



Finnish National Fund for Research and Development

Annual Report 2000





Sitra – aims to further economic prosperity in Finland

- by developing new and successful business operations
- by financing the commercial exploitation of expertise
- by promoting international competitiveness and cooperation

Sitra – an autonomous pioneer

- enjoying economic independence
 - with courage and initiative
- initiating operations designed to break new ground

Sitra – an impartial opinion-shaper

- providing new research information
- anticipating and identifying future challenges
 - developing new solutions

The Finnish National Fund for Research and Development (Sitra) is an independent public foundation under the supervision of the Finnish Parliament. Sitra aims to promote Finland's economic prosperity by encouraging research, backing innovative projects, organising training programmes and providing venture capital. Sitra's activities are financed from the yield of its original endowment and of project finance.

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“From an ever wealthier Finland to a society with quality of life”



"In addition to economic growth we need social services that work and people who really care," says Aatto Prihti, Sitra's president.

Sitra (the Finnish National Fund for Research and Development) opens up visions to decision-makers and creates knowledge so that Finland will be able to count itself among the three most successful nations of the world by the year 2010.

The aim is a challenging one for all Finns.

“We have to be able to act in such a way that our economy will develop faster than other countries’ throughout the whole of this decade. In order to achieve this goal Sitra has completed many projects in the year 2000 and initiated many more,” says Sitra’s president, **Aatto Prihti**.

“In our research activities we have transferred the emphasis on to the future so that we can obtain even better information about the changes taking place in the world and the opportunities and challenges they pose. We have embarked on a project on the new economy. We have extended our field of research in order to chart the demands made by multiculturalism and to assess the opportunities it offers as well as to evaluate the future of Europe, especially from the perspective of small nations. A broad survey of the efficiency of Finnish innovations and ways of developing them is progressing according to plan.”

Prihti gives two examples of Sitra’s innovative activities.

“The first stage of the Barrier-Free World project is now complete and its guidelines are being put to practical use. The Skills Technology project is now well under way.”

Sitra’s corporate funding emphasises the financing of technological companies at an early stage of their existence. New enterprises are springing up in Finland as a result of the country’s successful investment in technology. Prihti stresses that funding these companies is very important from the point of economic growth.

“The commercialisation of technology and development of regional venture-capital funds

have continued with further emphasis. We have also been able to build extremely smoothly operating networks with international funds during 2000.”

Our aim - quality of life

In aiming towards a society with quality of life growth is just one, sometimes very important, factor. Prihti reminds us that in addition to growth we also need functioning services and people who care about each other. Those on the fringes of society are the conscience of society. In a society with quality of life they are loved and cared for.

“Sitra has started a number of projects during 2000 the aim of which is to improve people’s well-being,” says Prihti.

The Centre for Social Innovations in Eastern Finland has been set up at Pieksämäki in cooperation with other regional actors.

“The Ylä-Karjala project which finished in March has been refined to form the Remote Regions project. The goal of this major project is to prod the information society into helping ordinary people in different parts of Finland. Even a small village can become an active growth centre when the inhabitants have the necessary know-how.”

Sitra has decided to participate in a preliminary study on controlling the lives of children and young people.

“Also now getting under way is a project which aims at improving the availability and quality of health services for the man-in-the-street. To achieve this aim efforts are being made to encourage cooperation between the public and private health-care sectors and persuade them to adapt new technology to the services they provide.”

Prihti says that for a small country to be successful in the global economy decision-makers must have a deep awareness of global affairs and

be able to make swift decisions. For this reason it is important that the views of as many different groups as possible are taken into careful account during the decision-making process.

“Sitra’s new training programmes for decision-makers, Finland 2015 and Economic Policy 2000+, offer a forum for discussions along these lines and also provide information about international trends. Within the framework of these programmes Finnish models are being sought for a society that enjoys quality of life.

Economic and mental capital

The economic base of Sitra’s activities is its endowment capital which has to be invested safely and profitably. When investing its money Sitra has benefited from the expertise of both Finnish and international asset managers. According to Prihti the year 2000 was a challenging time because of trends on both international and domestic markets. But Sitra did well nonetheless. The second most important source of income for Sitra is the return from its own corporate funding investments - both direct investment and investment in international funds; here the trend was very encouraging.

“For Sitra’s employees the year 2000 was an extremely arduous one. The volume of our operations doubled and moving the whole organisation without interruption to our normal activities was a testing experience. I wish to express to all of Sitra’s personnel my warmest thanks for their efforts during the year and especially for their flexibility and ability to pull together. I believe that in our new offices we will be able to serve our customers even better.”

“I also wish to express my gratitude to Sitra’s Supervisory Board, its Board of Directors and to all our partners for their cooperation during the past year.”



Finland's future under the microscope

Two perspectives receive special emphasis in Sitra's research, innovative activities and training programmes; they are the economic aspect and the social aspect. Both are needed when developing national strategies for success.

"We analyse the processes of change in society. We identify and compare development alternatives. Clear, deep knowledge and understanding help decision-makers to formulate a unanimous national view of the trend Finland will take in the future," says **Kari Tolvanen**.

The Challenges of the New Economy research which was started in November last year analyses the new dynamics of the economy, illustrates Finland's transition to the new economy and raises the new challenges facing economic and social policy. The report is expected in the spring of 2002.

"The new economy affects both our everyday lives and the rules governing how public authority is wielded and how organisations are run," says Tolvanen.

"Sitra speeds up the pace at which new competitive business is started in Finland. Parallel with this is the equally important development of new models of societal behaviour and institutional structures. The new economy which has emerged from modern technology presupposes the kind of know-how that not everybody possesses. The reverse side of success is marginalisation. We put forward and test new models that will eliminate or mitigate regional and human marginalisation. The results are very encouraging."

The significance of innovative projects according to Tolvanen has become increasingly important and their role in eliminating marginalisation has become a focus of

attention. "In our experiments we come into close contact with entrepreneurs and actors in the public sector. As the projects advance and become firmly established, Sitra withdraws its responsibility for running them."

Training strengthens the influence of Sitra's research work and its innovative activities. Sitra's training programmes are directed towards decision-makers, those responsible for drawing up proposals and the media representatives who make public the decisions.

"During the year under review we focussed on a new training and development programme, Finland 2015, for top decision-makers in society. This was run in the form of two courses. Finland 2015 is a good example of the many projects arranged by Sitra with the aid of which a Finnish society founded on know-how can be developed even further."

Multiculturalism - a resource for business

Multiculturalism brings with it many challenges for both companies and society. Some 100,000 foreigners now live in Finland. How can we profit from their experience and knowledge? Companies operating in Finland are



"Deep knowledge and clear understanding help decision-makers to form an agreed national view of where Finland is going in the future", says Kari Tolvanen.

constantly recruiting international professionals. Multicultural personnel need superiors who are able to cope with pluralism.

Sitra's Multiculturalism project, which is being run in 1999-2000, studies how companies approach the problems of internationalisation, opportunities for immigrants to set up their own enterprises, immigration policy, the need for labour and a multicultural workforce as a factor for success. Decision-makers in both the business and political world must be able to see how these factors interact in their choice of alternatives for the future.

Finland has not yet taken a stand on the ethnic and cultural pluralism of society. The recess-

sion of the 1990's made immigration a sociopolitical question: it was seen as a burden on the country's economy. But the large numbers of the indigenous population reaching retirement in the near future will mean major changes in working life. Preparation for this change has to begin now. Impartiality constitutes a competitive edge. Working life will have to be able to offer opportunities for all our labour reserves so that the generation change can be achieved in an organised manner. Attitudes in Finland are not yet ready for this.

The main report on the study was to be published in book form "Opening Doors - cultural pluralism in Finnish business" in January 2001.

THE INFORMATION SOCIETY OFFERS THE REQUIREMENTS FOR QUALITY OF LIFE

● "In recent years Finland has become the focus of attention in the world," says **Antti Hautamäki**.

"Professor **Manuel Castells**, one of the world's leading experts on globalisation and the information society, talks of the Finnish model. He considers Finland - together with Silicon Valley and Singapore - to be the most interesting examples of the transition to the information society. Castells is of the opinion that here in Finland we have succeeded in combining technology with quality of life."

Manuel Castells, who is Spanish, works at the University of California at Berkeley. Together with **Pekka Himanen**, a Finnish philosopher, he is studying the strengths and weakness of the Finnish model of the information society. The study is due to be completed in autumn 2001.

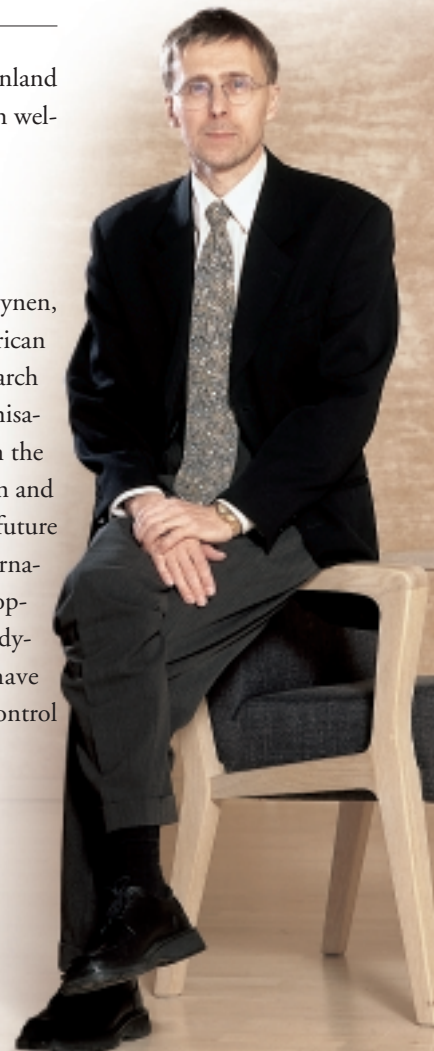
"This research will help us to realise just what is special about Finland and which fields should be developed further. Castells thinks that Finland's strengths include a strong sense of identity, advanced technology and the ability to cre-

ate networking innovations. In his view Finland is a democratic and equal society in which welfare is defended in difficult situations.

Accelerating globalisation brings growing criticism

During the year under review Raimo Väyrynen, professor of political science at the American University of Notre Dame, began his research into global domination and national organisations. The study is expected to provide, in the spring of 2001, an analysis of globalisation and its domination both at present and in the future and especially the steps taken by the international community to influence its development. The study will seek answers to the dynamic tensions and interactions that have evolved between globalisation, efforts to control it and national criticism.

"We have to be in a position to put Finnish decision-making into the context of international trends," stresses Antti Hautamäki.





The world-famous expert on globalisation and the information society, Prof. Manuel Castells, was the keynote speaker at the People, Cities and the New Information Economy congress in December. Castells visited the pilot project for a national information-society strategy in Ylä-Karjala. The project is funded by Sitra.

“Globalisation has both deepened and accelerated. Criticism of this trend has also grown,” says Hautamäki. “Both companies and organisations together with governments have put forward competing demands to the international organisations that try to control globalisation. Objects that have attracted particular attention are the World Trade Organisation, the International Monetary Fund, the World Bank and the International Bank of Settlements. The research that is being done under Väyrynen’s supervision takes Sitra’s research into the globalisation process a step further. We have to identify the rapid international changes that form the background to Finnish decision-making.”

“Europe 2020” charts the prospects for Europe

During the next 5-10 years the European Union will change in many respects and become a different organisation from what it was when Finland joined at the beginning of 1995. In autumn 2000 Sitra began a project to assess Europe’s future. The first stage will look at the activities of an enlarging Europe and the consequences of enlargement. The project is being conducted in collaboration with the Centre for European Policy Studies (CEPS) in Brussels.

The CEPS has a five-year project in progress. Its aim is to identify and analyse prospects for and models of development for the whole of Europe up to the year 2020. By the whole of Europe is meant the enlarged European Union and regions

neighbouring on the EU such as Russia, Belarus, the Caucasus, the Balkans and the Mediterranean.

Of the entire project those parts that are of particular interest to Finland are the role of small nations in integration, the consequences of EU’s enlargement eastwards, Russia, the northern dimension and the Union’s internal and external security.

So far Sitra has committed itself to participating in the project for two years, when the main focus of attention will be on the role of small nations in integration and the consequences of enlargement eastwards. The first stage of the project will be completed in summer 2002.

Remote Regions pilot projects getting started

The Ylä-Karjala project financed by Sitra was carried out during the years 1998-2000. It was a pilot project for a new information-society strategy. Its was to set up a regional survival strategy to meet the new challenges posed by the information society in a remote and under-developed region. The project covered three local authorities - Nurmes, Juuka and Valtimo - hit by migration and unemployment and was designed to help them by means of information technology to come to grips with the future. The Ylä-Karjala project was extended in 2000 to include the Vaara-Karjala region with Lieksa, Ilomantsi and Tuupovaara.

The first Remote Regions pilot projects are being started in 2001.

“Remote regions is Sitra’s largest project ever. It is interesting practical work where we use the experiences and models gained from the Ylä-Karjala project. New things that will be tested are, for example, the development of distance working, the commercial exploitation of local know-how, networking between companies and new kinds of services. A dozen pilot regions from different parts of Finland have been selected for the project, which will run for three years. For the project to succeed strong commitment is needed on the part of each region and its inhabitants and close cooperation between different actors. A balanced development for the whole country is one of our greatest national challenges.”

