



Finnish National Fund for Research and Development

Annual Report 2003





Sitra - aims to further economic prosperity

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

Sitra - an independent pioneer

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

Sitra - an impartial opinion-shaper

- providing new research information
 - 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. Its activities are designed to promote the economic prosperity of the Finnish people. The means used to achieve this are research and training, innovations and business development, and venture capital. Sitra's activities are financed by the yield from its own endowment capital and the return on its venture-capital investments.

Contents

Knowledge and skills are the building blocks of the welfare society	2
From know-how to productive interaction	4
Sitra strengthens its corporate culture	5
Research and training for a better future	6
Flexibility at work is also to the employer's advantage	
Young Finland 2015	
Innovations and business development ensure well-being	8
Development programme for business incubators	
Medineuvo Oy is a virtual gateway to health services	
Sitra plays an important role as a capital investor	10
Success for regional investment funds	
Sitra Industry Ventures adds value for international growth	12
R5 Vision Oy develops the client's know-how and ability	
EC-Engineering's products are made to travel	
Bioscience looks for new partners from abroad	14
Mobidiag revolutionises the diagnosis of disease	
Sitra's publications 2003	16
Sitra's events 2003	18
Sitra's Board of Directors and Supervisory Board	20
Financial Statements	21
Board Report for the Year 2003	
Profit and Loss Account	
Balance Sheet	
Notes to the financial statements	
Auditors' report	
Sitra at your service	36

Knowledge and skills are the building blocks of the welfare society

“The year 2003 was an interesting and fruitful one. Many of Sitra’s major projects advanced to the breakthrough stage or were brought to conclusion,” says **Aatto Prihti**, President of Sitra.

Regional investment funds have been pulled into shape over a period of five years and made profitable. Sitra exited from these during the year under review.

Sitra celebrated the 25th anniversary of its training in economic policy. Some 2,000 influential economic and political decision-makers have taken part in these courses over the years. The training and development programme Finland 2015 was held during the years 2000-2003.



All Sitra’s activities aim at ensuring that the ordinary Finn enjoys a better future.

eHealth markets specialising in tele-health care were at last opened in Finland during the year. Health counselling was set in motion towards the end of the year in the Kymmene valley and Southern Savo.

Sitra’s largest project ever, Learning Regions (OSKU), came to a close at the end of the year. Now the challenge is to disseminate the positive results of the project to other parts of Finland.

All Sitra’s activities aim at ensuring that the ordinary Finn enjoys a better future.

“We have made a long series of studies on globalisation and analysed both the present and the future for Europe. Now we are examining how globalisation affects the

individual, the ordinary citizen. Sitra also experiments and studies how social innovations and good practices can ease the everyday burden of the ordinary Finn.”

Sitra’s financial result improved during 2003. Sitra continues its work of developing and funding enterprises since newly started businesses are still unable to attract sufficient private funding.

“Sitra will involve itself even more closely in the origins of business ideas, business incubators and business parks. Restructuring can make these profitable.”

Know-how involves much more than just top technology. Not everybody can become an expert in the IT field. Developing manual skills has, according to Prihti, lagged behind the progress made in knowledge-related skills. Nonetheless, up to 15 per cent of young people are interested in jobs that involve manual skills.

“Enterprise based on skills can be revived for there is still an abundance of expertise in fields such as manual tasks, culture and services as well as agriculture. In the future



innovation projects should lead to new kinds of skills. For example, new business offering opportunities for international success can be developed in the fields of music and art.”

Cooperation between public-sector funding and service organisations has been reinforced and widened.

“We try to serve companies by offering joint development projects, through the network service www.yrityssuomi.fi, for example. Sitra’s and Tekes’ (National Technology Agency) joint LIKSA funding programme has made it possible to formulate business plans for more than 100 firms.”

According to Prihti there exists considerable potential for growth outside the traditional growth centres. The OSKU project has resulted in the Nesenta concept, where the supply of and demand for knowledge working are brought together in networks. It is hoped that Nesenta will become a new model for regional development and employment. Regional development in the future will not be just a matter of moving jobs around within the country. Globalisation is wiping out national frontiers; tasks that can be carried out through teleworking can be found out-

side Finland. Many parts of the strategy for globalisation referred to by the President of Finland are already in place and others are at the planning stage.

“Sitra evolves its operations to accord with the changes taking place in its environment. We renewed our organisation in summer 2003. It was a challenging and busy year of changes. A warm word of thanks goes to Sitra’s administrative bodies and to our partners who have so strongly encouraged us and supported our work. Sitra’s personnel have carried out their tasks enthusiastically and purposefully in order to achieve the difficult goals set them. We extend our gratitude to them.”



“At the end of November Sitra’s Supervisory Board appointed **Esko Aho** M.Soc.Sc., the new president of Sitra from 1.7.2004. His considerable political experience will be a great addition to Sitra’s innovative team. The task of creating an even better Finland is large and demanding. The people at Sitra extend a warm welcome to Esko Aho.”

From know-how to productive interaction



“The main focus of Sitra’s operations is Finland and the ordinary Finn. One of our strategic aims is a strong economy capable of renewing itself. These have been the common denominators in Sitra’s activities throughout its existence,” says **Kari Tolvanen**, Vice-President.

“Our research and training programmes enable us to identify out the challenges of the future. Our venture-capital operations strengthen the base of the Finnish economy. Through new innovations and models we can improve the cost efficiency of our welfare society.”

Sitra’s operations are dictated by a strategy that the personnel prepares in collaboration with management for approval by the Supervisory Board at three-year intervals. This strategy is then updated each year since the environment is changing all the time and Sitra must be able to react rapidly to sudden changes.

More space for internal cooperation

An international group of experts evaluated Sitra’s activities in 2002. It identified the key challenges as coordinating different kinds of expertise and developing cooperation. The group’s recommendations showed the direction for organisational improvements and these were put into practice in 2003.

“We re-organised Sitra so that we could respond to our clients’ needs and the changes in their environment better and more efficiently. The expertise already existing within Sitra was re-grouped and small teams were merged into larger units whose orientation was re-defined,” says Tolvanen.

The Innovation and Business Development unit (ITU) concentrates on business innovations, on social innovations and on developing business skills. ITU also includes Sitra’s PreSeed service. The research and training func-

tions were combined to form the new Research and Training unit. A new unit, Sitra Industry Ventures, was set up to handle Sitra’s venture-capital operations. It concentrates on funding newly established and breakthrough companies and on developing networks. Funding for biotechnological enterprises continues to be the responsibility of Sitra Life Sciences.

”
Our goal is a strong Finnish economy capable of renewing itself.

“The number of Sitra’s employees has almost tripled since the mid-90’s. Now is the time to take another look at Sitra’s values. The personnel are also closely involved in this process. Now we must live up to our values.”

Internationalism grows for the common good

Sitra follows closely what is happening in the world at large. Sitra cooperates actively with international organisations, especially those in Finland’s neighbouring countries. Sitra’s experts work in many international organisations. Leading international experts and scholars are involved in Sitra’s research and training programmes. Sitra cooperates in programmes with the OECD and Silicon Valley, for example. An international investment network is opening up the doors to the world.

“At the moment we are extending our cooperation with the Estonians. Estonia is proposing to set up an organisation similar to Sitra. We consider cooperation important and it may also benefit Finland,” says Tolvanen.

Sitra strengthens its corporate culture

Sitra is an organisation with 90 professionals. It is necessary to renew and develop pioneers continually. Life-long learning forms part of the Sitra picture.

"Sitra supports the individual professional advancement of its personnel. In addition, Sitra's different units have their own development programmes. All Sitra's IT and language training is arranged in Sitra's premises," says **Vilma Eskelinen**, Personnel Manager.

"The personnel department serves the whole organisation. In 2003 we charted how well internal services are performed as a part of Sitra's development programme. We wish to support Sitra's employees to the maximum of our ability."

"Internal communications have improved. Last year we introduced a personnel register (Henrikki) and an events calendar on our intranet, where people can post current events," Eskelinen mentions as one of the achievements of the year under review.

Putting values into practice in the everyday world

"We at Sitra have had a far-reaching and lively debate of our values. As a result Sitra has defined its values as follows: client-oriented service, dedication, the development of skills and initiative, openness and cooperation that respects the individual."

"In 2003 when defining our aims we sent out a questionnaire with the aid of which we assessed how these val-

ues could be put into practice at Sitra. We develop ways of measuring, following up and rewarding our aims. A homogeneous corporate culture has to have common rules and regulations, and everybody must be able to feel that he or she is a part of the same Sitra."

