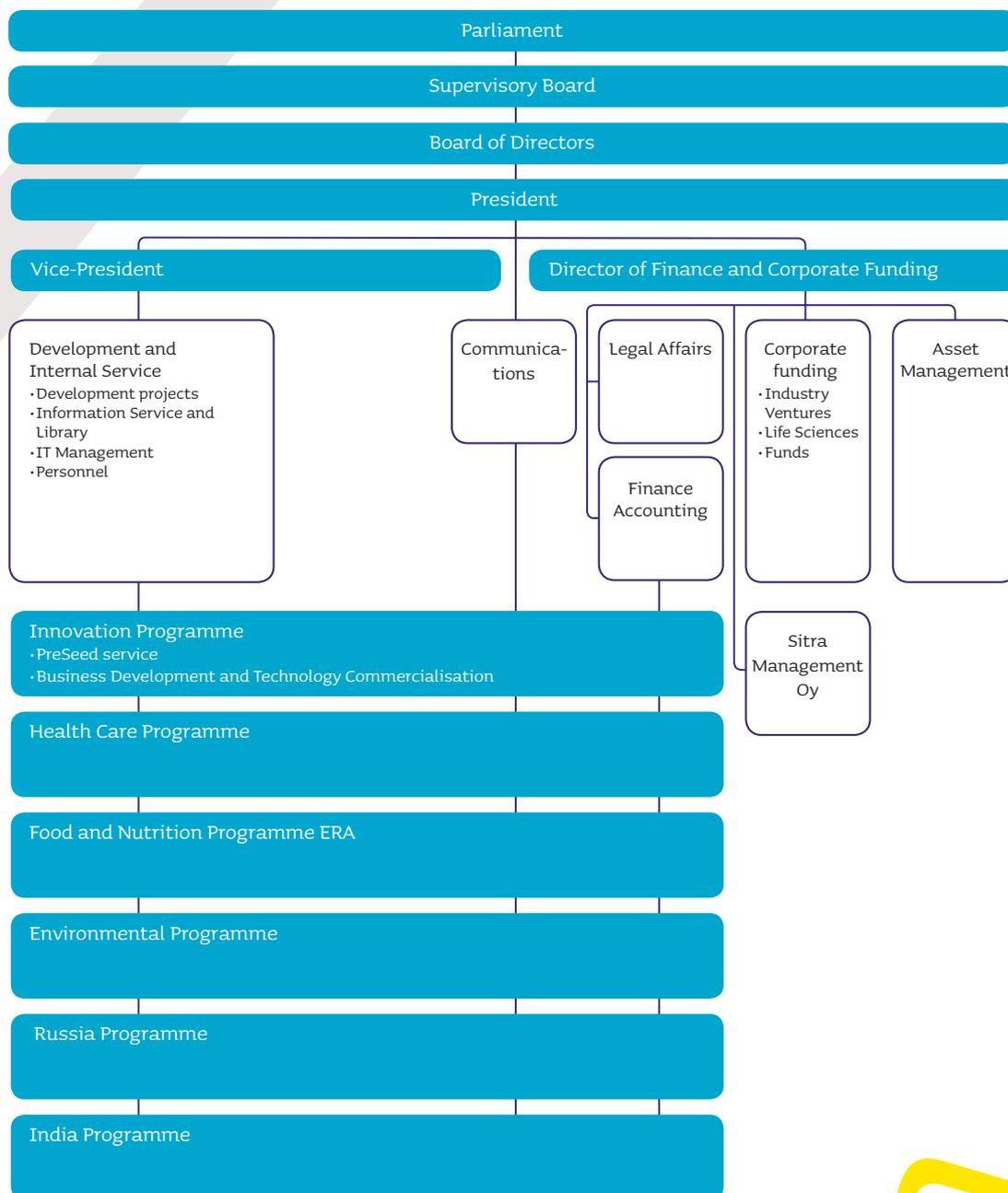
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Contact details for Sitra staff can be
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