NETWORKING THE FACTORS OF SUCCESS

● “The Finnish system of innovations is extremely competitive by international standards. In these days of rapid technical and economic development, however, it is necessary to stay one step ahead so that Finland does not lose its pioneer position,” says **Timo Hämäläinen**.

The main focus of the research programme on innovations is the activity of modern innovative processes and networks. Most important innovations result from cooperation between many different experts and organisations. The programme consists of 12 sub-projects. Networking attracts a lot of active public support but networking policy has been studied relatively little.

“We are now trying to find out how important is the role of the public sector in the establishment and operation of innovation networks. How could innovations be better backed up by political decision-making? How could cooperation over innovation policy between ministries and political decision-makers be developed further? We are also endeavouring to learn from the experiences of other countries.”

The final report on this piece of research will be published in autumn 2001. But it has already attracted considerable attention concerning the challenges facing Finland in the future.

“Above all we need to be flexible, mentally, so that the representatives of different branches can operate within the framework of networking cooperation. Many Nobel inventions have emerged from universities where the faculty boundaries have been purposely dismantled. For Finland it is necessary to develop appropriate financing models for networks of companies: technological and business risks diminish when companies work together in networks. The division of tasks between the private, public and third sectors has to be reformed and the public sector has to develop horizontal cooperation. It is worth developing international cooperation in research and between enterprises. Finnish location strategy has to be honed. Innovation policy must be reinforced by encouraging organisational, institutional and political innovations,” says Hämäläinen.

ISO INKE weaves a net of welfare services

The Centre for Social Innovations in Eastern Finland (ISO INKE) has set in motion a project financed by Sitra. The aim is to develop a new model for welfare services which is based on networking and cooperation between companies in the Pieksämäki area. The project is being conducted by the Diaconia Polytechnic.

“The Pieksämäki area is one that has been hit by migration losses. Its level of services and its unemployment record are weaker than the average for the whole country. The local authorities suffer from a poor economy and therefore need to find new ways of producing welfare services,” Timo Hämäläinen points out.

“The providers of services are generally companies employing only a few persons where the buyer is uncertain about the quality and availability of their services. Several suitable providers of services have to be found and separate contracts concluded with each of them. The local councils have only a vague idea of the overall costs of their own services and also suffer from prejudices about outsourcing services. To overcome these problems new models of action are needed that will make possible the diverse, qualitative and cost-effective production of services and the purposeful development of public-sector orders. This is one of the foundations of the ISO INKE project.”

Sitra carried out a preliminary study of the project in the spring of 2000. Agreements were signed with all six councils in the region in which they commit themselves to obtaining a larger proportion of their services from outside companies. Local providers of services also took a favourable attitude to the project. The preliminary study also charted potential competitive problems arising out of a networking organisation. Future models are being developed in collaboration with the Finnish Competition Authority.

The ISO INKE project will set up a network of welfare services which will mediate the services produced by its member companies to the local



“We are trying to learn from other countries’ experiences,” says Timo Hämäläinen.

councils and private individuals. It will ensure the quality and availability of the services in all conditions and coordinate the agreements of the network's companies. The network will develop new, innovative types of services in cooperation with those requiring them and companies and set in motion a company incubator at the Diaconia Polytechnic in order to attract new entrepreneurs to the region.

Other bodies funding the project, in addition

to Sitra, include the local labour and business centre and the provincial administration through the European Social Fund, local government authorities, the Diaconia Polytechnic and the Home Mission Society of the Church of Finland. "Sitra's role as the principal source of finance will cease in June 2002. By then the ISO INKE project should be economically self-sufficient. Those models that proved beneficial can be used by other local government authorities."

CUSTOMER-ORIENTED SKILLS PRODUCTS TO THE WORLD

● The Sitra Skills Technology project began with research and investigation in order to identify areas in which Finns have strong know-how outside the field of high technology. Handbags and leather goods were selected as a pilot industry in November 1999, musical instruments in January 2000 and interior design in November 2000.

"The purpose of these projects is to reverse the trend of decline to growth both in Finland and on foreign markets," says **Heikki Ojanperä**. "Together with small and medium-sized businesses we are building a concept for new business. It is based on customer- and market-oriented demand, on exploiting innovations and new technology, on networking between companies and on deepening core competencies. e-commerce is used in marketing and knowledge systems are exploited for administering the network and for logistics."

Skills Technology develops business in those places where the skills are to be found. The project is also an experiment aiming to encourage regional development which is being broadened by means of labour and business centres. Sitra's finance focuses on the network's development projects and, where necessary, also on companies in key stages of their internationalisation.

Ojanperä stresses that each pilot project has its own mode of operation.

The projects live and develop all the time. "The feedback we have received has been very encouraging. Cooperation of this kind was expected."

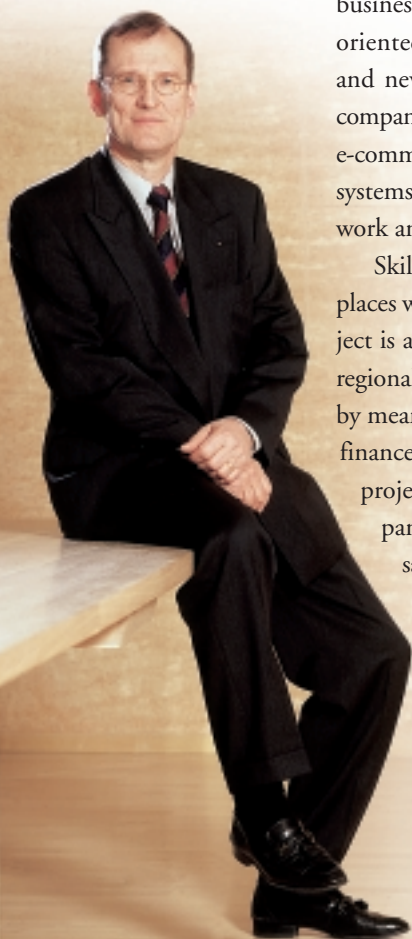
Finnish handbags for world markets

In the spring of 2000 a thorough analysis was made of the handbag and leather goods trade in Finland and in foreign competing countries - Italy, Spain and the Benelux countries. Our jury of experts evaluated products from 28 companies in the leather goods industry and made recommendations for new designs.

"We selected three product lines as suitable for development: fashion bags, business gifts and briefcases. Each line has a group with a wealth of expertise in charge of it. About 40 entrepreneurs are engaged in the project. We examine strategies for the product lines together with these entrepreneurs. They themselves put these into practice with their own work," says **Marja Illi**, who heads the project.

"Sitra has already helped to accelerate the pace of business in

"We are creating a corporate network to which entrepreneurs can contribute with their own special know-how. By means of their work they put strategies into practice," Heikki Ojanperä and Marja Illi point out.



the trade. Awareness of Finnish products in this field has grown. Important advocates for the trade have emerged. Sitra's task is to open doors when the enterprises wish to approach large customers. Our aim is to develop new products for both domestic and foreign consumption. We build up a functioning network in which each company does its bit with its own particular brand of know-how. We must spur companies on their way and ensure that the direction they have chosen is the right one. We take the pulse of the branch so that the entrepreneurs see the benefits of networking."

Analysis of the present indicates future trends

The analysis of the musical instruments industry was completed in October. Finnish manufacturers of musical instruments are not engaged in mass production. Short production runs and careful skills characterise the production of quality instruments that can be sold profitably on international markets. The outlook seems rosier for guitars and flutes according to Ojanperä.

"It is seldom that an instrument-maker knows the whole business himself. To develop the industry resources must be coordinated. Sitra helps in commercial and international exploitation. The National Technology Agency (Tekes) can offer advice in developing materials and production methods and the labour and business centres by training entrepreneurs. Structural patented methods and other innovations facilitate the process of going international."

The interior design project is seen as the use of the premises as a whole, which means that products from many companies are needed to improve their practical usefulness.

"We have evaluated different global interiors so that we can focus on Finnish know-how. We performed an international market survey of five fields. Of these we selected a couple where we intend to develop the business strategy together with companies in southern Finland and the Jurva area. Good business prospects mean that corporate funding may well be available," adds Heikki Ojanperä

WHAT KIND OF FINLAND DO WE WANT IN 2015?

● Sitra has been involved in training decision-makers to formulate economic policy since 1977. In the year under review three Economic Policy 2000+ courses were held and on topical economic themes. The main effort was to start the Finland 2015 programme, which is unique in the training field.

"Finland 2015 is as important a signpost on Sitra's road as our first course in economic policy in its day," says **Tapio Anttila**.

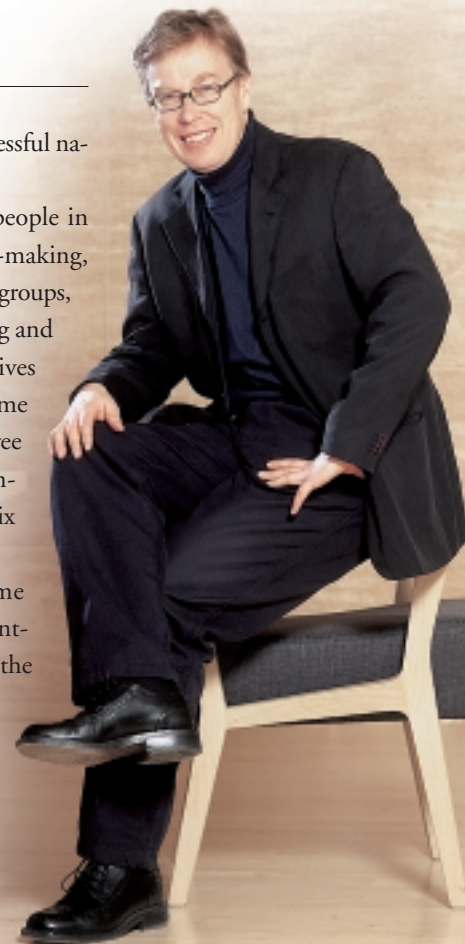
Finland 2015 is a training and development course designed and put into practice by Sitra. Its basis is national but it embraces a wide international perspective. The main purpose of the programme hone the knowledge, skills, awareness and networking of decision-makers at the highest level when it comes to matters affecting the future of Finnish society. Finland 2015 supports Sitra's goal according to which Finland is

to be one of the world's three most successful nations by 2010.

"Those invited to participate are people in leading positions in political decision-making, public administration, business, interest groups, the third sector, the media, and training and education. Different societal perspectives are widely represented. The programme will be carried out over a period of three years. About 150 important decision-makers are expected to take part in the six courses."

In the course of the programme Finnish decision-makers will be confronted with the most important visions of the

"International speakers appreciate Finnish decision-makers and wish to exchange views with them," in Tapio Anttila's opinion.



future both nationally and internationally. They will discuss and make proposals for strategic guidelines with which to meet the challenges of the future.

The first course will start with a seminar in Washington DC in the USA. The second seminar will be held in Berlin and Moscow. The two last parts of the programme will be arranged in Finland.

“We have built up a learning environment, FutureNet, based on Internet technology for the programme. From it course participants will be able to glean background information both before and after the seminars. By means of the Net they will also conduct discussions and prepare reports. The FutureNet will also function as a useful tool in Sitra’s other training programmes.”

Tapio Anttila emphasises that both participants and seminar experts represent top levels in their respective fields.

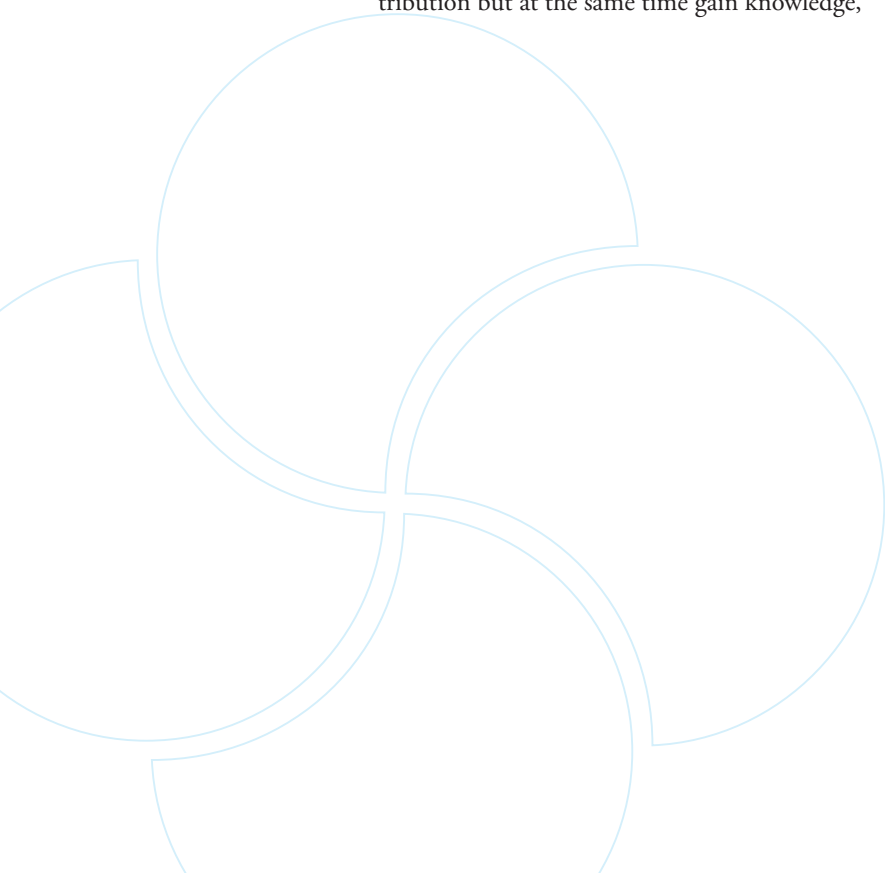
“International speakers will play an authentic role in the seminar work. They will evaluate Finnish decision-makers and exchange views with them. Finland 2015 offers Finnish decision-makers a unique opportunity for networking both among themselves and with top international experts. Each participant will be able to make an impact on how the work advances and its content through his/her own particular contribution but at the same time gain knowledge,

hear opinions and influences from other experts. This kind of interaction is extremely fruitful.”