A six-month training programme for managers was started in the autumn of 2003. Fifteen managers from various levels of Sitra's organisation are taking part in the programme.

"Its aim is a common managerial culture based on Sitra's values and developing the personal managerial skills of our people," says Eskelinen.

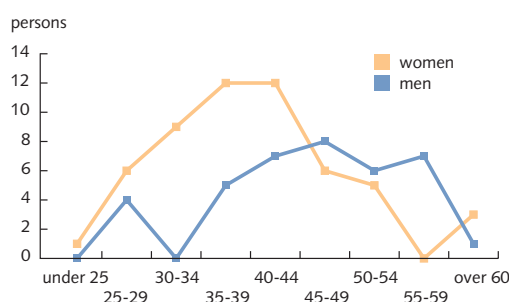


New suggestions for improving work and life

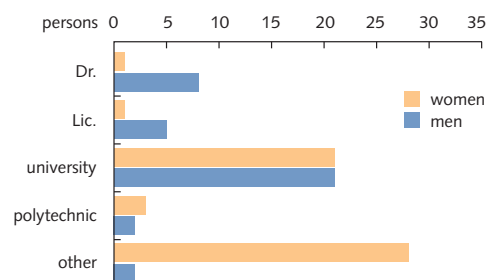
How satisfied Sitra's employees are with their work is assessed at two-year intervals. The wishes for changes identified in the last assessment carried out in 2002 were taken into account when Sitra drew up its new strategy in 2003. They reflect the desire of the organisation to renew itself. The next assessment will be carried out in 2004.

"Sitra tries to be flexible in reconciling the needs of work and family life. Parents of young children can work fewer hours, for example. Teleworking was begun in 2003. Sitra also offers the possibility of flex-time working," says Eskelinen when referring to family-friendly practices.

Age distribution



Distribution by education



Research and training for a better future



“Major changes in society will constitute important challenges for the Finnish economy in the near future. Our task is to make people aware of this fact and to help decision-makers to better understand how crises affecting the economy and the welfare society can be avoided,” says **Antti Hautamäki**, Di-

rector of Training and Research.

“We create awareness of change through research and training and offer decision-makers a forum where they can discuss current questions.”

Sitra’s criteria when initiating research projects are that they are oriented towards the future, take into account different points of view and influence trends.

“We look to the future and try to create as comprehensive view of affairs as possible,” says Hautamäki and offers some examples of current projects.

Europe 2020 is an international research programme that looks at the structure, enlargement and future of the

European Union from the perspective of the Finnish economy and society.

The Concrete Effects of Globalisation project, which was started in 2003, continues Sitra’s Globalisation, Welfare and Employment research project of 1997-1999.

Sitra also examines the role of culture and its future prospects for the economy and society.

“The impact of culture has to be understood as a factor furthering business and economic competitiveness, as a producer of physical and social well-being and a bearer of civilisation and humane values,” stresses Hautamäki.

Finland 2015 charted the steps into the future

Sitra’s four-year-long training and development programme Finland 2015 came to an end in autumn 2003. Its purpose was to develop the knowledge, skills, preparedness and networking of senior Finnish decision-makers for the questions that face Finland in the future. Although the basis of the programme was national its per-

FLEXIBILITY AT WORK IS ALSO TO THE EMPLOYER'S ADVANTAGE

Finland has long emphasised the importance of know-how at work as a factor helping to provide a competitive edge. Furthermore, repeated references have been made to how important the workers are as a resource in the company. Reconciling work and family life has, however, been an alien concept in most jobs.

“Top workers will be able to select their jobs themselves in the future. They attach importance not only to the work and the salary they get but also to what quality of life the organisation offers them. Talking about the contribution workers can make is not going to be enough. We want employers to be more understanding. We want, too, to sug-

gest ways and find answers to why they should adopt family-friendly practices,” says **Pia Mero**, responsible for this particular project.

Sitra’s research report “Bosses and Families - Working Life and Family Well-Being” was published in autumn 2003. The study shows that much can be done to reconcile work and family life. The field in which the company operates, its size, the nature of the work done and working hours are factors that affect the adoption of family-friendly practices most. Each work community must create its own family-friendly atmosphere by discussing different practices and listening to all the parties involved.

Flexible solutions are sought not on-

ly by families with small children but also by workers who have elderly parents to care for. The crises that affect families, such as divorce or the death of a spouse, can change a person’s entire life.

Family-friendly practices that work do not necessarily involve extra expense. By changing habits and ways of thinking the goals of the workers and the employer can be reconciled in a way that satisfies both parties. The role played by management is shown by the study to be paramount.

According to Mero constructive and encouraging discussion with the labour market organisations should now be the order of the day.



Family well-being is a key factor for Finnish competitiveness.

spective was at the same time very international and multidisciplinary and covered all sections of society. The programme comprised six courses for experienced decision-makers and one course for young future-makers. Each course provided a report on new and, from the point of view of the future, key strategies for ongoing discussion.

“The Finland 2015 courses charted well the principal challenges facing Finland in the future. The programme drew up a clear vision: Finnish competitiveness is based on top know-how and profitable enterprise. Other major pillars of the Finnish economy are a strong set of common values and the welfare society. Finnish values are deeply rooted and the people’s acceptance of them is unquestioning.”

Hautamäki says that dialogue addressing the future continues to be very much in demand. The Finland 2015 programme will continue with a programme at present under planning for which the most concrete topics will be

selected and to which alternative solutions will be thoroughly explored.

Making economic policy known

Sitra began its training in economic policy in 1977. In recent years this has taken the form of the Economic Policy 2000+ courses. Altogether some 2,000 senior economic and political decision-makers have attended courses in economic policy. They have included all new members of Parliament, for example. Lecturers and teachers on the courses have been more than 300 economic experts and decision-makers. The courses have addressed the main foci and problems of each period.

“Sitra’s economic policy training has taught decision-makers to see the overall picture and given them a broad view of the economic system. It has also offered them important opportunities to establish contacts and set up networks. Sitra’s aim has not been to railroad opinions but to create a common language,” says Hautamäki.

“Sitra will continue its training in economic policy. In 2004 we expect to organise four courses for decision-makers from different sectors of society.”

YOUNG FINLAND 2015

“What kind of Finland do you want to live in in the year 2015?” This was the question put to those who took part in the last course of the Finland 2015 programme.

Sitra invited 22 young people representing various levels of society to take part in the Future-Makers 2015 course. There were 12 women and 10 men. They were born after the student revolution of 1968 and were active in different branches of life.

“We wanted to include in the Finland 2015 programme the views of young people concerning Finland’s future. The young people took up the challenge with enthusiasm. They were allowed to determine the agenda themselves and include topics that they considered important,” says **Mervi Porevuo**, responsible for the Young Finland 2015 programme.

The course resulted in the report

Best Before 01012015. It gave rise to considerable public discussion - both for and against. Many companies and educational establishments use the book as a guide to the younger generation’s ideas and attitudes.

The course members took an optimistic view of the world; things can, it is true, be done better. The young participants did not seek answers to the challenges facing Finland in the future in the form of traditional horror pictures but trusting in people’s desire and ability to change. They want a multicultural Finland with diverse opinions where people are encouraged to become involved. Key topics that were addressed include immigration policy, the revolution in work, rebuilding the welfare society, involvement and global questions. The young people also thought about their own values.

“The most important message that

resulted from the course is that young people are ready to shoulder responsibility for Finland’s future. Responsibility, however, means that different generations have to communicate with each other. Different generations have to be prepared to create a common future together,” surmises Mervi Porevuo.

“A meaning to life is sought outside work. A history of short-term jobs means that people no longer see work as a solid anchor in life. Young people put a value on their own time, the family, and life-long learning. Their opinion is that everybody has a right to seek responsible happiness, in other words a society where individuals thrive. This is perhaps the greatest abyss between the generations.”

“Young people think that the future can be realised through creative and optimistic imagination. This offers the strength for change.”

Innovations and business development ensure well-being



Sitra's Innovation and Business Development unit (ITU) has three fields in which it operates: business innovations, social innovations and Sitra's internal development. Its task is to promote structural reform in Finnish society so that the work done by the Finnish people results in a better everyday life.

"Sitra is recognised as an impartial, initiative-taking and objective actor. It is an excellent springboard for trying out new ideas," says **Tapio Anttila**, Director of the unit.