Final report a basis for discussion

At the end of the programme the participants prepare a report on new strategic guidelines; this is to be of great importance as a basis for further discussion. The proposals and views expressed in the report can, if necessary, be the subject for further work at the appropriate levels or by groups of experts specially recruited for the purpose. Each participant will have as his/her goal that by 2015 Finland be among the leading countries of the world in which to live and work. An ageing population, shortage of labour and many structural factors in society demand rapid action if Finland’s future is to be guaranteed. There is a need for haste since many decisions made today take years to take effect. The Finnish information society is based on diverse know-how and networking by the whole population. In today’s global economy even a small nation can achieve great success provided that it is quick and purposeful in its actions.

“The report inspired wide discussion, as we hoped it indeed would. It also served as a basis for the next group’s work. We will publish a final summary of all six Finland 2015 reports in September 2003. We will also use the programme for research on influence.”



Sitra still the largest source of seed funding

As a part of updating Sitra's strategy corporate funding strategies were also examined in the spring of 2000.

"The goal of Sitra's corporate funding activities is defined as starting up and developing competitive and profitable Finnish business by offering companies financing and services that will help them advance," says **Olli Lindblad**, vice president of Sitra.

"Sitra concentrates on regions where the markets do not function adequately. We also try to develop markets. Not only is corporate funding important; other services that support funding occupy a key position.

Sitra operates its corporate funding through four teams of experts: technology, life sciences, regional activities and the commercialisation of technology. Start-up companies are supported by means of pre-seed activities and the matching service.

Lindblad stresses that venture-capital investment is one of the locomotives of the new economy. At Sitra this aspect has grown considerably regardless of whether it is measured in terms of the number of funding decisions made or the number of companies receiving financial help or the sums invested.

"The size of Sitra's individual investments has grown markedly. We are considered to be an interesting partner to cooperate with. Sitra continues to be the largest provider of seed capital in Finland. It is very laborious work demanding considerable expertise and money is just one of the factors involved," says Lindblad. "As Finland has invested vast sums of both public and private money in research and product development in recent years, it would be a great waste of resources if the next stage were not to finance the results of that activity."

According to Lindblad the trend is towards an even earlier stage of funding since private capital is being directed increasingly towards companies at the seed stage. In addition to extending the impact of our activities we are looking for larger units, for examples, clusters and platforms, as re-

cipients of our development and investment.

The funding of growth companies in Finland functions on market terms. Sitra has not actively sought out new growth businesses for its funding, but during the year under review it made a number of first-time investments by participating in syndicates.

"Even though the most important goal of Sitra's corporate funding is not to maximise its return, we nonetheless set up a target for the return on each investment that we make. At the same time, however, we realise that the life sciences, for example, require a long investment period and that new companies in general run great risks. We take it for granted that the companies that we invest in have both the desire and the ability to direct their efforts towards international markets."

"Cooperation with the public sector - e.g. the National Technology Agency (Tekes), Suomen Teollisuussijoitus (Finnish Industry Investment Ltd), Finnvera and the Academy of Finland, - and actors in the private sector has been close and we have developed it further. We are strengthening our network of international contacts by concluding agreements with international investment funds in fields that are important for both Sitra and Finnish companies. Sitra's investments in international funds have resulted in knowledge and awareness of the kinds of opportunities abroad that Finnish firms can benefit from. At the same time it has brought us an important return on our capital.

Sitra has also been engaged in developing the Venture Cup competition launched by McKinsey & Co. Its purpose is to set up, train and develop good, new competitive companies.

"The economic result of our corporate funding in the year 2000 was excellent. The level of direct investments and repayments returns also remained high. Sitra's portfolio contains many growth companies, but to develop them further and ensure that Sitra can successfully exit from them demands more work still," says Lindblad.

"Sitra is considered to be an interesting partner to work with," says Olli Lindblad.



“THE ATTRACTION OF TECHNOLOGY COMPANIES ON THE INCREASE”



"Our portfolio companies have courage and a healthy ambition," Anu Nokso-Koivisto stresses.

● “The rapid advance of technology companies can be seen more clearly at Sitra than on the stock exchange. The companies we have invested in aim straight for international markets. They have the necessary courage and a healthy ambition nowadays,” says **Anu Nokso-Koivisto**. She looks at the year 2000 from her own vantage point.

Economic activity is reflected strongly in the Sitra technology team’s operations despite the increased interest shown by private investors in technology companies still in the early stages of their existence. The number of requests for funding doubled during the year. The average size of Sitra’s funding also increased, and a typical first-stage investment was € 0.8–1.7 million. “At the end of the year it was easy to observe a drop in entrepreneurs’ expectations in the wake of the trends on the stock exchanges,” notes Nokso-Koivisto.

Finland’s rise to become one of the leaders in information technology is reflected in the interest shown by foreign investors. This interest had a concrete result in the form of the first investments made in start-up companies in collaboration with Sitra. We try to firmly anchor Finnish know-how in Finland. If a company is only just embarking on its existence, there exists the risk that this know-how will move out of Finland.”

The part played by syndicates with Finnish technology investors also increased. In almost every second investment another investor was involved.

Long-term development work creates new fields of entrepreneurship

Sitra’s funding is often long-term and development-oriented. For example, the manufacture of silicon wafers began as a research project at the Technical University in the early 1970’s in collaboration with Outukumpu and Nokia.

As a result of this cooperation Okmetic Oy was set up in 1993; the company now makes special wafers for the semi-conductor industry. Its ownership base was extended by means of successive investments by Sitra and last summer Okmetic was listed on the Helsinki Stock Exchange.

Cooperation across frontiers

Cultivating cooperation between public investors and service organisations is one of Sitra’s corporate funding projects. In this way the chances of success for promising technology companies can be reinforced, service for the customer improved and the availability of funds ensured.

“Sitra wants to make sure that a public investment in product development is exploited efficiently at the stage when the idea has matured to a point where it can go international and the company needs finance on its own capital terms. Sitra is participating together with the Finnish National Technology Agency in the team running the “Programming products for international operations” project, says Nokso-Koivisto.

Sitra develops venture-capital investment activities

As the chairman of the Finnish Venture Capital Association Anu Nokso-Koivisto feels responsible for the entire field.

“In Finland this activity is encouraged not only by the association but also by commissioning research projects from Sitra. In 2000 an international study was carried out on assessing the value of technology companies at different stages of their development and in different fields. The results will be made available to the whole field,” promises Nokso-Koivisto.

“We coordinate contacts with the European umbrella organisation, the European Venture Capital Association (EVCA), and try to support the aims set up by EVCA at the national level. In cooperation with the German association we have committed ourselves to helping to develop the Russian Venture Capital Association.”

The number of syndicates is increasing

According to Anu Nokso-Koivisto investment activity continues to be buoyant. Increasing numbers of private investors are taking part in investing in seed and start-up companies. More often than not, however, they want to spread the risk with another, often public, investor.

“Interesting new branches in addition to mo-

ble services include tele-medicine, localisation technology, electronic teaching systems and contents industry. From many a small technology firm a major company capable of going inter-

national may emerge provided that it gets enough know-how and capital and can take advantage from networking," says Nokso-Koivisto.

INTERNATIONAL FUNDS ACCELERATE COMPANIES' CONQUEST OF THE WORLD

● Sitra has a wide international network of partners and investments in about thirty different investment funds in Europe and the USA that concentrate on technology companies at the start-up stage. The markets targeted by Finnish technology and life-science companies have been given priority both geographically and by branch. A condition of partnership is a common desire to invest in continuing rounds of investment for Sitra's portfolio of rapidly growing and internationalising companies.

"Partnerships and cooperation with venture-capital funds help us to assess the development trends in technology and offer contacts for Finnish companies wishing to go international," says **Tero Mennander**. He is responsible for coordinating capital investments that are dealt with in the form of cooperation between Sitra's different teams.

Five new funds as Sitra's partners

During the financial year Sitra concluded agreements on cooperation with five foreign funds. The new partners are the American Trident Capital, the Swedish HealthCap and InnovationsKapital, the British Merlin Biosciences and the French Natexis Ventech. Of these Merlin and HealthCap specialise in life-science companies.

"The funds are leading investors in their own markets and are in a position to give effective support to the establishment of Finnish companies and the launching of their products on the most important international markets. By means of syndicates we are looking for synergy effects between Sitra's portfolio companies and those of the foreign funds," says Mennander.

This cooperation has borne fruit quickly. In the summer Trident Capital participated in a further round of investment in Sitra's portfolio

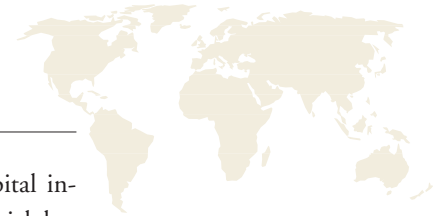
company Add2Phone. InnovationsKapital invested jointly with Sitra in Heptagon, which has formed part of Sitra's portfolio for some years.

"Both new investors have also helped the companies to find strategic partners and customers in their targeted markets. With the aid of the value-added made available by the funds the companies can effectively reduce their time-to-market. You have to access your targeted markets quickly."

Strategic cooperation as important as return

"Sitra continues to develop its international network and reinforce its cooperation with international funds. There are two important factors when it comes to evaluating funds: expectations of a good return and active strategic collaboration," Mennander stresses.

"Sitra can steer the objectively best suited Finnish or foreign investor towards Sitra's portfolio companies and thus support the rapid growth of the company. We attempt to offer Finnish technology companies in the early stages of their existence strategic value-added and an overall financing package from the seed stage right up to a listing on the stock exchange. At the same time we ensure that the companies are able to go international while still retaining their core operations in Finland. In this way we can avoid a situation where the Finnish company falls victim to foreign acquisition at too early a stage before the company's development and worth have reached their highest level."



"Joint funding is a way to find synergies between Sitra's portfolio companies and those of foreign venture-capital funds", Tero Mennander says.



BIOTECHNOLOGY – THE INVESTORS' FAVOURITE

● Sitra Life Sciences offers funding for promising biotechnology companies and different forms of entrepreneurial organisations in an early stage of their existence that are aiming at going international. New successful companies are evolved in collaboration with capital investors, the management of the companies and other experts in the field.

“Companies in our portfolio operate in the biotechnology, foodstuffs, chemical, medical, diagnostics and healthcare information technology industries,” says Hannu Hanhijärvi describing the spectrum of more than 40 companies.

“Sitra is a key impartial investor in the life sciences in Finland. The product development programmes of the companies funded must be sufficiently strong to keep the risk involved better under control. A wide range of products under development means that greater investment is needed. Our investment activity continues to expand strongly - not only in regards to the number of companies but also in terms of the sums invested.”

Financial base soon international

“We cooperate closely with the National Technology Agency (Tekes), whose importance as a provider of finance for entirely new technologies has grown constantly. A representative from the Sitra Life Sciences team takes part in planning and putting into practice the various technological projects in the field. In this way both Tekes and Sitra can be sure that new research projects deserving to be financed have a sufficiently strong content and get the money they need right from the start.”

Cooperation between Tekes and Sitra is well-known in the investment world. International funds operating in the life sciences now want to get a foot in the door at an early stage of financing.

“As early as the second round of investment our companies can attract international money and

foreign board members. International investors are a certain guarantee that any stock-exchange listing planned by the company is carried out in the best possible environment,” says Hanhijärvi.

In 2000 Sitra embarked on cooperation with two international funds operating in biotechnology. The British Merlin Biosciences and the Swedish HealthCap are renowned for the investments in predominantly European growth companies in the life sciences that have not reached the listing stage.

Hanhijärvi adds, however, that important innovations produced in Finland and any commercial exploitation of them must be anchored in Finland in the first instance. Only then can we enter the international arena.

“A company set up with Finnish research funding must not be lost abroad.”

One of the team's companies, BioTie Therapies Oy, was the first to be listed on the Helsinki Stock Exchange in the summer of 2000. “Sitra's first cycle came to a conclusion,” says Hanhijärvi, summing up the result of a long-term investment. “New listings are in the pipeline. Anybody investing in the life sciences field must be very familiar with it. This is one of our team's strengths.”