"That Sitra has assigned the task of internal development to the ITU unit means that we must work to improve Sitra's strategies and core processes. This we do by benchmarking our operations with the best international practices. We also take into consideration long-term questions. What should we build the foundations of our future operations on? What will Sitra be like in the year 2015?", asks Anttila.

Encouragement for new business ideas

ITU's business innovations focus on both new and existing companies. In collaboration with universities, technology-

transfer companies and business incubators Sitra tries to find solutions to the challenges facing Finnish knowledge-based companies that want to go international.

"Sitra's PreSeed operations quickly achieved recognition as an expert on commercialising technology and organising pre-seed capital. With LIKSA funding companies can produce professional and reliable business plans in order to attract initial funding. The INTRO marketplace provides a forum through which companies are introduced to private investors. The marketplace has proved to be of fundamental importance for attracting initial investment. In addition through the DIILI channel an entrepreneur can find experts with wide experience of international sales and marketing who are willing to share the risks of entrepreneurship on a sweat-equity basis," says Anttila.

PreSeed is complemented by regional seed-investment consortia that grant loans to local knowledge-based and technology companies. Sitra's investment partners include local banks, financial institutions and regional funds. The portfolio companies are managed by organisations in science and business parks that are usually also responsible for incubator services in the region.

DEVELOPMENT PROGRAMME FOR BUSINESS INCUBATORS

Science and technology parks and incubators provide the first environment for new technology and other knowledge-based firms. Here the firms can obtain the advice and support they need to develop their activities. At the same time they can network with other companies at the same stage of their development.

"Finnish incubator activities are experiencing a new stage in their fifteen-year-old history," notes **Anu Nokso-Koivisto**. "In the last decade a network of almost a hundred business incuba-

tors has been set up. Now the time has come to develop them further."

Sitra is cooperating with the Ministry of Trade and Industry, Tekes (National Technology Agency) and the TE (Labour and Economic Development) Centres to carry out a project designed to raise the operations of Finnish incubator companies to a new level to meet the challenges facing knowledge-based companies that wish to expand on to international markets. At the same time we hope to increase the number of innovative entrepreneurial ideas and their

funding possibilities. An integral part of the whole project is to chart the factors hindering the operations of such companies and their needs so that new models of action and funding can be found.

"We have started the project with pilots so that we can better identify the development needs," says Nokso-Koivisto.

Regional actors are also intimately involved. Local, regional and provincial authorities are expected to provide support for the operations of local incubators.

An interface for social innovations

“Social innovations offer an excellent way of operating in a new way that will enhance efficiency, productivity and profits,” says Tapio Anttila.

Sitra’s field of social innovations includes assessing, developing and experimenting in the structure and models of Finnish society, and bringing the challenges involved in change to the public notice and public debate. Anttila emphasises the importance of open partnership when proposing new models of action for both the private and the public sectors.

“Sitra’s Learning Regions project, OSKU, has brought the information society to people living in various parts

of the country on their own terms. The project ended at the end of the year 2003. The challenge now is how to continue with renewed efforts and disseminate what we have learned as widely as possible.”

The Spearhead Network (www.karkiverkosto.fi), the service for the Finnish information society which had been administered by Sitra since 1999, changed its homebase in summer 2003, and cooperation with the Information Society Institute belonging to the Tampere University continues.

“It is part of the nature of Sitra’s operations to exit even from successful projects and transfer responsibility to others.”

MEDINEUVO OY IS A VIRTUAL GATEWAY TO HEALTH SERVICES

The supply of and demand for health services is undergoing a revolution. The population is ageing and the need for public health services is on the increase. There are not enough health-care workers to meet the demand for services. Guaranteed care, i.e. ensuring that care is available to all regardless of time, place or ability to pay, is an integral part of the national health service. Now we need action.

In 2000 Sitra started its eHealth project to develop a flexible and efficient product and service concept for both public and private suppliers of health services. Lessons were sought from the leading Swedish company, MedHelp AB,

which serves more than two million inhabitants. Its technology and practices were transferred to Medineuvo Oy, a company set up by Sitra. Sitra is today the majority shareholder in MedHelp AB.

Medineuvo’s first telephone advisory service was designed to explore and develop the concept. Consequently, pilot projects were set up in the Kymmene valley in October and in Southern Savo in November 2003. The clients are people living in the Kymmene Valley and Southern Savo health-care districts and in the towns of Kotka and Mikkeli. People can ring in and receive advice on matters concerning health, welfare, illness, and social

and health services around the clock every day of the year. The caller pays only the normal charge for a local call.

“This saves the health personnel’s time and means that the focus of their work is transferred from giving advice to providing. An expert can solve many problems by telephone and give information about home treatment according to the symptoms described. The service saves the time and money of both the caller and the health service. When patient lines get shorter, then those who really need help can more easily get it,” notes **Silja-Riitta Sinisalo**, CEO.

www.211411.fi

Ageing poses a challenge to Finnish welfare services.



Sitra plays an important role as a capital investor



“The capital markets began to recover in the United States in the spring of 2003. Share prices for technology companies, in particular, began to climb. This predicted for Finland, too, an economic recovery,” says **Magnus Sjöblom**, Director of Finance and Corporate Funding. “I think that the present encouraging trend will continue, albeit modestly.”

Sitra’s financial base is bound to the overall market situation and economic cycle. Market fluctuations affect Sitra directly since it finances its operations with the return from its endowment capital and its investments.

“The venture-capital markets have been quiet. Sitra’s dealflow remained at the same level as 2002. Emphasis has been concentrated to business in the early stages of its development. We also concentrate on the continued funding of our present portfolio companies, especially in the Life Sciences field, where results are slower than in technology. We build larger and more competitive units by means of corporate reorganisation and consolidation,” says Sjöblom.



Our task is to initiate and develop internationally competitive and profitable business in Finland.

Better service from more efficient operations

“We also try to improve the structure of Sitra’s investment portfolio. For this reason we carried out a broad study in 2003 to find out how satisfied our clients are. We also launched a project to find new ways and means of improving the business expertise of our portfolio companies. We have charted the core areas in investment activity. We are always developing our own investment processes. When exiting we look for partners and syndicates from abroad, too. Sitra has a wide network of partners with international investment funds.”

Sitra has two units responsible for capital investment: Sitra Life Sciences and Sitra Industry Ventures. The purpose of concentrating our activities is to have a clearer picture of them, make them more efficient and reduce any overlapping. Synergy advantages have been gained by merging the Industry Ventures team with our traditional industry investment.

“At the same time Sitra exited from regional investment activities. The work on developing a regional network has been brought to a conclusion,” notes Sjöblom.

Sitra is the only investor in budding business ideas

Sitra began its venture-capital operations in Finland in the late 80’s. Since then many private investors have appeared on the market.

“The need for capital in the initial stages of a company’s life has not yet been matched by the willingness of private investors to take risks. Sitra’s task is to initiate and develop internationally competitive and profitable business in Finland. Sitra’s venture-capital operations play an important, flexible and complementary role in the Finnish innovation system.”

SUCCESS FOR REGIONAL INVESTMENT FUNDS

Sitra began its capital funding on a regional basis in 1998. This task was assigned to Sitra by the government's Cabinet Committee on Economic Policy, which defined as the fund's ultimate goal the organisation of entrepreneurial fund management companies. Up to then Sitra's duty had been to increase the volume of its operations, obtain more than half of extra funding from private investors and improve the profitability of regional funding activity.

"All the goals have been achieved," says **Vesa Lehtomäki**, on conclusion of the five-year project. "Capital more than doubled. Private capital now accounts for more than half of the capital administered by Sitra. Regional funds are responsible for a third of all investment decisions," says Lehtomäki on the impressive gains made by regional funding.

"Sitra has been repaid all the capital that it put into management companies and funds."

Regional funds invest in the best companies that exceed growth expectations regardless of what field they operate in. Their role when it comes to seed funding is of paramount importance.

"The funding of newly started companies in regional markets has proved to be hard work," Lehtomäki informs us. The majority of investment by regional funds is made in portfolio companies that by their size and profit expectations do not interest investors who operate on a nation-wide basis.

"Local experts are in a better position to make local investments. They know both the region and the people."

In accordance with the Cabinet Committee's decision in 2003 Sitra sold off its holding in eight public-company regional funds to Finnvera Oyj and its holding in eleven limited partnership funds to Suomen Teollisuussijoitus Oy (Finnish Industry Investment Ltd). At the same time the division of responsibility between Suomen Teollisuussijoitus and Finnvera was overhauled.

At the end of 2003 Sitra was still a shareholder in all regional investment funds and in the Matkailunkehitys Nordia Oy (Nordic Management Oy) fund.



A successful company needs skilled personnel.

Sitra Industry Ventures adds value for international growth



The Sitra Industry Ventures (SIV) unit helps innovative companies to grow faster and go international by offering them development and funding services. The unit invests in high-risk early-stage business, develops new financial instruments and modernises business and organisational structures.

“We perform strategic development work on the boards of our portfolio companies in order to increase their value,” says **Heikki Ojanperä**, Director of Industry Ventures. “When we include a company in the Sitra portfolio, we commit ourselves at the same time to help the entrepreneur with all the expertise we have. The client is the focus of our activities.”

Sitra looks for new ways to serve the interests of entrepreneurs by cooperating with other public-sector actors, in particular the TE (Labour and Economic Development) centres and Finnvera, the official Finnish Export Credit Agency.

“Sitra has a clear role to play: we invest in the company’s shares and strengthen its balance sheet,” Ojanperä reminds us. “Entrepreneurs can contact us direct and start discussing.”

Sitra Industry Ventures was set up in the spring of 2003. “Now we have a strong organisation and operate on an one-call principle in serving our clients. SIV offers companies solid and versatile management, business, funding and industry skills. The expertise of the whole unit is available to each member and portfolio company. We are developing our expertise further.”

R5 VISION OY DEVELOPS THE CLIENT’S KNOW-HOW AND ABILITY

R5 Vision brings clients and organisations turnkey solutions in eLearning. The elements are strategic concept design, pedagogical planning, content production and technological solutions.

“Together with the client we chart what kind of combination will best serve the needs of the organisation,” says **Mika Horttanainen**, CEO. “What is the purpose and goal of the training course? Is support needed to cope with changes or to develop the organisation? Is individual or group training most suitable for rapid familiarisation and product training? Our team of experts with their wide range of interactive teaching tools are well able to handle the challenges of product development, for example. Multiple forms of training can be combined flexibly and efficiently to offer both tele-training and hands-on courses. We offer reliable and user-friendly

tools that can be integrated into the company’s other information systems. We concentrate on developing expertise and skills. We improve the efficiency of traditional teaching models. We do not leave the client on to his own resources.”

R5 Vision was set up in April 2000. In December Sitra stepped in to help; Horttanainen considers Sitra’s role has been extremely important for both the company and the clients. R5 Vision has grown in three years to become leader of the Finnish market in its field. It has conducted wide-ranging eLearning projects in public administration and the private sector, serving the Finnish Defence Forces, the Post Office, and the If P&C Insurance Co. Ltd., for example.

R5 Vision has clients in Sweden, Norway and Denmark. The door to the Polish market was opened in 2003 when the company signed an agreement with

the national virtual university project. It was preceded by a close international comparison where the R5 Vision eLearning system was considered to be versatile, easy to use and the most cost-beneficial. In addition to Internet teaching the system can also be adapted to producing services for handling information. Cooperation is expanding and covers sales of R5 Vision’s software programmes to Polish educational institutions and companies.

“We are advancing modestly in our strategy of going international,” stresses Horttanainen. “It is best to expand through international clients. We foresee lots of opportunities in the Baltic and elsewhere in Europe. Different language versions are one of the trump cards in our systems.”

Industry Ventures is working for a balanced portfolio

The portfolio contains some 60 companies. Four decisions on new investment were made in 2003 and ten on further investment.

“Rotation in our portfolio is a little too slow, as is also the case with many other portfolios. We want to accelerate it and at the same time develop our profit and risk profile. We are increasing our risk-taking in early-stage business and trying to exit from our present investments earlier. At the same time we want to ensure by means of our operations that the real value of our invested capital is maintained.”

Ojanperä says that it can be seen within a few years whether a company is going to succeed or not. “In positive cases we participate in further rounds of funding but if the risk appears too great, we quickly exit.”

The focus of present investment is on information processing, telecommunications and product and industrial automation.

“Our goal is to balance and strengthen our portfolio. We are looking for new objects in which to invest outside the world of ICT. Of particular interest, for example, are decentralised energy systems, materials processing and recy-

cling, innovations in environmental conservation and security, and new health-care systems. When selecting companies for our portfolio, an important criterion is the efficient commercial exploitation of Finnish innovations in international markets,” Ojanperä stresses.

“We want to syndicate with private investors. By attracting international investors, we can open up new channels to the world for our portfolio companies.”

To succeed in the world networking and cooperation are needed.



EC-ENGINEERING'S PRODUCTS ARE MADE TO TRAVEL

EC-Engineering Oy began as an engineering office at Kerava in 1995. It set up its own factory in Jalasjärvi three years later. The company specialises in composite products for transport vehicles. Its range of services includes planning, measuring and strength calculation, product planning, prototype manufacture, testing and series production.

EC-Engineering's work runs on wheels. Its products end up in passenger trains, underground trains and trams in Finland and Europe. Reinforced plastic is used to make indoor panels, load-bearing wall and sandwich panels, roof and floor structures, and stairs for double-decker coaches.

Europe is the main market. That is

where that more than half of the world's trains are made. The majority of EC-Engineering's orders at the moment are destined for export.

“The manufacturers of rail transport vehicles are demanding, large-scale companies. Projects last for several years. EC-Engineering acts as a supplier of systems and is also responsible for ensuring that the products conform to legal regulations. For example, strength and fire-safety tests are always carried out to conform to each country's standards,” says **Tapio Ollanketo**, CEO.

“Our company has been profitable throughout its existence. With the profits from our operations we have been able to invest a lot in product develop-

ment. In 1998 we were awarded an ISO 9001 quality certificate. We have a clearly defined goal to grow, albeit at a modest pace, and strengthen our competitiveness.”

EC-Engineering forms part of a six-company network exporting transport products.

“The manufacturers of railway coaches have cut the number of their sub-contractors and want to buy large units. With our network we can better market Finnish know-how. Networking also interests Sitra, which invested in our company in spring 2003. Sitra's investment will ensure that EC-Engineering has a solid capital base and help it to grow.”

www.ec-engineering.fi

Bioscience looks for new partners from abroad



The aim of Sitra Life Sciences group is to ensure that important innovations in the biosciences and the business operations based on them become firmly anchored in Finland while at the same time being available worldwide.

“Funding for companies in the biosciences, particularly those at the start-up stage, continues to constitute an impediment in Europe. Companies find it difficult to attract risk capital. In 2003 Sitra made 22 funding decisions, 21 of these for companies already in our portfolio,” says **Hannu Hanhijärvi**, Director of Sitra Life Sciences.

“We select the strongest firms from among our portfolio companies and consolidate them as a way of making it easier to open the way to international markets. We invest in new companies, especially if their technology is related to that of our existing portfolio businesses. The technological base in Finland is not particularly broad but it is of extremely high quality.”

Sitra Life Sciences portfolio at the end of 2003 comprised 39 biotechnological companies, eight fewer than the preceding year. The portfolio decreased in size by reason of exits and mergers. According to Hanhijärvi the portfolio is being overhauled, and companies are being further

strengthened. At present we have five projects under way for which capital is needed not only from Sitra but also from foreign investors.

“We began international cooperation in 2000. We have been active in presenting our portfolio companies internationally, and finally interest has been sparked and our work is beginning to bear fruit. Both foreign companies and foreign investors are beginning to take an interest in Finland.”

Growing network in Japan

In 2003 Sitra and Tekes started a joint project, the Japan Access Program. The purpose of this is to improve the financial and marketing prospects of the companies in Sitra’s portfolio and to access the Japanese market.

Japanese capital has also begun to look for other countries in which to invest besides the United States. The Nordic countries are considered interesting by the Japanese.

“Our experiences show that the development of business in Japan is conducted from a long-term perspective and is very reliable. By means of our joint project Sitra is opening the way to the Japanese venture-capital market,” says Hanhijärvi.

“Japan, for example, offers a large and homogeneous market for Finnish pharmaceutical companies. We hope to guarantee funding for our portfolio enterprises by attracting capital from Japanese investors. We help companies to negotiate licensing and cooperation contracts with Japanese firms and so gain access to the Japanese market for their products. The first contracts have already been signed. Several other companies are also in the process of negotiating with Japanese partners. Their trump card here is added value for both Finland and Japan.”

Hanhijärvi emphasises the importance of a far-reaching network. “Cooperation with European as well as Japanese investors means an even stronger financial base for Sitra Life Sciences companies. The American market remains a major challenge for us.”