When in Rome do as the Romans do

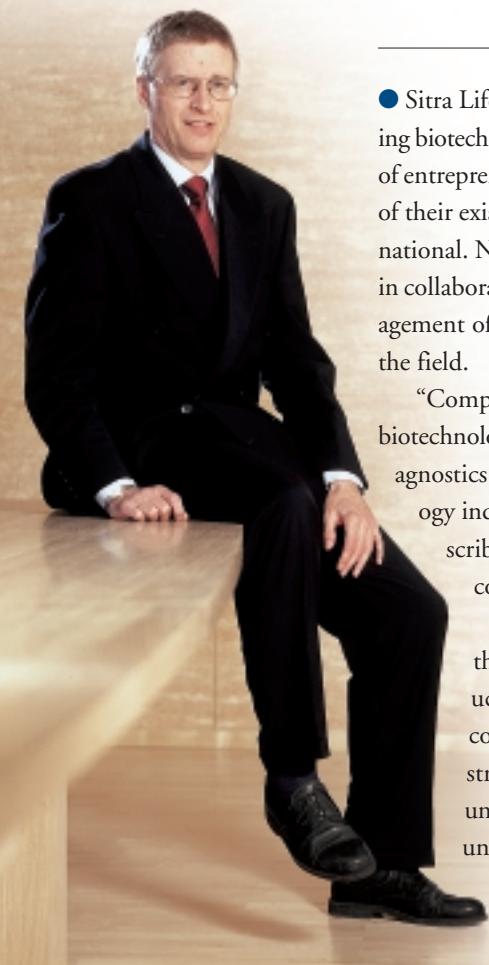
In order to optimise its portfolio the team is beginning to cooperate with national funds operating in the same branch in the European Union. The aim is to find suitable start-up companies which can be combined to form strong new enterprises for international markets. Hanhijärvi says that the Europeans have to act in the same way as their strongest rival, the United States.

“In America there is the technology bourse Nasdaq. Europe also needs supranational collaboration to bring different technologies together. Furthermore, this would also give Sitra a genuine international benchmark for its investment activities. These are important questions for us.”

New national strengths

EU-Finland competes on increasingly tough international markets. This has given rise in many

“A company set up with Finnish funding must not be lost abroad”, Hannu Hanhijärvi points out.



industries to the need for stronger national entities.

"The Life Sciences team is studying how activity can be made more efficient in, for example, the foodstuffs, diagnostics and chemical industries. We are also actively seeking opportunities that will facilitate setting up new business

activity in the e-healthcare field. The purpose of this is to renew knowledge and service systems for basic healthcare, the care of special illnesses and private healthcare. Sitra is also engaged in this research in the role of national coordinator. The aim is like-wise to create new, rapidly internationalising business activity in this field."

PRIVATISATION OF REGIONAL MANAGEMENT COMPANIES CONTINUES

● "The structure of regional management companies corresponds to the goals laid down in 1999. There are five regional companies and one national for tourism.

In the year 2000 key persons in administration and the management companies will become minority shareholders in the companies. It is Sitra's goal to withdraw its majority holding during 2001 and 2002," says **Vesa Lehtomäki** in his description of events during the financial year.

Sitra has holdings in the following regional management companies:

- Aboa Venture Management Oy, Turku (10 %)
- InnoFinance Oy, Lappeenranta (52 %)
- Sentio Invest Oy, Tampere (100 %)
- Teknia Invest Oy, Kuopio (52 %)
- Teknoventure Management Oy, Oulu (52 %)
- Nordia Management Oy, Helsinki (52 %)

The management companies work in close cooperation with local interest groups. As a consequence of this cooperation they have gained access to the most important investment projects in their area and reinforced their position as partners to both entrepreneurs and investors. As a conse-

"The profitability of our funds has improved markedly in recent years," notes Vesa Lehtomäki.

quence of active marketing efforts the companies' deal flow has improved. The management professionals employed by the management companies have been able to offer companies support and added value. This can be seen in the successful exiting from different investment projects. All the companies were able to report profit for the year.

"The capital of the regional companies has grown according to plan in 2000 by some € 18.8 million," says Lehtomäki. The profitability of the funds has improved markedly in recent years."

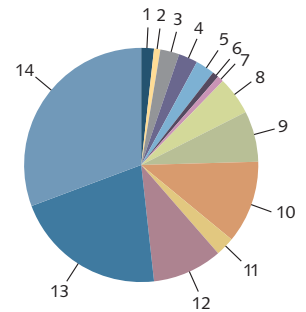
Half of all investment is seed funding

In the year 2000 the funds invested a total of € 16.8 million in the form of 116 investments. The regional funds have not focussed their efforts on any particular field but have put money into those companies with the most promising prospects for growth regardless of the branch in which they operate. Half of all investments has been in the form of seed funding.

One of the questions for the future is how regional seed funding can be followed up in the future in all the most important university towns and cities. Might it be possible to start new nationwide seed pilot projects in special areas based on the regional strengths of know-how centres, wonders Lehtomäki.

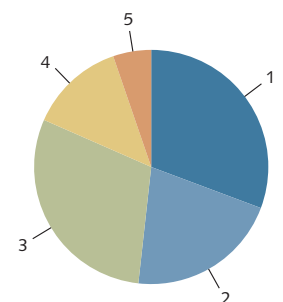
In his view the regional funds are an important public-sector tool operating on the principle of return and repayment by which regional development can be encouraged. Sitra plays an active part in guiding the choice of strategies and investment policy of the funds.

Investment portfolio by branch 31.12.2000



	no of companies	€ m
1. Industrial automation	2	0.2
2. Financial services	1	0.3
3. Agriculture & silviculture	3	0.8
4. Consumer goods	3	1.4
5. Construction	3	1.5
6. Other production	1	1.5
7. Tourism	1	1.6
8. Chemical industry & materials	6	2.2
9. Industrial products & services	8	3.4
10. Other electronics-related	13	5.7
11. Communications	3	5.9
12. Biotechnology	11	6.4
13. Information technology	24	16.6
14. Medicine & health care	35	32.9
Total	114	80.4

Investment portfolio by stage of development 31.12.2000



	no of companies	€ m
1. Seed	35	26.4
2. Start-up	24	14.8
3. Early growth	34	16.9
4. Rapid growth	15	7.6
5. Exit/transition	6	14.8
Total	114	80.4

THE COMMERCIALISATION OF INNOVATIONS INCREASES WELL-BEING

● Finnish investment in research and product development is of world-class standards. Cooperation between the universities and companies, too, is exemplary. The commercialisation of the results and their societal exploitation should likewise be on an equally high level.

“When encouraging investment in research the main challenge is how the exploitation of growth can be made more efficient. Even though the research may be valuable in itself, the added financing should also be reflected in an expansion of its exploitation,” says **Kari Kankaala**. “Our aim is the more efficient-setting up of know-how companies and the commercialisation of research finds through licensing. At the same time, however, we have to recognise and pilot various new methods to make this exploitation more effective.”

One visible tool in the process of commercialising technology is a ring of six technology transfer companies. In these companies, which are owned by university foundations and other regional actors, Sitra is involved as a minority shareholder.

“Technology transfer companies bring added value to recognising exploitable technologies, evaluating them, determining protective strategies and choosing the channel for commercialisation,” says Kankaala. “Different fields have different needs, however, which affect the networks of ac-

tors. Local emphasis is also in line with local owners.”

Immaterial rights are one of the things that interest companies and researchers more and more. Moreover, the universities as institutions have begun to include the administration of immaterial rights into their programmes. “In the nick of time,” says Kankaala.

From the perspective of exploiting research efforts it is extremely important that the owner of the research results can be unambiguously identified. Nobody is willing to invest in discoveries or exploit results if the question of ownership is uncertain, notes Kankaala. “The university is of course the most obvious actor to keep a record of the multiple ownership of results from research carried out at the university.”

For this reason Sitra is actively engaged in helping to finance a project organised by the Council of Finnish University Rectors where the universities are trying to find good ways of administering immaterial rights and research contracts involving them.

“I hope that the results will be of advantage especially to companies, investors and other beneficiaries. Then the university, too, can offer better service to interested researchers as to how their achievements can be used and profited by,” says Kankaala.

MATCHING SERVICE BEING RENEWED

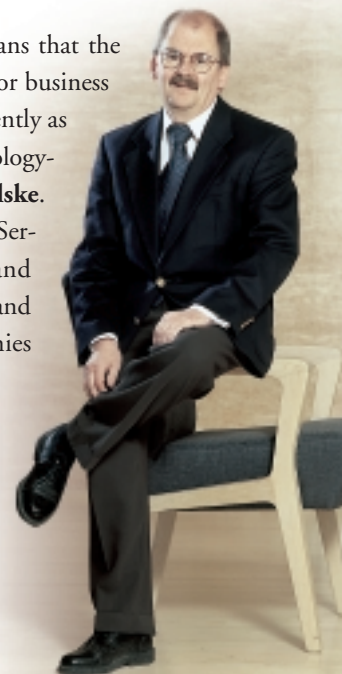
● Sitra and the Finnish Venture Capital Association set up the Matching Service in 1996 in order to bridge the gap between private investors and companies in need of venture capital. This service has proved to be very necessary and has led to some thirty investments. “The continuation of the service, Matching +, concentrates on refining the degree of accuracy in targeting investors and entrepreneurs. The service is being based on the principle of commissioning so that the chain of decision-making is shorter and more accurate. Sitra is updating its Matching Service so that it will be better adapted than ever to the needs of the venture-capital field at the beginning

of the investment chain. It means that the management skills of investors or business angels can be exploited as efficiently as possible in the service of technology-based enterprise”, says **Risto Kalske**. In the year 2000 the Matching Service organised 20 seminars and events in different parts of Finland to bring investors and companies together.

“Matching+ will identify its customers even more carefully,” promises Risto Kalske.



“Questions concerning intangible rights are becoming increasingly interesting, for both companies and researchers,” says Kari Kankaala.



● ADD2PHONE OY SPEEDS UP THE PACE OF E-COMMERCE

Add2Phone, which was set up in February 2000, can now be said to be the leading European innovator in mobile-telephone technology. The company is domiciled in Helsinki and has subsidiaries in Frankfurt, Boston and Montreal. The personnel has increased in just one year from ten to sixty.

"Finland is the centre of product development. We are growing now in Europe and the USA but in Asia and South America there exists a strong potential market," says Add2Phone's CEO, **Markku Ottela**, in describing the company's markets.

"Our company is a technology and programming house, not a manufacturer of content," he emphasises. "More than half of our personnel develop new products."

There are 700 million mobile phones capable of receiving text messages in the world. The medium exists; it is now up to the advertisers to use it. Add2Phone already has a product that can be put to use in an advertising campaign: Smart Mobile Advertisement Server, or the Smash advertising management program. The customer can have it as licensed program or as a turn-key service.

Campaigns conducted by means of the new technology can be in the form of text or voice messages and can also contain logos. The advertising space - a maximum of 160 characters - offers advertisers completely new challenges. Mobile advertising constitutes an unequalled one-to-one channel of communication direct to the consumer. "Now we eagerly await coloured moving pictures," says Ottela.

"The most important thing during our first year was to convince potential customers that mobile advertising actually exists. We have given birth to this market. Awareness soon took off and now international seminars are being held abroad. In Finland we are moving from take-off to climb. Our aim for the year 2001 is tens of millions in turnover."

Add2Phone's most important targets are advertising agencies and advertisers as well as network operators, who in due course will be able to offer their customers a new service.

Last autumn the Swedish mobile operator European used Smash in its own 24-day Christmas

calendar campaign with stories, carols and personalised Christmas offers that changed each day. The customer was given a discount on showing the mobile advertisement in the shop.

Ottela stresses that a mobile phone is a very personal means of communication. To the advertiser it offers a way of approaching the consumer in an extremely tactful and service-minded way.

"If the message is felt to be personal and important, the customer does not get irritated but is pleased by the tact shown. Mobile commerce emphasises the content and thought of the message. Mobile advertising requires the approval of the consumer so that undesired adverts are not shown on the mobile."

Our aim is to be global leader in our field. We have developed the product for markets that do not even exist - yet. We are offering the very closed telephone world a new source of income. We already have many references. We are progressing purposefully along the path mapped out in the plans we laid a year ago."

www.add2phone.com

● INHALATION TECHNOLOGY HELPS BOTH THE PHARMACEUTICALS INDUSTRY AND THE PATIENT

Leiras Oy has been developing inhalation technology since the 1970's. It took nine years to evolve the TAIFUN® powder inhaler and the technology for manufacturing powder formulas. The first product based on this technology, SALBUMATOL TAIFUN®, was granted a sales licence in nine European countries in 1998.

With the aid of the patented technology the medicine can be made in powder form, smooth and easy-flowing, so that the medicine can be administered in the correct dosage. Fine particles of the appropriate size are separated from the carrier in a vortex chamber, and the medicine is then transported by inhalation to the small bronchial tubes and alveoli. The TAIFUN is a multidose apparatus which can dispense 200 doses with an accuracy of just a few microgrammes. The desiccant capsule maintains an even level humidity and keeps the powder dry whatever the atmospheric conditions.

Research and development continues in a new company, Focus Inhalation Oy, to which Leiras has transferred its inhalation property and know-how, including laboratories, production facilities and patents. The main owners are Sitra and Bio Fund Management Oy. Leiras continues hold a minority interest. In February 2001 the pharmaceuticals company gave Focus Inhalation Oy permission to

manufacture pharmaceuticals industrially. The company already has one sales licence for a pharmaceutical for treating asthma.

"We find our own solutions independently. Our market area covers the entire pharmaceuticals world," says **Kari Aranko** and points out one difference from the earlier situation. "This news has been received extremely favourably on international medicine markets. We have discussions in progress with a number of new international partners. The main foci of our attention are Europe and the USA."

Focus Inhalation has a two-year product-development agreement with Boehringer-Ingelheim, which is one of the world's largest pharmaceutical enterprises specialising in the treatment of respiratory diseases.