We have introduced our portfolio companies actively throughout the world. Interest has awoken and our work is beginning to bear fruit.



Many of the innovations in health care mean a better life for ordinary people.

MOBIDIAG REVOLUTIONISES THE DIAGNOSIS OF DISEASE

Mobidiag Oy, which forms part of the Biomedicum centre at the Helsinki Central University Hospital, develops tests based on DNA microchips for diagnosing different kinds of infectious diseases. The company's invention may replace traditional, time-consuming culture and immunological methods in the future. Mobidiag's biochip can be used to study tens of causes of disease at the same time. The method also identifies microbes that cannot be traced by traditional methods. The apparatus can analyse a sample in about an hour.

The DNA of the microbe is isolated from the patient's sample and it is placed on a disposable chip about the size of a fingernail. The DNA is transported on the chip through different temperatures using a microfluid technique. The analytical apparatus that reads the chip transmits the results and ways of treating the disease to the computer screen.

"We are evolving a modern and in some ways revolutionary method of diagnosis. It can help us to improve treatment, reduce the costs of health care and even save lives," says **Jaakko Pel-**

losniemi, CEO. There are even adaptations that can be used in industrial testing, for example in the foodstuffs industry.

Sitra Life Sciences is an investor of venture capital in the company, which was founded at the beginning of 2000. "Thanks to Sitra we have succeeded in maintaining an edge over our competitors. Sitra also offers us as entrepreneurs considerable value added," says Pellosniemi.

The first prototype of the biochip was produced in early 2002. It is used to diagnose serious infectious illnesses such as cerebro-spinal meningitis, pneumonia and other diseases. "The results of tests carried out on patient samples and market surveys confirm that we are on the right track. Our method is already sufficiently precise."

According to Pellosniemi doctors tend to prescribe broad-spectrum antibiotics too freely in order to be "on the safe side". The reason is that testing methods are at present too slow. With time antibiotics will no longer be effective. When a doctor can get a test

result quickly, he can prescribe the proper treatment more precisely.

In autumn 2003 Mobidiag began cooperating with the leading European manufacturer of semi-conductors, STMicroelectronics (ST). ST makes the microchip and inserts into it the DNA sequences provided by Mobidiag that identify different microbes. There are worldwide markets for such a rapid integrated biochip and they are expected to expand by 2005 to be worth as much as € 3 billion.

"Our principal markets are in Europe, the Far East and the United States. The most important targets of our efforts are hospitals and large laboratories. We hope to announce our first product family in 2004."

Pellosniemi has two visions. In five years a doctor will be able to get his test results in five minutes and make the correct diagnosis on the patient's first visit. In ten years ordinary citizens will have something similar to a clinical thermometer at home that can tell them what is wrong with them.

www.mobidiag.com

Sitra's publications 2003

SITRA SERIES

P. Ekholm

Tiivistävä ja hajautuva Euroopan unioni

(The Integrating and Fragmenting European Union)

Sitra 254

T. Allén, M. Karhu (eds.)

Pennejä taivaasta?

Talouspolitiikkakoulutusta 25 vuotta

(Pennies from Heaven? 25 years of organising courses on economic policy)

Sitra 255

J. Pakaslahti, J. Pochet

The Social Dimension of the Changing European Union

Published by Observatoire Social Européen

Sales contullelli@ose.be

Sitra 256

K. Snellman, R. Uusitalo, J. Vartiainen

Tulospalkkaus ja teollisuuden muuttuva palkanmuodostus

(Payment by Results and Changing Pay Formation in Industry)

Sitra 258

A. Hautamäki

Kyllä Amerikka opettaa -

Hyvinvointivaltio muutosten edessä

(Lessons from America - Changes Facing the Welfare State)

Sitra 259

R. Kivimäki, K. Otonkorpi-Lehtoranta

Pomot ja perheet - Työelämän ja perheiden hyvinvointi

(Bosses and Families - Work and Family Well-Being)

Sitra 260

Published by Edita Publishing Company unless indicated otherwise. Sales: Edita Customer service and Bookshop and bookshops in Finland.

SITRA REPORTS SERIES

K. Luoma, T. Rätty, A. Moisio,

P. Parkkinen, M. Vaarama, E. Mäkinen

Seniори Suomi - Ikääntyvän väestön taloudelliset vaikutukset

(Senior Citizens in Finland - The Economic Difficulties Facing an Ageing Population)

Sitra Reports 30

E. Varamäki, T. Pihkala,

J. Vesalainen, M. Järvenpää

Pk-yritysverkoston kasvu ja suorituskyvyn mittaaminen, Esiselvitys

(Growth of SME Networks and Measuring their Achievements, Preliminary Report)

Sitra Reports 31

(only available on the Internet)

K. Vähäajkkä

Innoklubit: Paikallisen aloitteellisuuden keskuskeskukset

(Innoclubs: Centres for Local Initiative)

Sitra Reports 32

(only available on the Internet)

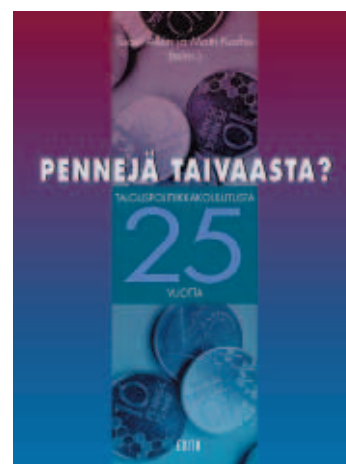
T. Allén (ed.)

Askelmerkit tulevaisuuteen - Suomi 2015 -ohjelman loppuraportti

(Steps into the Future - Final Report of the Finland 2015 Programme)

Sitra Reports 34

Published by Sitra, in book form and on the Internet unless indicated otherwise. Publications can be ordered from Sitra, e-mail julkaisut@sitra.fi or by telephone +358-9-618 991, on the Internet at www.sitra.fi/julkaisut.



OTHER SITRA PUBLICATIONS

Suomi 2015 - Suomen tulevaisuuden menestystekijät ja haasteet

(Finland 2015 – Finnish Factors of Success and Challenges for the Future)
Final Report from Course 6 of the Finland 2015 Programme
(in Swedish and English only on the Internet)

A-L. Kauhanen, J. Lyytinen

Parasta ennen 01 01 2015. Tulevaisuuden tekijät - Suomi 2015 - Suomen tulevaisuuden menestystekijät ja haasteet

(Best Before 01012015. Future Makers - Finland 2015 - Finnish Factors of Success and Challenges for the Future)
Final Report from Course 7 of the Finland 2015 Programme
(in English only on the Internet)

A. Hyytinen, M. Pajarinen (eds.)

Financial Systems and Firm Performance - Theoretical and Empirical Perspectives

Published by Taloustieto Oy
(only in book form)

I. Kaislaniemi (ed.)

Suomalainen silkkitie. Suomalaisyritysten kokemuksia selviytymisestä Kiinassa

(The Finnish Silk Road. Finnish Companies' Experiences of the Chinese Market)

Sitra - Tekes - Finpro: The China Challenge Report

Published by Finpro

(only in book form)

T. Rätty

The Factors Affecting the Use of Elderly Care and the Need for Resources by 2030 in Finland

Published by Valtion taloudellinen tutkimuskeskus (Government Institute for Economic Research)

VATT - Tutkimuksia 99, www.vatt.fi

Published by Sitra in book form and on the Internet unless indicated otherwise.