Aranko stresses that the top experts who have been transferred from Leiras, i.e. the whole personnel, constitute an important intangible asset. "I consider them to be at least as valuable as the patents. In product development in the pharmaceuticals industry what is needed is knowledge, skills and experience. Patents alone are not enough."

Focus Inhalation concentrates on finding new inhalers, dosers and production technology. Inhalers are a growing market both for the treatment

of respiratory diseases and in other fields of therapy. The efficacy of medicine entering the blood stream by way of the lungs has proved to be extremely high, for example in many proteins that are poorly absorbed from the digestive tract. Diabetes patients, for example, can obtain their dose of insulin from an inhaler quite painlessly.

Focus Inhalation looks for solutions that are pleasant and safe for the patient. "We do not develop new molecules but offer patients a new way of dosing the medicine," Aranko states.

"In one of our many development projects we are looking at how our inhalers can be used for dosing pain killers. At present these are often administered by intramuscular injection. When administered by way of the lungs the medicine takes effect more quickly and it is not necessary to inject the patient. We hope to start clinical tests within a year."

"Focus Inhalation is to my knowledge the first company specialising in the manufacture of dosing apparatus. Prospects are good. We are continually studying ways of adapting our inhaler for use with our partners' pharmaceuticals. At the same time we are evolving a new generation of inhaler for the needs of patients in five or ten years' time."

www.focusinhalation.com

● ENVIRONMENT-FRIENDLY ENERGY TECHNOLOGY FOR GLOBAL MARKETS

The Lappeenranta company, Finreila Oy, supplies industry with energy and environment technology. The key to its success is to understand the needs of the markets and at the same time to tailor its products and services in order to be able to provide an innovative package without compare for the customer. The company has subsidiaries in Russia, Poland, Estonia and Latvia. In China sales are the responsibility of agents.

When Finreila bought Foster Wheeler Energia Oy's standard boiler operations in the summer of 2000, it became the market leader in Finland. Finreila's products are steam and hot-water boilers for industrial and district-heating systems, energy-saving technology, and stainless-steel engineering products for the paper and foodstuffs industries. Finreila's story began in the early 1970's, when

the company Kaukolämpöhitsaus was set up. In 1984 the company was bought by its present managing director and principal owner, **Reijo Lappalainen**.

The era of building natural-gas systems lasted until 1990, the year which saw the collapse of the Soviet Union. Then followed the era of exporting, which continues to be strong. In 1997 the company completed its own project for module-based boiler plants. Almost 70 per cent of Finreila's turnover comes from exports with the most important customer being Russia.

"Our most important project at present is in Siberia. We are building a gas-turbine plant for Surgut Neftegas. It burns the waste gas produced during oil drilling. The project is worth € 13.4 million," says Lappalainen.

The Baltika brewing group, in which the Finnish brewer Hartwall is also involved, has bought boiler plants and energy and environmental technology from Finreila. "We have played a part in ensuring the high quality of Baltika beer from the very beginning, i.e. eight years."

Among its Finnish customers Finreila numbers StoraEnso and Lappeenranta Energia. The stock of its tenders amounts to some € 134.5 million.

"The Finnish market is small. Our expectations are great, especially in Russia and China. We export Finnish know-how to new markets, and we have a lot to offer them. Finreila has increased its turnover tenfold every decade of its existence. It remains to be seen what the next decade will bring."

www.finreila.fi

SITRA'S EVENTS 2000

Ylä-Karjala seminar (pilot project of the national information society)

1.2.2000

Seminar: High-Tech Marketing Strategies for the New Millennium - Becoming a Gorilla

Geoffrey A. Moore

3.2.2000

Economic Policy Panel

Organised by Sitra and the Finnish Economic Association

9.6.2000

Ylä-Karjala seminar (pilot project of the national information society)

15.6.2000

Biotec 2000 Exhibition (Life Sciences team)

13-14.9.2000

Globalisation and Citizens' Criticism

Seminar and discussion for citizens' groups

14.9.2000

e-Learning Cluster Meeting

23.10.2000

Economic Policy Forum - Ageing and the Labour Market

Organised by Sitra and the Finnish Economic Association

31.10.2000

e-Health seminar

1.11.2000

Discussion on assessment

7.11.2000

Seminar and press conference:

A Handcrafted Brand – book published

16.11.2000

Assessment of the additional appropriation for research

- report published

12.12.2000

Prof. Manuel Castells' visit to Sitra

December 10-17,2000

- gave a lecture to the People, Cities and the

New Information Economy Congress

- study visit to Ylä-Karjala

(pilot project of the national information society)

Training programmes

Economic Policy 2000+

2nd course

7-11.2.2000 House of Estates, Sannäs

3rd course

15-19.5.2000

Helsinki, Vanajalinna

4th course

9-13.10.2000

Helsinki, Sannäs

FINLAND 2015, 1st course

5-9.3.2000, Helsinki & Washington

3-6.4.2000, Berlin & Moscow

8-9.5.2000 Espoo

5-6.6.2000 Tervakoski

FINLAND 2015+, 2nd course

23-28.9.2000, Helsinki & Washington

22-25.10.2000, Moscow & Berlin

16-17.11.2000, Espoo

18-19.12.2000, Vanajalinna, Helsinki

Sitra's Matching Service held venture-capital conferences and corporate presentations in Espoo, Pori, Joensuu and Turku

A number of meetings and research seminars were held within the framework of the Innovations programme

Skills Technology events

Press conference: TAITEK: musical instruments project

17.1.2000

Press conference: TAITEK: - interior design project

11.4.2000

Leather goods and handbags seminar

28.4.2000 Vammala

Taitek design seminar (leather goods and handbags)

29.5.2000

Taitek conference - charting the musical instruments industry

17.10.2000

The following events were organised at the Modern Times Forum in Lasipalatsi, Helsinki

The spring of learning 1.2.-26.3.2000

The spring of learning - We learn the future together

1.2.-26.3.2000

Technology - the road to well-being 23.5.-11.6.2000

Future Media Home - open summer camp

14.- 30.6.2000

Cinema City - Helsinki as a film star 21.7.-20.8.2000

Cafe9.net 1.9.-29.10.2000

Love@ 29.11.-29.12.2000

SITRA'S SUPERVISORY BOARD AND BOARD OF DIRECTORS

Supervisory Board

Ilkka Kanerva, MP
Chairman

Virpa Puisto, MP
Vice-chairman

Members of parliament

Olavi Ala-Nissilä
Anneli Jäätteenmäki
Antero Kekkonen
Mauri Pekkarinen
Martti Tiuri
Kari Uotila
Ben Zyskowitz

Secretary

Anton Mäkelä, L.I.B

Board of Directors

Raimo Sailas, Secretary of State
Ministry of Finance
Chairman

Erkki Virtanen, Secretary General
Ministry of Trade and Industry
Vice-chairman

Markku Linna, Director General
Ministry of Education

Esko Ollila, Deputy Governor
Bank of Finland

Hannele Pohjola, Head of Department
Confederation of Finnish
Industry and Employers

Aatto Prihti, President
Sitra

Secretary

Kirsti Uotila, Executive Assistant
Sitra

SITRA AT YOUR SERVICE

Aatto Prihti, President

Olli Lindblad, Vice President
(Corporate Funding)

Kirsti Uotila, Executive Assistant

Magnus Sjöblom, Financial Director

Kari Tolvanen, Director
(Research, Innovative Projects
and Training)

Tapio Anttila, Director (Training)

Hannu Hanhijärvi, Director
(Corporate Funding
- Life Science Companies)

Antti Hautamäki, Director (Research)

Marja-Leena Hilke,
Communications Manager

Timo Hämäläinen, Development Manager
(Innovative Projects)

Kari Kankaala, Director
(Corporate Funding
- Commercialisation of Technology)

Vesa Lehtomäki, Director
(Corporate Funding - Regional Funds)

Anu Nokso-Koivisto, Director
(Corporate Funding - IT &
Technology Companies)

Board of Directors Report for 2000



Raimo Sailas

The year 2000 was the thirty-third year of operations for the Finnish National Fund for Research and Development (Sitra). For Sitra it meant strong growth in the number of new projects and in new forms of activity.

The international political scene was calm and there were no major conflicts. This, in turn, created favourable conditions for the world economy, which expanded at a rate not seen for ten years. The international economy grew strongly in all important sectors.

The exceptionally favourable period of growth in the United States, the locomotive of the world economy, which began in 1991 continued even though the exceptionally large current-account deficit and the poor domestic savings rate introduced a note of uncertainty about future prospects at year-end. There were many signs suggesting that the growth rate in the US was falling off sharply and consequently the international wave top would be reached this time in early 2000.

The European economy perked up during the year under review. This favourable development resulted especially from strong exports by the EMU area; these were spurred on by strengthening external demand and a weak euro.

Other regions of the global economy were also buoyant. The volume of exports by the Asian countries grew during the year considerably, primarily as a result of their devalued currencies. The Japanese economy also showed signs of growing. Economic growth in Russia since the crisis in August 1998 has been vigorous. The eastern European countries, too, gave signs of revival.

On the international currency markets the main events included the weakening of the euro, an increase in short-term interest rates and a rise in the price of oil. The rise in share prices - especially those of IT companies - at the end of 1999 and beginning of 2000 encountered a setback and prices began to fall worldwide.

In Finland the encouraging economic trend continued. Exports grew by just over 10 per cent, led by the electronics industry, whose record was

even higher. The role played by Finland's leading international company, Nokia, was a key one. The profits reported by Finnish companies remained at a satisfactory level and the state's economy did better than expected.

In accordance with its strategy for the years 2001-2003, approved in spring 2000, Sitra strives at being a creative and flexible pioneer with the aim of ensuring that the Finnish man-in-the-street will enjoy a better future than the present. The goal is to influence the development of Finnish society in such a way that by the year 2010 Finland will be among the world's three most successful countries.

Sitra puts this policy into practice by means of research, innovative operations and training on the one hand and providing venture capital on the other. With the help of the first Sitra aims to identify the forces for change facing Finnish society and to create a knowledge base and models for developing successful national strategies. The purpose of the venture capital provided by Sitra is to help set up and encourage competitive and profitable business activity in Finland by offering companies funding and services that will further their growth.

In 2000 the volume of Sitra's operations measured in terms of the sums made available amounted to € 100.7 million, 116 per cent more than the preceding year. On the basis of contracts resulting from these decisions payments of € 43.7 million were made, in other words 12 per cent more than the year before. In view of this Sitra's operations are expected to continue to be buoyant during the year 2001.

Sitra's economic resources have grown considerably in recent years. Both gains on sales of shares from its investment activities and the return received from investment funds have had a very favourable impact on the Fund's financial situation. A strong financial position offers Sitra greater opportunities to tailor its activities to budgeted targets and put the tasks laid on Sitra by law into practice.

RESEARCH, INNOVATIVE PROJECTS AND TRAINING

The aim of Sitra's research, innovative projects and training programmes is to recognise and identify the forces for change facing society, to bring them to the notice of decision-makers and citizens and to build and test new models for developing successful national strategies. Research projects are specially planned to build a bridge between research and decision-making and to support the making of strategic choices. Sitra's innovative operations test new solutions and models and if they prove to be effective, they are recommended for wider use by ministries and other actors. By means of its training programmes Sitra endeavours to further the knowledge and skills of societal decision-makers as well as preparedness and networks in matters affecting society's future.

Research

During the year under review a research programme comprising 10 sub-projects designed to further develop the innovative system continued. A report detailing the results of the programme is to be published at the end of 2001. Research projects on multicultural business and the economic integration and social extent of the EU were completed at the end of the year. The results of these will be published in early 2001.

Several projects were begun in 2000 that strengthen Sitra's international contacts in the field of research. As part of the joint European "Europe 2020" project on the future of Europe Finnish EU researchers cooperated with experts from the Brussels think tank, the Centre for European Policy Studies (CEPS). The world-famous expert on the information society, Prof. Manuel Castells, is evaluating, together with Finnish experts in the field, the opportunities and threats facing the Finnish model of society. Also being assessed are international predictions; this is being carried out in collaboration with national experts.

As a continuation of the already completed project "Globalisation, Well-being and Employment" programme a project evaluating the criticism of globalisation by citizens' movements was also completed. During the year a research pro-

gramme on the "New Economy" was also started; this will try to give a comprehensive definition of the new economy, to analyse its dynamics and identify the challenges it poses to Finland.

In addition a number of other smaller projects including one on changes in corporate governance in Finland, industrial clusters in St. Petersburg, regional development and the marginalisation of youth were completed.

Decisions on finance for research amounting to € 3.4 million were made during the year.

Innovative projects

The year 2000 was an important year for the growth of innovative operations. With the increasing speed of economic growth national problems associated with the so-called new economy have appeared in regional development and marginalisation. In accordance with a policy approved during the spring Sitra funded and set in motion pilot projects to solve these problems.

The encouraging results received from the Ylä-Karjala project inspired Sitra to decide to start a Remote Regions project to activate people threatened by marginalisation by encouraging them to make use of information technology. The aim is to create job opportunities in remote regions and to give people in difficulties, whether in towns or the countryside, back their faith in life. This programme will extend over the years 2001-2002 with a maximum of 10 regional projects, which will then be widened to cover the whole country.

The purpose of the Centre for Social Innovations in Eastern Finland is to identify new kinds of services needed by local government authorities and test new models to ensure effective and continuing service and to improve the authorities' purchase of services.

Within the framework of the skills technology project begun in early 1999 pilot projects were started with the handbag and leather goods industry, the musical instrument industry and the interior design industry. This experiment with a new kind of regional policy aims to revive know-how in handicrafts, culture and services both by bringing e-commerce marketing and top-quality



Erkki Virtanen



Markku Linna



Esko Ollila

design to the aid of small companies and by means of networking companies and internationalising their operations.

The number of financing decisions made for innovative projects amounted to € 13.6 million; this indicates the growth of these activities in Sitra's strategy.

Training

For training the year under review was one of drawing up guidelines and completing preparations.

The Finland 2015 programme organised two courses which were held in Washington, Moscow, Berlin and Finland. This programme planned for the top decision-makers in various sectors of so-

ciety was strongly nationally based. At the same time, however, it followed an international, multidisciplinary and multisocietal perspective. Both courses published reports that attracted considerable favourable criticism for new strategic guidelines considered to be important for the future.

Within the framework of the Economic Policy 2000+ programme three courses, each lasting one week, were held. They continued the Economic Policy 2000+ management course and established a strong position in continuing to widen decision-makers' knowledge of the national economy and economic policy.

The amount covered by decisions on financing training was € 1 million.

CORPORATE FUNDING



Hannele Pohjola

Sitra's corporate funding covers not only the provision of venture capital but also investment, the commercialisation of technology and Sitra Management Oy's activities. Sitra's aim is to ensure that the Finnish innovation system efficiently covers the whole range of activities, from protecting and commercialising innovations to setting up and developing new companies and also ensuring that they are internationally competitive. Sitra's task in the different links in the chain varies according to how well the markets function. Sitra's efforts are required especially in situations where there exist gaps in the market or weaknesses in the private sector.

In the year 2000 the expansion in volume of corporate funding was exceptionally large. Decisions on funding and investment amounted to € 82.6 million (compared with € 38.5 million in 1999), an increase of 114 per cent. This growth was due to Sitra's chosen strategy by which the Fund strives to ensure that the money put into research and development in Finland in the 1990's is not wasted. It is particularly important that companies that have received funding for their product development get a strong equity position that will make it possible for them to grow and go international. On the other hand, Sitra's economic situation has enabled the Fund to considerably increase its financing activities.

As far as venture capital is concerned the past

few years have been a time of rapid development both in Finland and abroad. The buoyant economic conditions have brought on to the scene many new investors with new capital looking for suitable projects in which to invest. Uncertainty about the global economy in the latter part of the year under review, however, affected not only the share prices of listed companies but also the worth of unlisted companies. The evaluation of new economy companies, in particular, resumed a more realistic level than earlier. Despite cyclical fluctuations, however, it seems clear that the growth in venture-capital investment will continue to be strong in the coming years.

Venture-capital operations

Sitra's venture capital operations focussed on funding for start-up companies. Initial funding amounting to € 12.2 million was given to 24 companies. Of these 19 were in the seed or start-up stage of their operations. Sitra's strategy is to get involved in companies at as early a stage as possible; it is willing to take the sort of risk that is not attractive to commercial investors. In order to be able to develop and grow the company almost always needs subsequent rounds of investment. When organising these, Sitra tries to involve commercial investors as well. Nonetheless, Sitra often funds follow-on investment itself but at the same time its financial interest in the com-

pany is diluted. Follow-on investment amounting to € 9.6 million was made in 30 enterprises. This brought the amount of new investment up to € 21.9 million in a total of 54 companies.

In addition to the rapid growth an important feature of the year 2000 was Sitra's efforts to broaden its cooperation with other actors in the funding field. The aim is to offer Finnish entrepreneurs an opportunity to develop their companies and also to anchor them firmly in Finland so that their operations and jobs remain in the country even though they decide to link up with a foreign enterprise or become part of an international group as the result of a take-over or merger.

The cooperation between Sitra and the National Technology Agency (Tekes) during the year gave very promising results. Sitra cooperated closely with Tekes' technology activities, thereby helping to improve the exchange of information between the two bodies. The division of tasks between Sitra and Tekes is that Tekes provides financial grants and loans for product development while Sitra invests money in the companies' equity. Cooperation with other public sector bodies such as Suomen Teollisuussijoitus Oy (Finnish Industry Investment Ltd), Finnvera Oyj, the Academy of Finland, the Technical Research Centre of Finland (VTT) and other regional organisations is extremely close.

Sitra considers it very important to cooperate with both the public sector and the private sector. Sitra actively looks for investment syndicates with commercial investors. Especially in the field of information technology it is possible to attract private investors in the very early stages but in the case of traditional industries and the life sciences, for example, Sitra together with Tekes is often the only investor providing funds at the initial stage.

During the year work was done on planning a nation-wide seed fund. Sitra studied the need for such a fund as well as forms of ownership and operations in collaboration with Suomen Teollisuussijoitus Oy (Finnish Industry Investment Ltd) and the Ministry of Trade and Industry. A decision on the establishment of such a fund has been postponed until the year 2001.

Sitra's venture-capital investment is handled by three teams: the technology team, the life sci-

ences team and the regional team. Each team acts independently in identifying suitable companies and then developing them right up to the point where Sitra exits. The investment decisions, however, are made by the board of Sitra and the president. The teams receive support from joint sections of corporate funding in the legal and monitoring fields. The teams also handle the later administration of fund investments.

Two of the most important events in 2000 concerned two enterprises; Biotie Therapies Oyj and Okmetic Oyj were listed on the Helsinki Stock Exchange. Sitra exited, either entirely or in part, from a total of 20 companies; the gains made from this amounted to € 11.8 million.

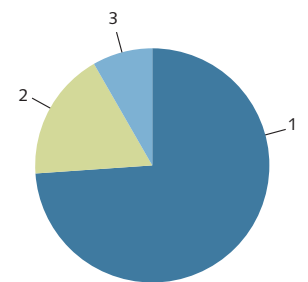
At the end of the year Sitra's portfolio contained 114 companies. The amount invested in these was € 80.4 million. The corresponding figure for the previous year was 99 companies and € 70.8 million.

Sitra's fund investment

Sitra's fund investment can be divided into several different groups, the aims of which vary greatly. The most important is investment in Finnish and foreign venture-capital funds, with which Sitra actively strives to collaborate. The funds in which Sitra invests are those whose geographical situation, focus on industrial branch and investment strategy offer the best opportunities for cooperation. Finnish funds concentrating on a particular branch that have been inspired by Sitra and five international investment funds are typical examples of these. The most important criterion for commitments during the financial year was active cooperation and support for Sitra's ordinary operations.

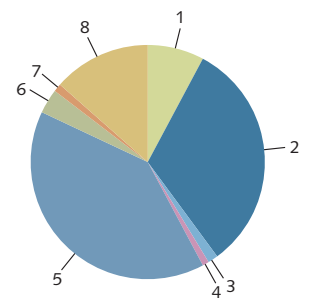
In Finland there operates a comprehensive network of regional venture-capital funds. Sitra was entrusted three years ago with the task of reorganising the management of these funds. The process has continued according to plan. During the year 2000 Sitra instigated the privatisation of altogether six regional funds. During the transition stage Sitra remains the majority shareholder in five of these. However, they have become much more able to stand on their own feet. Sitra expects to cease to be a majority investor in these funds during the next two years.

Sources of Sitra funds 2000



	€ m	%
1. Net profit from investments	168.3	73.9
2. Profit from fund investments	40.6	17.8
3. Profit from project finance	18.9	8.3
Total	227.7	100.0

Sitra's funding decisions 2000



	€ m	%
1. Growth companies	7.9	7.8
2. Seed investments	32.3	32.1
3. Commercialisation of technology	1.4	1.4
4. Other funding	0.9	0.9
5. Fund investments (Finnish 8,0 % foreign 31,8 %)	40.1	39.8
6. Research	3.5	3.4
7. Training	1.1	1.1
8. Innovative projects	13.6	13.5
Total	100.8	100.0

Sitra considers it important to encourage regions that lie close to Finland to set up a funding system of their own. As a part of this policy Sitra has invested in several funds that operate in the Baltic countries and Russia and it also takes part in managing different funds through its subsidiary Sitra Management Oy. During the year agreement was concluded on commitment to a fund that invests in the Baltic region.

Decisions on new investment covering € 26.7 million in seven funds altogether were made in the year 2000. The amount of money now committed amounts to € 92.7 million. During the year repayments amounting € 6.9 million were received and returns amounting to € 40.5 million.

Commercialisation of technology

Sitra's support for the competitive development of the commercialisation of technology in Finland is an important part of its role in encouraging the development of Finnish innovations. This is achieved partly by developing fund investment so that it corresponds to the special requirements of start-up companies. A second important field is the protection and licensing of technological innovations.

Important actors in the commercialisation of technology are not only those who make the innovations but also their employers, in other words universities and research institutes and companies specialising in technology transfer. Sitra has for just over a year provided funding for a programme designed to improve the ability of the universities to exploit technology transfer. From Sitra's point of view the most important players in this field, however, are those companies specialising in technology transfer that operate in university cities. Sitra is a significant shareholder in thirteen such companies. It has also, in the last two years, put money into a programme aimed at substantially putting life into this activity.

A problem in the commercialisation of Finnish technology is the small size of the Finnish market and its dispersed character. In looking for innovations and handling the start-up stage it is important to achieve wide geographical coverage. However, licensing for international markets of-

ten requires large resources. A marked improvement was nevertheless achieved during the year when Helsinki University Licensing Oy and Finntech Finnish Technology Oy decided to merge to form the company Licentia Oy. The new company started operating in early 2001.

Sitra's aim is to continue encouraging Finnish innovations by cooperating with other actors. An important partner in addition to those organisations already mentioned is the Foundation for Finnish Inventions (Keksintösäätiö).

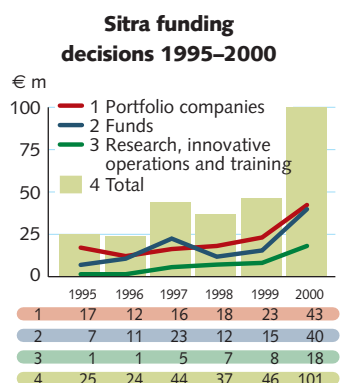
Venture-capital investment by private persons and pre-seed activities

Since 1996 Sitra has operated a so-called Matching service. The purpose of this service is to offer a forum where private individuals wishing to invest and companies seeking capital can come together. At the end of the year 153 individuals and 46 companies were registered with the service. The service has resulted in 35 investments over the years. The service has amply demonstrated the need for it. In the latter part of 2000 the next stage of the matching service was prepared, and this will mean a further extension of the service's possibilities. From merely offering a forum the service will progress to actually drawing up commissions. The new activity will start in 2001.

Sitra's strategy in corporate funding is to concentrate on areas where the markets do not work properly and where it can exert maximum influence. An indicator of this is the way in which the focus of Sitra's venture-capital activities is moving to an ever earlier stage in start-up companies. Seed funding will remain Sitra's principal field of operations in the coming years but finance and risk-taking are needed at a still earlier stage. During the year Sitra and Tekes drew up plans for pre-seed financing; these provide for funding and advisory services for entrepreneurs to prepare professional business plans that are necessary to start business operations. A start for this is predicted in early 2001.

Sitra Management Oy

The task of Sitra Management Oy, which started its operations in the year 1999, is to actively administer venture-capital funds. Sitra's holdings



in the companies managing venture-capital funds have been transferred to Sitra Management, which now has minority holdings in six such management companies. Sitra Management is a wholly owned subsidiary of Sitra and, in addition to the

managing director, it has one other full-time employee. The company made profit during the year 2000 of € 0.1 million and the balance-sheet total amounted to € 4.0 million.

ADMINISTRATION

Sitra is a public fund under the supervision of the Finnish Parliament. Its Supervisory Board is made up of the Parliamentary Trustees of the Bank of Finland. During the year the Board met five times and the members were Ilkka Kanerva (chairman), Virpa Puisto, (vice-chairman), Olavi Ala-Nissilä, Anneli Jäätteenmäki, Antero Kekkonen, Mauri Pekkarinen, Martti Tiuri, Kari Uotila and Ben Zyskowitz. Anton Mäkelä, LL.B. acts as secretary to the Board.

Sitra's Board of Directors met ten times during the year under review. Its members were Raimo Sailas (chairman), Erkki Virtanen (vice-chairman), Markku Linna, Esko Ollila, Hannele Pohjola, and Sitra's president, Aatto Prihti. Secretary to the Board was Kirsti Uotila. At its meeting on 1 December 2000 the Supervisory Board reappointed the Board of Directors in its entirety for the next two-year period 2001-2002. Raimo Sailas continues as chairman and Erkki Virtanen as vice-chairman.

Auditors appointed by the Finnish Parlia-

ment for the period until 11 February 2000 were Johannes Leppänen (chairman) (deputy Paula Lehtomäki), Matti Saarinen (Ulla Juurola) and Ville Itälä (Juha Karpio) together with Iivo Polvi, CPFA (Arto Kuusiola, APA) and Prof. Reino Majala APA (Kari Manner APA). Secretary to the auditors was Prof. Kalervo Virtanen APA. On 11 February 2000 Parliament approved the reappointment of the auditors. On Ville Itälä's appointment as Minister of Internal Affairs his deputy Juha Karpio became auditor and Kalervo Kummola Karpio's deputy.