LEARNING REGIONS (OSKU) PUBLICATIONS

A. Leppilampi, S. Malm, J. Vaso

Vertaiskoulutuksen arviointi ja mallintaminen, Arviointiraportti

(Evaluation and Models for Training Lay Personnel)
(only on the Internet)

Seutuverkkojen käyttäjätutkimus 2003

Study of Regional Network Users
(only on the Internet)

Sitra's events 2003

PRESS CONFERENCES

The Integrating and Fragmenting European Union

Publication of book
8.1.2003

Finland 2015

Publication of report from Course 6
9.1.2003

Senior Citizens in Finland - The Economic Problems Facing an Ageing Population

Publication of book
5.2.2003

Introduction of the DILLI channel

15.4.2003

The Challenges Facing the Financial System

Publication of report from the research project
ETLA, Etlatiето Oy, Tekes and Sitra
25.4.2003

Pennies from Heaven? 25 years of organising courses on economic policy

Publication of book
13.5.2003

Payment by Results and Changing Pay Formation in Industry

Publication of book
20.8.2003

Lessons from America: Changes Facing the Welfare State

Publication of book
27.8.2003

Users of Regional Networks 2003

Publication of research study
12.9.2003

Best Before 01012015 Future Makers - Finland 2015

Publication of report from Course 7
22.9.2003

Bosses and Families – Work and Family Well-Being

Publication of book
11.11.2003

Steps into the Future. Finland 2015

Publication of report
11.12.2003



*Jubilee Seminar - 25 years of economic policy courses
Paula Kokkonen, Riitta Uosukainen, Satu Tiivola, Vappu Taipale,
Outi Siimes and Ulla Aittokoski*

TS/Jonny Holmén



Pekko Kohonen

*Finland 2015 Summit Seminar
Jorma Ollila and Martti Hetemäki*

SEMINARS AND FAIRS

Bio Tech Helsinki 03

Sitra Life Sciences unit
24-26.3.2003

E-Shopping and Services in Finland 2003 - Spearhead seminar

27.3.2003

Gold Project Panel: The Future for Cultural Expertise

27.3.2003

Economic Policy 2000+ seminar

13.5.2003

25 years of economic policy courses - Jubilee seminar

14.5.2003

Manual Skills Workshop

27.5.2003

Social Innovations - international research seminar

12-13.6.2003

The Social Dimension of Europe seminar

25.8.2003

Is Life Work or Is Work Life? seminar

The Family Federation of Finland and Sitra
23.9.2003

Technology Control and Protection in SMEs

Life Sciences' information for small and medium-sized enterprises
8.10.2003

EFQM Forum 2003

European Foundation for Quality Management
Sitra exhibition stand
8-9.10.2003

Japan Access Program: Global Venture Forum & Feel Finland/Bioforum

Tekes and Sitra
20-23.10.2003 Osaka, Tokyo

Political Decision-Makers and the Universities' Third Task - discussion

26.11.2003

The PreSeed funding service has arranged INTRO forums for companies and LIKSA networking conferences.

EUROPE 2020 PROJECT

EU Political Situation at the meeting of the European Council

Lecture by Peter Ludlow
16.6.2003 and 14.10.2003

Overview of the EU political situation

Lecture by Peter Ludlow
10.12.2003

LEARNING REGIONS PROJECT (OSKU)

Local networks in the Greater Helsinki region in the 21st century - Aims, structures and stages of development

Developing LANs in the Greater Helsinki region (KaKe), Spearhead and Sitra
20.3.2003

Opportunities offered by the information society to help immigrants assimilate

20.5.2003 and 4.9.2003

Local government authority markets

OSKU unit
11-12.9.2003

Tietoyhteiskunta.fi (eFinland) - discussion

20.11.2003

Is the information society running out of steam? Have customer and citizen been forgotten in the development process?

Sitra, JUHTA, Information Society Institute, eTampere, Spearhead, FiCom (Finnish Federation for Communications and Teleinformatics)
4.12.2003

In addition the OSKU project has arranged several forums for local project leaders.

TRAINING

Finland 2015 programme

Finland 2015 Summit Seminar
18-20.9.2003 Tallinn

Future-Makers - Finland 2015

19.3.2003 Helsinki
31.3-4.4.2003 Sannäs
28-29.4.2003 Sannäs
1-9.6.2003 Helsinki, Amsterdam, Montreal
18-19.8.2003 Sannäs
19-20.9.2003 Tallinn

Club of Excellence international training programme

13-16.10.2003 Italy (Milan, Parma, Udine, Genua)

Russian Future-Makers in Finland - meeting of course alumni

19-20.11.2003 Moscow



Pekko Kohonen

*Finland 2015 - Future Makers
Samppa Ruohutula, Anssi Miettinen,
Sari Siikanen and Seppo Hämäläinen*



TTS/Jonny Holmén

*Jubilee seminar - 25 years of economic
policy courses
Danny Quah*

*Economic Policy 2000+ seminar
Antti Suvanto, Kari Tolvanen
and Seppo Lindblom*



TTS/Jonny Holmén

Sitra's Board of Directors and Supervisory Board

BOARD OF DIRECTORS



Chairman
Raimo Sailas, Permanent State Secretary
Ministry of Finance
Member of the Board since 1995



Aatto Prihti, President
Sitra
Member of the Board since 1997



Vice-chairman
Erkki Virtanen, Permanent Secretary
Ministry of Trade and Industry
Member of the Board since 1998



Secretary
Kirsti Uotila, Executive Assistant
Sitra
Secretary of the Board since 1991



Markku Linna, Permanent Secretary
Ministry of Education
Member of the Board since 1995



Satu Lähteenmäki, Professor
Turku School of Economics and
Business Administration
Member of the Board since 2003



Hannele Pohjola, Head of Department
Confederation of Finnish Industry
and Employers
Member of the Board since 1995

SITRA'S SUPERVISORY BOARD

Until April 2, 2003

Chairman
Ilkka Kanerva, MP

Vice-chairman
Virpa Puisto, MP

Olavi Ala-Nissilä, MP
Anneli Jäätteenmäki, MP
Antero Kekkonen, MP
Mauri Pekkarinen, MP
Martti Tiuri, MP
Kari Uotila, MP
Ben Zyskowicz, MP

Secretary
Anton Mäkelä, L.I.B

From April 2, 2003

Chairman
Olavi Ala-Nissilä, MP

Vice-chairman
Eero Heinäluoma, MP

Arja Alho, MP
Janina Andersson, MP
Sirkka-Liisa Anttila, MP
Ilkka Kanerva, MP
Mari Kiviniemi, MP
Martti Korhonen, MP
Ben Zyskowicz, MP

Secretary
Anton Mäkelä, L.I.B

Board Report for the Year 2003

The year 2003 was the 36th in the history of the Finnish National Fund for Research and Development (Sitra). During the year Sitra's work to promote the economic welfare of the Finnish people continued with a number of existing and new projects.

The international economic scene in 2003 exhibited more encouraging trends than in previous years. The decline in international tension together with various economic measures helped to strengthen global growth markedly during the latter half of the year. Overall optimism increased and economic growth accelerated, particularly in the United States and Asia. Share prices on international financial markets rose, beginning in the spring.

The American economy grew in 2003 by some three per cent. Different financial and monetary measures were taken to increase consumer demand and these together with unprecedentedly low interest rates contributed to favourable development. Corporate profits improved, triggering new investment. However, the large deficit in the national budget continues to hamper a recovery in the US economy; the deficit in the current balance is now almost five per cent of GDP. In the euro zone the economy grew only modestly, about half a per cent. Weak demand internationally and a strong euro because of the American current deficit eroded companies' exports in the euro zone. Investment slowed and the worsening employment situation served to heighten consumers' cautiousness. The growth of the Asian economy in 2003 began to accelerate once more. In China, in particular, a strong increase in investment and in Japan strong growth in exports favoured an auspicious trend.

On the international financial markets share prices began to rise in 2003 after an exceptionally long three-year period of stagnation. In the early part of the year the Sars epidemic in the Far East and the crisis in Iraq put a damper on hopes but after March share prices began to recover rapidly. The recovery of share prices transferred the emphasis of attention away from interest and on to shares.

International interest rates rose after June during the rest of the year.

In Finland economic growth in 2003 was 1.5 per cent. The growth in exports was less than two per cent as demand in the euro zone, which is of key importance for Finnish exports, was weak and there was a tangible decline in corporate investment. Consumption, nevertheless, increased rapidly, unemployment remained at previous levels and inflation was held in restraint. Foreign trade continued to show a considerable surplus.

Sitra's goal and task are to promote stable and balanced growth in Finland, a quantitative and qualitative increase in the economy and improve the country's international competitiveness. During the year under review Sitra completed a re-organisation of its internal structure. This, it is hoped, will enable Sitra to face the challenges of the future better than ever. Operations were split into development, on the one hand, where the focus is on research and training, together with innovation and business development (ITU), and funding operations with the stress on venture-capital investment, on the other.

Sitra finances its operations with the returns from its endowment capital and from its funding activities. During the year under review the net return from the fund's endowment increased tangibly compared with the preceding year but the venture-capital markets continued to remain subdued. The process of adapting investment to a lower level of income continued, and the number of investment decisions dropped 34 per cent to € 32 million. Sitra was able to report a profit of € 1.4 million for the financial year 2003.

DEVELOPMENT OPERATIONS

During the year under review two units were formed from the earlier teams: Research and Training, and Innovation and Business Development (ITU). Among Sitra's strategic fields ITU concentrates on improving the cost effi-

ciency of the welfare society and strengthening the base of the national economy. The aim of Research and Training is to make people aware of the changes that are likely to affect Finland's future.