The auditing company SVH Pricewaterhouse Coopers Oy and Juha Wahlroos APA were appointed by Sitra's Supervisory Board to be responsible for internal audit and the audit of investment projects.

During the year Sitra moved to new office premises in a 16-storey building at Itämerentori 2 in the Ruoholahti area of Helsinki.

Sitra's personnel at year-end numbered 84.



Aatto Prihti



Kirsti Uotila

ENDOWMENT CAPITAL

The nominal value of Sitra's endowment capital is € 168.2 million. The market value of its endowment capital investments at year-end was € 1.1 billion. The Fund's capital is invested primarily in Finnish and foreign equities and fixed interest securities. A small proportion is invested in real estate and private equity funds.

In accordance with the investment policy

the management of the endowment capital is outsourced. Sitra's asset managers were Sampo-Leonia Omaisuudenhoito Oy, Alfred Berg Omaisuudenhoito Oy, Lombard Odier & Cie and Morgan Stanley & Co. Int. Ltd. as in the previous year. At the end of the year a new asset manager JP Morgan Fleming Asset Management was appointed.

PROPOSAL FOR THE DISPOSAL OF PROFIT

The Board of Directors proposes that of the net profit for the year, amounting to € 199,568,257.03, € 67,275,170.58 be transferred to Sitra's capital

and the remainder, € 132,293,086.45, be carried forward.

PROFIT AND LOSS ACCOUNT

(in € 1,000)

		1.1.–31.12.2000	1.1.–31.12.1999
		€	€
ACTUAL OPERATIONS			
Corporate funding			
Income			
Profit from sales		5,650	6,047
Return on investment		40,455	18,097
Other income		13,337	2,787
	1)	59,442	26,932
Expenses			
Investment expenses	2)	-15,733	-15,988
Other expenses	3)	-679	-394
Share of general expenses		-2,505	-1,998
		-18,918	-18,380
		40,525	8,552
Research, innovative projects and training			
Income			
Return on investment	4)	32	22
Government subsidy		0	1,682
		32	1,703
Expenses			
Investment expenses	5)	-5,066	-3,546
Other expenses	6)	-128	-65
Share of general expenses		-1,044	-441
		-6,238	-4,052
		-6,206	-2,349
Administration			
Expenses			
Personnel expenses	7)	-4,918	-3,715
Depreciation	8)	-644	-317
Other expenses		-989	-678
Transfer to operations		3,549	2,439
		-3,002	-2,271
Profit/Loss		31,316	3,933
INVESTMENT OPERATIONS			
Income	9)	248,721	107,871
Expenses	10)	-80,469	-11,687
		168,252	96,184
NET PROFIT FOR THE YEAR		199,568	100,117

BALANCE SHEET

(in € 1,000)

		31.12.2000	31.12.1999
		€	€
ASSETS			
Fixed assets			
Tangible assets			
		988	445
		14,415	2,752
		185	263
	11)	15,587	3,460
Funding operations			
		134,774	110,417
		9,927	10,537
		10,727	8,869
		0	49
	12)	155,428	129,873
Endowment capital investments			
		138,532	108,175
		263,325	186,097
		25,112	13,214
		26,161	20,328
		89,784	32,938
	13)	542,914	360,751
		713,930	494,084
Current assets			
Accrued income			
	14)	9,430	5,234
		3,051	7,301
		12,481	12,535
TOTAL ASSETS		726,411	506,619
LIABILITIES			
Equity			
		168,188	134,550
		271,082	204,603
		199,568	100,117
		638,838	439,270
Transfers			
		28,194	24,067
Liabilities			
Short-term			
		0	76
		19,369	10,033
	15)	40,009	33,172
		59,378	43,281
TOTAL LIABILITIES		726,411	506,619

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

Receivables and payables in foreign currencies have been translated into Finnish marks at the exchange rate in force on the day of entry.

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 or market principle.

The Balance-Sheet value of investments in venture-capital companies and funds is recorded at their historical acquisition value or a lesser sum determined by internal valuation. The internal valuation procedure is performed twice a year and any necessary value adjustments (revaluation or devaluation) made on the basis of the valuation at year-end is 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.

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

- in the case of corporate funding early-stage investments (seed finance) a risk reserve is made in accordance with the principle of prudence.
- expenses incurred in the commercialisation of technology, innovative projects and training are recorded as expenses and the same applies to debts on which repayment is conditional.
- repayments related to funding decisions (income) are recorded only after payment has been received.

NOTES TO THE PROFIT AND LOSS ACCOUNT

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.

CORPORATE FUNDING (in € 1,000)

1 Income from corporate funding	2000	1999
seed finance	1,427	124
growth companies	17,371	8,382
investment in venture-capital funds	40,587	18,403
commercialisation of technology	58	23
	59,442	26,932
Seed finance		
capital refunds	100	46
interest payments	324	24
profit from sales	925	50
dividends	0	4
other income	78	0
	1,427	124
Growth companies		
capital refunds	52	30
interest payments	271	267
profit from sales	4,685	5,868
dividends	12,358	2,204
other income	5	12
	17,371	8,382
Investment in venture-capital funds		
shares in profits	40,455	18,097
capital refunds	0	143
interest payments	6	0
profit from sales	40	130
dividends	86	34
other income	0	0
	40,587	18,403

Commercialisation of technology	2000	1999
capital refunds	5	5
interest payments	0	8
dividends	53	1
other income	0	8
	58	23

2 Expenses from corporate funding	2000	1999
seed finance	12,369	12,983
growth companies	2,000	2,394
investment in venture-capital funds	462	46
commercialisation of technology	902	565
	15,733	15,988

Seed finance		
expenses	296	636
value adjustment	7,947	3,958
change in risk reserve	4,127	8,390
	12,369	12,983

Growth companies		
expenses	494	333
value adjustment	1,506	2,061
	2,000	2,394

Investment in venture-capital funds		
expenses	-133	121
value adjustment	594	-75
	462	46

Commercialisation of technology		
expenses	724	488
value adjustment	178	76
	902	565

3 Other expenses		
seed finance	19	17
growth companies	509	264
investment in venture-capital funds	70	62
commercialisation of technology	81	52
	679	394

RESEARCH, INNOVATIVE PROJECTS AND TRAINING

4 Return on investment	2000	1999
research	32	22
innovative projects	0	0
	32	22

5 Investment expenses		
research	2,382	1,681
innovative projects	1,850	1,106
training	833	759
	5,066	3,546

6 Other expenses		
research	88	65
training	41	0
	128	65

A total of 30 innovative projects and research projects received funding during the year under review. As examples mention may be made of the following:

- Research projects
- Globalisation and European projects
 - Innovative systems research project
 - Finnish model of information technology
 - Challenges of the new economy
 - Multiculturalism from a business perspective

Europe 2020 – joint European research project on the future of Europe		
Economic integration and social dimension of the EU		
Globalisation, criticism and citizens' movements		
Innovative projects		
Skills Technology pilot studies		
Bags and leather goods		
Musical instruments		
Interior design		
Remote regions – local pilot projects		
Eastern Finland – innovation centre		
Barrier-free world		
Development of e-health field		
Training projects		
Finland 2015 – training programme for decision-makers		
Economic policy 2000+		
Economic policy – forum and panel		

ADMINISTRATION

7 Personnel expenses	2000	1999
Personnel expenses		
wages and salaries	3,362	2,458
pension expenses	698	498
other payroll expenses	857	759
	<u>4,918</u>	<u>3,715</u>
Personnel at year-end		
corporate funding	24	22
research	13	11
administration	28	24
	<u>65</u>	<u>57</u>

Of the administrative staff one was on maternity leave and one on sick leave and of the corporate funding staff one was on maternity leave.

The total number of project personnel employed by Sitra was 19 (1999 16). Of the project personnel one was on maternity leave and another on rotation leave. Their wages and salaries and other payroll expenses, amounting to € 1.2 million, are included in expenses for corporate funding projects.

8 Depreciation	2000	1999
Depreciation according to plan		
machinery and equipment	528	206
other capitalised expenditure	55	49
renovation of office premises	62	62
	<u>644</u>	<u>317</u>

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 acquired after 1.1.1999	3 years

Depreciation of € 0.2 million on invested assets is calculated correspondingly and included in the expenses of investment operations.

INVESTMENT OPERATIONS

9 Income from investment operations	2000	1999
profits from sales	222,657	91,437
interest income	11,500	7,382
interest-rate gains	1,241	1,245
exchange-rate gains	4,425	964
dividend income	8,349	6,156
rental income	548	687
	<u>248,721</u>	<u>107,872</u>

10 Expenses from investment operations		
asset depreciations	71,562	9,323
regained depreciations	-1,469	-4,374
losses on sales	5,328	1,983
interest-rate losses	1,488	1,707
exchange-rate losses	1,818	148
asset management fees	981	1,543
real-estate expenses	629	205
value adjustment of real-estate shares	-60	1,105
other expenses	193	48
	<u>80,469</u>	<u>11,687</u>

Depreciation has been recorded per each acquired asset group. For both Finnish and foreign shares the latest trading price has been used. Bonds and debentures have been valued according to the price given by the Helsinki Stock Exchange.

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 under review fixed assets to a value of € 15.5 million were acquired (1999 € 0.3 million).

	Acquisition cost Dec. 31, 2000	Depreciation according to plan Dec. 31, 2000	Book value Dec. 31, 2000
machinery and equipment	1,945	992	953
other capitalised expenditure	298	187	111
renovation of office premises	617	543	74
other fixed assets	35	0	35
	<u>2,895</u>	<u>1,722</u>	<u>1,173</u>
shares and participations	2000		1999
shares in office premises	14,405		2,743
other shares	9		9
	<u>14,415</u>		<u>2,752</u>

12 Fund investments	2000	change	1999
seed finance	28,194	4,127	24,067
growth companies	28,168	1,952	26,216
investment in venture-capital funds	95,677	19,556	76,120
commercialisation of technology	3,252	-8	3,260
other investments	138	-22	160
other short-term investments	0	-49	49
	<u>155,429</u>	<u>25,556</u>	<u>129,873</u>

Seed finance, 59 companies

Abmin Technologies Oy	Bio-Nobile Oy
Add2Phone Oy	BioTie Therapies Oyj Ltd
Aislo Oy	Camelina Oy
Arbonaut Oy	Contral Pharma Ltd Oy
Artscan Oy	Delfin Technologies Oy
Beveysys Oy	Elcard Oy

Enterprie Software Ltd	Nanobac Oy
Finnish Immunotechnology Oy Ltd	Nanoway Oy
Fluilogic Systems Oy	Neoforest Oy
Food Automation Finland Oy	Neomed Oy
Fruit Wash Oy	Novasso Oy
Galilaeus Oy	Optonex Oy
GWM-Systems Oy	Osfix International Oy
Haico Oy	Panphonics Oy
Heptagon Oy	Payway Oy
Hi-Col Oy	Polymer Corex Kuopio Oy Ltd
HMM Software Oy	Primco Oy
Hormos Medical Oy Ltd	Privanet Capital Oyj
Ipsat Therapies Oy	Prowellness Oy
IST International Security Technology Oy	Quantronics Oy
IWS International Oy	R 5 Vision Oy
Juvantia Pharma Oy Ltd	Smartner Information Systems Oy
Kultaturve Oy	Smilehouse Oy
Kuopion Laboratorio Automaatio Systeme Oy	Spectrum Medical Sciences Ltd
Lamicon Oy Ltd	Taika Technologies Oy
LifeChart.com	Unicrop Oy
Medixine Oy	Uniqmed Oy
Meteori Books Oy	Voxlab Oy
Mevire Oy	Welfare Communications Oy
	Winrock Technology Oy Ltd

Venture-capital investments	Dec. 31,2000	change	Dec. 31,1999
shares and participations	29,910	9,657	20,253
capital loans	8,392	-2,823	11,215
other loans	2,843	597	2,245
value adjustments	-12,950	-3,305	-9,645
	28,194	4,127	24,067

A total of 19 new seed companies came about during the year. Altogether € 9,7 million was invested in these. During the year Sitra exited from 18 seed companies. Of these five were sold, one went bankrupt (original sum invested € 2,0 million), and 12 were transferred to the group of growth companies.

Growth companies, 55 companies

Alcap Oy	Mechanical Assembly and Consulting MAC Oy
Aplac Solutions Oy	Medikro Oy
Aplicom Oy	Mega Elektronikka Oy
Auditbit Oy	Megatrex Oy
B-Band Oy	Moduleo Oy
Biogenuine Oy	Mytek Oy
BPM Group Oy	Neorem Magnets Oy
Contral Clinics Oy	Newtest Oy
DBC Holding Oy	Okmetic Oy
DBC International Ltd Oy	Optatech Oy
DeskArtes Oy	Pharming Health Care Products B.V.
DIARC-Technology Oy	Porin Teollisuusautomaatio Oy
Diomed Inc.	QPR Software Oy
FibroGen Inc.	Rados Technology Oy
Fimet Oy	Setec Oy
Finland Travel Marketing Oy	Shanghai Fimet Medical Instruments Company Ltd
Finnsonic Oy	Syncon Tech Oy
Fluid-Bag Oy Ab	Sysline Oy
FoodFiles Oy Ltd	Tapvei Oy
Hidex Oy	Tassu-Taimisuoja Oy
Innomedica Oy	Tecnomen System Solution Oy
Innotrac Diagnostics Oy	Toolmakers Lahti Oy
Ion Blast Oy	TR-Tech. Int. Oy
Kibron Oy	Vista Communication Instruments Oy
Kielikone Oy	VLSI Solution Oy
Kivia Oy	
KSV Instruments Oy Ltd	
Labmaster Oy	
Mail Systems Oy	
MAP Medical Technologies Oy	

Investments	Dec. 31,2000	change	Dec. 31,1999
shares and participations	29,382	483	28,899
capital loans	5,863	998	4,864
other loans	4,015	496	3,518
value adjustments	-11,091	-25	-11,066
	28,168	1,952	26,216

During the year under review five new growth companies were added to Sitra's portfolio. In addition, 12 companies were transferred from the seed stage to the growth stage. Three growth companies were dropped from the portfolio during the year. Of these two were sold and one went bankrupt (initial investment € 0.2 million).

Investment in venture-capital funds	Dec. 31,2000	change	Dec. 31,1999
international funds and management companies	51,584	23,612	27,972
regional funds and management companies	13,981	1,267	12,715
other Finnish funds and management companies	30,112	-5,323	35,434
	95,677	19,556	76,120

Funds

Advanced European Technologies N.V.	Merlin Biosciences Fund L.P.
Associated Venture Investors III L.P.	Norum (Cyprus) Ltd
Atlas Venture Fund III L.P.	The Russian Technology Fund L.P.
Baltic Investment Fund I L.P.	Strategic European Technologies N.V.
Baltic Investment Fund II L.P.	Technologieholding Central and Eastern European Fund N.V.
Baltic Investment Fund III L.P.	Trident Capital Fund-V, L.P.
Baring Capricorn Ventures L.P.	
Boston Millenia Partners L.P.	Management companies
Crescendo III L.P.	Baltic Investment Fund Management Ltd
Diamondhead Ventures L.P.	Baltic Venture Advisers Oy Ab
Edison Venture Fund IV L.P.	Dolphin Associates Ltd
European Renaissance Capital L.P.	EQM Proventure Oy
Euroventures Nordica II B.V.	European Fund Investments Carried Interest Trust
First European Fund Investments L.P.	Oy Nordic Russian Management Company Ltd *)
Global Private Equity II L.P.	Nordic Venture Partners Ltd
Hambros Advanced Technology Trust II L.P.	Norum (Cyprus) Limited
Hambros Advanced Technology Trust III L.P.	RTF Management Ltd
HealthCap 1999 KB	*) through Sitra Management Oy
InnKap 2 Partners KB	

International funds and management companies

During the year Sitra invested in five new international funds. In addition, one management company was removed. In these 25 funds and eight management companies Sitra has invested

	Dec. 31,2000	change	Dec. 31,1999
shares and participations	49,466	22,291	27,174
capital loans	0	0	0
other loans	3,324	1,915	1,409
value adjustments	-1,206	-594	-612
	51,584	23,612	27,972

Regional funds and management companies

Funds	Seedcap Ky
Aboa Venture Ky I	Spinno-seed Oy
Ganal Venture Ky	Teknoventure Oy
Indekon Oy	Vakka-Suomen Pääomarahasto K
Innoventure Oy	Management companies
Karinvest Oy	Aboa Venture Management Oy
Lapin Rahasto I Ky	Innofinance Oy
Matkailunkehitys Nordia Oy	Nordia Management Oy
Midinvest Oy	Sentio Invest Oy
Pikespo Invest Oy	Teknia Invest Oy
Savon Teknia Oy	Teknoventure Management Oy

During the year Sitra invested in two new regional funds. In these 14 regional funds and six management companies Sitra has invested

	Dec. 31,2000	change	Dec. 31,1999
shares and participations	13,981	1,267	12,715
capital loans	0	0	0
other loans	0	0	0
value adjustments	0	0	0
	13,981	1,267	12,715

Other Finnish funds and management companies

Funds	Management companies
Bio Fund Ventures I Ky	Sitra Management Oy
Bio Fund Ventures II Ky	Bio Fund Management Oy *)
Eqvitec Teknologiarahasto I Ky	Eqvitec Partners Oy *)
Finnventure Rahasto II Ky	Sitra Fenno Management Oy *)
Finnventure Rahasto III Ky	
MB Equity Fund Ky	

*) through Sitra Management Oy

In these six funds and one management company Sitra has invested

	Dec. 31,2000	change	Dec. 31,1999
shares and participations	26,742	-5,323	32,064
capital loans	0	0	0
other loans	3,370	0	3,370
value adjustments	0	0	0
	30,112	-5,323	35,434

Commercialisation of technology

AboaTech Oy Ab
Culminatum Oy
Finn-Medi Tutkimus Oy
Finntech Finnish Technology Ltd
Helsingin Tiedepuisto Oy
Helsingin Yliopiston Holding Oy
Helsinki University Licensing Ltd
Innokarelia Oy
Innopoli Oy
Intellect Partners L.P.
Oulutech Oy
Sitrans Oy Ltd
Tuotekehitys Oy Tamlink

During the year Sitra has invested in two new technology-transfer companies. In these 13 companies Sitra has invested

	Dec. 31,2000	change	Dec. 31,1999
shares and participations	2,518	383	2,135
capital loans	845	0	845
other loans	143	-214	357
value adjustments	-254	-178	-76
	3,252	-8	3,260

Other investments

EASDAQ European Association SA and eleven companies that are not included in the active portfolio.

One of these companies has gone bankrupt and two have gone into liquidation.

In these twelve companies Sitra has invested

	Dec. 31,2000	change	Dec. 31,1999
shares and participations	2,060	-1,667	3,727
capital loans	1,086	-322	1,408
other loans	716	-492	1,207
value adjustments	-3,724	2,459	-6,182
	138	-22	160

13 Endowment capital investments 2000 1999

Long-term investments		
bonds and debentures	138,532	99,564
Finnish shares	162,943	124,105
foreign shares	100,382	61,992
fund investments	25,112	13,214
real-estate investments	26,161	20,328
Short-term investments		
bonds and debentures	15,218	8,610
investment certificates	69,581	28,530
asset management accounts/cash	4,859	3,967
other short-term investments	126	441
	542,914	360,751

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

market value	796,641	914,400
corresponding book value	266,452	190,710
difference	530,189	723,690

14 Accruals

Interest payments for the year under review on income from investment operations were € 8.2 million.

15 Liabilities from investment operations

Debts arising out of investment operations are made up of funding agreements on which agreement has already been reached and Sitra's liability exists.

LOANS ENTERED AS EXPENSES WHERE REPAYMENT WAS DUE BY 31.12.2000

Loans which were due for repayment by the end of the financial year entered as expenses amounted to € 1.9 million (1999 € 4.2 million). Of these loans € 0.2 (0.1) million were ones that had already been repaid and where repayment is made according to a fixed timetable and € 1.1 (2.6) million the repayment of which is made on the basis of royalties instead of a fixed timetable. Loans which had not been repaid or where agreement has not yet been reached on the terms of repayment amounted to € 0.5 (1.5) million.

OFF-BALANCE SHEET LIABILITIES – DECEMBER 31, 2000

Where funding has been agreed but no agreement yet signed	2000	1999
seed funding	14,450	2,964
growth company funding	7,564	1,516
fund investments	14,047	2,971
commercialisation of technology	316	227
research	3,118	1,436
innovative projects	14,843	4,444
other funding	0	114
	54,338	13,672

GUARANTEES

Guarantees for others total € 0.1 million (1999 € 0.1 million).

Helsinki, February 1, 2001



Raimo Sailas



Erkki Virtanen



Markku Linna



Esko Ollila



Hannele Pohjola



Aatto Prihti

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 2000 to the extent required by good auditing practice.

SVH Pricewaterhouse Coopers 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 surplus of € 199,568,257.03,

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 president be discharged of responsibility for the financial period covered by our audit. We recommend that the proposal for disposal of the profits made by the Board of Directors be approved.

Helsinki, February 14, 2001



Johannes Leppänen



Reino Majala

Authorised Public Accountant



Iivo Polvi

Chartered Public Finance Auditor
Approved Accountant



Matti Saarinen



./ Kalervo Virtanen

Authorised Public Accountant

SITRA'S PUBLICATIONS 2000

(The Sitra publications are in Finnish unless otherwise indicated)

Christer Bengs, Timo Heikkinen,
Janne Roininen, Kaisa Schmidt-Thomé
Kyläteiltä tiedon valtateille

- **Oppiva Ylä-Karjala tienraivaajana**
(From Village Lane to the Information
Highway - Ylä-Karjala as a Pioneer)

Pub. Sitra

Also available on the Internet <http://www.sitra.fi>

Sitra 235

Harri Ruohomäki (ed.)

**Käsintehty brandi - Käsi- ja
taideteollisuusyrittäjän käsikirja**
(Handcrafted Brand - Manual for the
Handicrafts and Skills Entrepreneur)

Pub. Käsi- ja taideteollisuusliitto

Sitra 236

Mika Huolman, Pia Walden, Matti Pulkkinen,
Jyrki Ali-Yrkkö, Risto Tainio, Pekka Yli-Anttila
**Omistajien etu - kaikkien etu? Suomalaiset
johtamis- ja valvontajärjestelmät**
(The Owners' Benefit - Everybody's Benefit?
Finnish Management and Supervision
Organisations)

Pub. Taloustieto Oy

Sitra 237



Finnish funding research announces its results. The report of the evaluation group that has been working for just over two years was presented to the public at the House of Estates in Helsinki on 12 December, 2000

Sitra reports

Aatto Prihti, Luke Georghiou, Elisabeth Helander,
Jyrki Juusela, Frieder Meyer-Krahmer, Bertil Roslin,
Tuire Santamäki-Vuori, Mirja Gröhn
Tutkimuksen lisärahoituksen arviointi
(Assessment of the Additional Appropriation
for Research)

Also available on the Internet <http://www.sitra.fi>

Sitra reports 1

Aatto Prihti, Luke Georghiou, Elisabeth Helander,
Jyrki Juusela, Frieder Meyer-Krahmer, Bertil Roslin,
Tuire Santamäki-Vuori, Mirja Gröhn
**Assessment of the additional appropriation
for research (in English)**

Also available on the Internet <http://www.sitra.fi>

Sitra reports 2

Christer Bengs, Timo Heikkinen,
Janne Roininen, Kaisa Schmidt-Thomé
Katsastus aluekehitystutkimukseen
(Review of Regional Development Research)

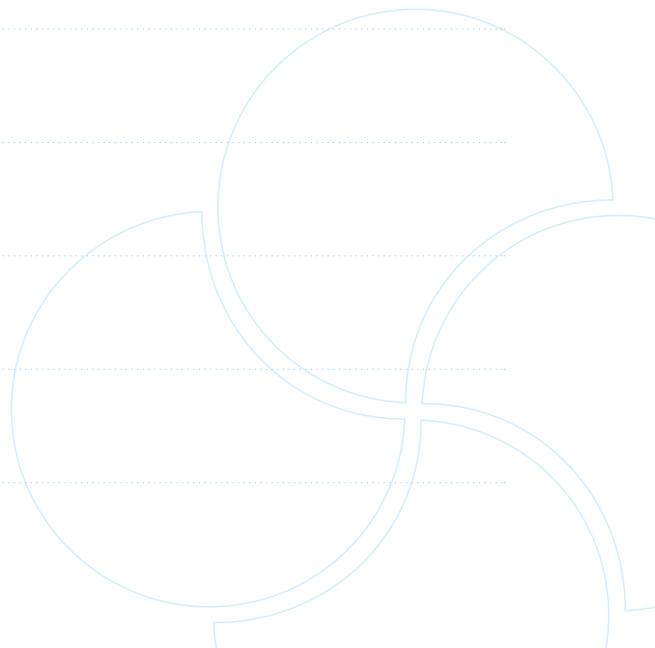
Only available on the Internet <http://www.sitra.fi>

Sitra reports 3

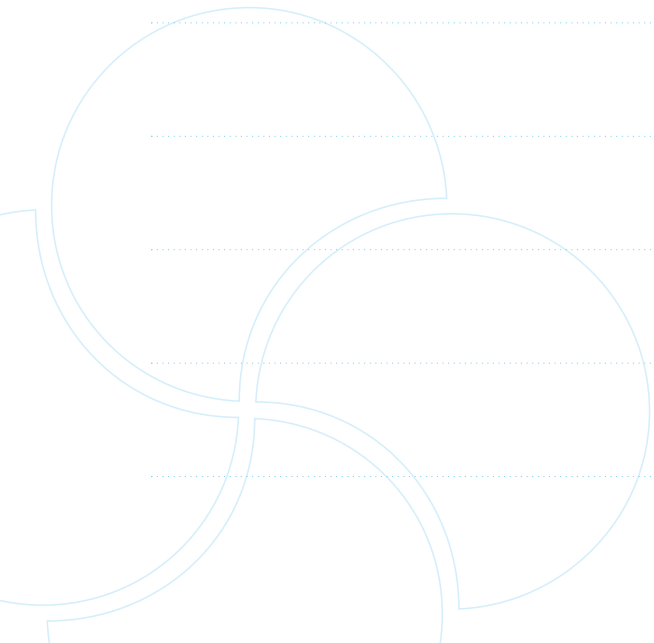




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Finnish National Fund for Research and Development
Itämerentori 2, P.O.Box 160, FIN-00181 Helsinki, Finland
Phone +358 9 618 991, Fax +358 9 645 072
www.sitra.fi