The number of decisions concerning development operations made during the year amounted to € 6 million, 33 per cent less than the previous year.

Research and Training

The Europe 2020 research programme that charts the future of Europe and is due to be completed in March 2005 is one of Sitra's largest projects. The project has studied European enlargement eastwards, decision-making in the European Union and the activities of the Council of the European Union, the transatlantic dimension, environmental questions in the EU and the long-term prospects for the Union. Other topics in the project include the economic challenges posed by Estonia's membership of the EU, the future budget of the European Union and the expectations of Finnish companies regarding the Union. The EuroComment organisation in Brussels is Sitra's international partner in the project. A report on the transatlantic dimension was published at the end of the year.

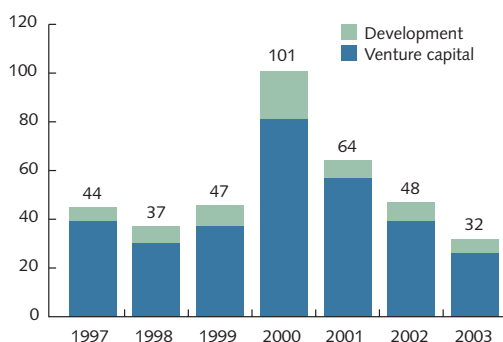
The Sitra project Family-friendly Practices at Work was completed. The results were published in book form under the title Bosses and Families, which proposed five different ways in which work and family life can be reconciled. A study on payment by results was also completed during the year. The study culminated in a report Payment by Results and Changing Pay Formation in Industry. The study demonstrated that payment by results has

become increasingly common and increases productivity by some ten per cent on average. Sitra published a joint report together with the Observatoire social européen in Brussels entitled The Social Dimension of the Changing European Union, which addresses the question of social change and new ways of cooperating that have been introduced in recent years. In the autumn the report Lessons from America: Changes Facing the Welfare State was published; it deals with Silicon Valley and its innovative environment together with the challenges it poses for Finland.

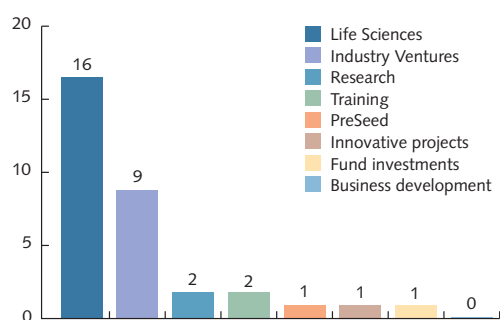
Several new projects due to be brought to completion in 2004 were started during the year. The practical impact of globalisation on Finland will be studied in two of these projects, one dealing with the world of experts and the other the import trade. Another international project that is also associated with globalisation is that which examines the willingness of foreign experts to migrate to Finland. Also related to the theme of globalisation is the Northwest Russia cluster study, which is being funded by Sitra together with Finnish companies that already trade, or are interested in trading, with Russia. New themes include the Gold Project and Social Choices in the Biosociety. The Gold Project will study the importance of cultural know-how for companies' competitiveness. The Social Choices in the Biosociety project concentrates on the importance of genome technology and the analysis of development trends. The Effects of Training Policy project will examine the impact of training, in particular when it comes to profession and salary development.

The Social Innovations and Society's Capacity for Renewal project investigates what social innovations are and how important they are in the process of renewal. The pro-

Funding decisions 1997-2003 (€ mill.)



Funding decisions in 2003 by unit (€ mill.)



ject seeks to find an answer to the question of how Finnish society can be renewed so that it can cope with possible crises arising from a global economy. One solution would be to exploit technology in an innovative way. The pilot study eWelfare forms part of this field and will study the possibilities offered by knowledge and communications technology in welfare services. The project also supports Sitra's eHealth experiments.

Sitra has organised training courses in economic policy since 1977, first under the name Management Course in Economic Policy and then as Economic Policy 2000+. These courses have been attended by almost 2,000 decision-makers from politics, the labour market organisations, administration and other strata of society. A jubilee seminar was held to celebrate Sitra's economic policy training in Turku in May. There publication of the book *Pennies from Heaven? 25 years of Sitra's economic policy courses* was announced. Sitra is working on improving its training courses in accordance with the recommendations of a group that evaluated Sitra's economic policy training. New courses will begin in spring 2004 with two courses a year.

The Finland 2015 training programme was brought to completion in the autumn. All in all six courses were held in the years 2000-2002 and one for young decision-makers - future-makers - in 2003. The final seminar of the Finland 2015 programme was held in September in Tallinn, Estonia. Participants were divided into five groups that discussed the importance of China and the Far East, security in society, learning and giftedness, innovations and technology, and public administration. The results of the groups' discussions were collated in the final report of Finland 2015 programme *Steps into the Future*, which was

published in December of the year under review. The report of Future-Makers course was published under the name *Best Before 01012015*. The Finland 2015 programme was also evaluated and the results proved favourable.

Sitra has also run three courses for young Russian future-makers, the last of which was held in spring 2003.

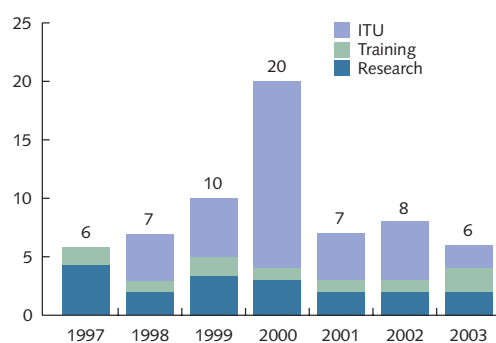
Innovation and Business Development (ITU)

The new unit, Innovation and Business Development, operates within the three following sectors: business innovations, social innovations and Sitra's internal development.

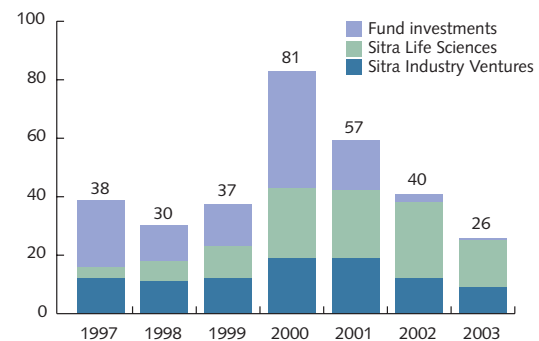
During the year in the sector of commercial innovations a project designed to improve the performance of business incubators was started in collaboration with other public-sector organisations. The aim of the project is to increase the number of innovative business ideas and improve their prospects of funding. Cooperation with universities, polytechnics and companies led to a project to develop existing contract practices; the aim is to make more efficient and guarantee cooperation using a set of common rules. In addition, a project run jointly by Sitra, Finpro and Tekes (National Technology Agency) to chart Finnish companies' experiences of the Chinese market was completed.

The eHealth project, the purpose of which is to improve the availability of health services and health counselling, progressed during the year under review when service centres in the Kymmene Valley and Southern Savo opened their lines to the public. Sitra received valuable experience

Development funding decisions 1997-2003 (€ mill.)



Venture-capital funding decisions 1997-2003 (€ mill.)



of such a service from a portfolio company in Sweden, where progress is more advanced and is growing fast.

Sitra's PreSeed service continued its work with lively demand during the financial year. For the INTRO marketplace the year was its first full year of activity. PreSeed serves technology companies in the early stages of their existence by setting up forums where entrepreneurs and investors can meet. INTRO organised six such events during the year, five in Helsinki and one in Oulu. Thirty-two companies in all were introduced on these occasions. Ten of them succeeded in attracting initial investment during the year under review. INTRO has registered 66 new investors, bringing the total to more than 200.

It was decided that Sitra's and Tekes' joint funding scheme, LIKSA, should be continued until the end of 2005. The purpose of LIKSA is to help entrepreneurs find the most relevant market information possible when drawing up plans for commercialising an idea. On the basis of this information the entrepreneur can then go ahead and produce a professional and credible business plan in order to attract initial funding. During the year under review 114 LIKSA applications were processed. Of these 33 were granted LIKSA funding amounting to € 1.2 million. Sitra accounts for half of this.

The PreSeed DIILI service recruits experts, particularly in international sales and marketing, who are willing to join teams of entrepreneurs. By the end of the year 50 experts were registered with the DIILI service. Of these nine had already found their companies and begun working as members of an entrepreneurial team.

In the field of social innovations the eight projects of the Learning Regions (OSKU) programme oriented their

operations in accordance with the experience gained and evaluation of the programme. The aim is to fully exploit the results of the programme and apply them to the normal lives of citizens and local government authorities. The programme was brought to completion at the end of the year under review. The key results are now being analysed and what has been learned will be disseminated to support the work of developing the information society.

The All-Day School project is being continued in six schools in Jyväskylä, Kuopio, Sievi and Sipoo. The principal aim of the project is to develop a model for schools whereby the pupils' normal school routine is lightened by inserting guided hobby and outdoor activities into the timetable before, between and after lessons and by extending the lunch break. This helps to shorten the time that children spend alone at home.

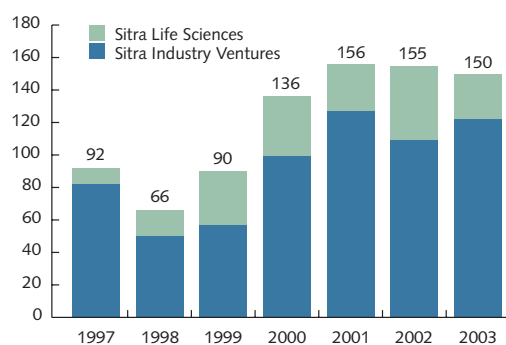
The ISO-INKE project that is being run in the Piekämäki district develops new models for the production of welfare services. In the spring of 2003 the activities of the project were, on the basis of an evaluation, directed especially towards services for the elderly.

The Spearhead network service that was set up on Sitra's initiative and with Sitra money was transferred at the beginning of July to the aegis of the Information Society Institute and Media Tampere at the University of Tampere. The move will not affect the service offered by the network or its content.

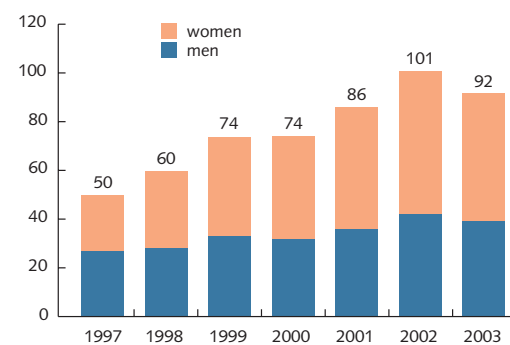
VENTURE-CAPITAL OPERATIONS

With the aid of its venture-capital operations Sitra tries to fund the commercialisation of know-how, develop new

Sitra's venture-capital dealflow 1997-2003



Sitra's personnel 1997-2003



and successful enterprise and promote Finland's international competitiveness and business.

The venture-capital markets in 2003 showed signs of reviving even though the number of first-time investments was markedly lower than in earlier years. The focus of investment was on further funding, on growth companies and business structures. First-round investment by private investors in seed companies has decreased significantly in recent years. For this reason this critical stage of funding has remained in the hands of public-sector bodies that provide funding.

In the early part of the year under review a thorough strategic planning process was carried out as a result of the recommendations made by the Sitra evaluation group. The work of improving the structure of regional investment funds that was started in 1998 was brought to completion at the end of 2003. In accordance with the directive of the government's Cabinet Committee's recommendation Sitra sold to Suomen Teollisuussijoitus Oy (Finnish Industry Investment Ltd.) its holding in eleven limited-partnership regional funds and to Finnvera Oyj its holding in eight limited-company regional funds as well as its majority holding in Matkailunkehitys Nordia Oy. Furthermore, Sitra reduced its shareholding in all the regional asset-management companies to less than 20 per cent during the year. To improve its client services Sitra decided to combine its technology team, regional funding team and network development and funding team into a single unit, Sitra Industry Ventures (SIV). The unit provides equity funding for companies in the early stage of their existence and for technological and commercial innovations.

The number of decisions made by Sitra on venture-capital investment accounted for € 25 million, which was 33 per cent less than the preceding year.

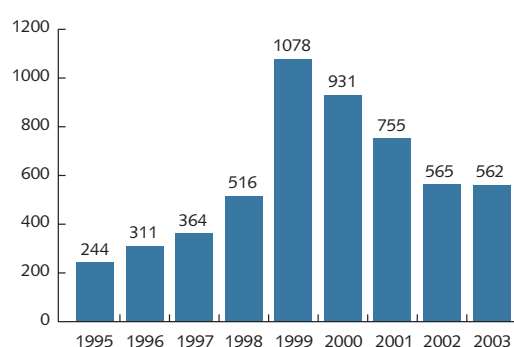
Sitra Industry Ventures

The creation of the new venture-capital unit required considerable effort during the year under review. The unit reassessed and restructured its portfolio. The purpose of this was to exploit the team's expertise in order to ensure the success of portfolio companies and improve the return on its investments. Operations were charted and on the basis of this core competencies determined.

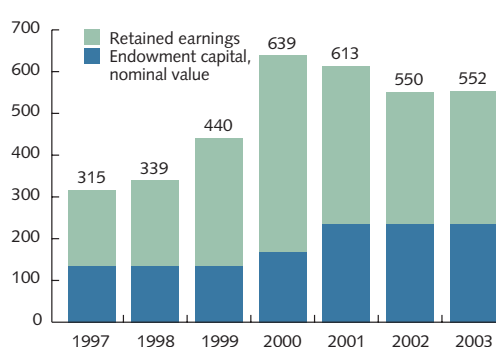
A capital investor gets his return on his investment by reason of the increase in value of his portfolio companies. In this process the board's work as the company develops and its value increases plays a key role. In the autumn 2003 SIV asked the management of the different portfolio companies to report on how they thought Sitra had brought value added to the firm and what management skills needed to be improved. This enquiry led to a defining of principles for good management practices, a Sitra model describing how Sitra can bring value added to a portfolio company's operations.

More than 120 proposals for new investment were considered, which was about the same number as in previous years. A third of the proposals are still being actively discussed, and a number of these will lead to new investment. Four decisions on first-time investment were reached during the year under review and ten on further investment in existing portfolio companies. In granting requests for further investment Sitra stressed the importance of corporate organisation; the aim is to establish portfolio companies

Market value of endowment capital 1995-2003 (€ mill.)



Sitra's equity 1997-2003 (€ mill.)



that can offer their clients a wider range of services and become more competitive internationally.

Cooperation with the TE (Labour and Economic Development) Centres, Tekes (National Technology Agency), Finnvera Oyj and Finpro advanced satisfactorily. This cooperation is designed to develop and fund networks that can offer business clients in particular an improved level of service. In 2003 Sitra Industry Ventures participated in various events for businesses around Finland together with Sitra's other public-sector partners. The VEKARA group of public organisations, the TE centres and the Club of Excellence set up by Sitra combined their efforts and will concentrate in the future on joint topic and branch projects.

Sitra Life Sciences

In the life sciences industry the year continued to be a challenging one. The main problem on the subdued venture-capital markets was to find international lead investors willing to undertake further rounds of investment in Sitra's portfolio of existing companies. For this reason Sitra Life Sciences concentrated its efforts, as in the previous year, on strengthening and improving its existing portfolio. Sitra's strategic goal of developing and reinforcing internationally sustainable and successful Finnish enterprise in the life sciences field remained unchanged.

During the financial year the Life Sciences unit's portfolio decreased in size by seven companies so that at year-end it comprised a total of 39 companies. Three mergers were completed during the year. Two of these were between Finnish companies and one was a merger between a Finnish and a Canadian company.

Cooperation with other European life-science funds bore fruit during the year. In this Sitra took part in helping to pave the way for several projects aiming to promote international consolidation and establish funding syndicates. These will affect Sitra's portfolio companies. The latter part of the year produced signs that the deep trough in capital investment in the field of life sciences had been surpassed, with better prospects for obtaining risk capital in the future for Sitra's portfolio companies. Consequently the focus of investment policy will be transferred more than before to entirely new pharmaceutical and biotechnological innovations.

During the year under review Sitra, in collaboration with Tekes, started the two-year Japan Access Program. Its

purpose is to help Finnish firms find suitable life-science investors and business partners in Japan. In October Sitra arranged an investment forum in connection with the Feel Finland programme at the Finnish embassy in Japan. The Global Venture Forum organised by the Osaka chamber of commerce on the same occasion meant that several Finnish firms that took part in the event were able to establish firm contacts with Japanese companies and investors. The project will continue in 2004 and culminate in the BioJapan 2004 Conference.

Sitra Management Oy

Sitra Management Oy is a wholly owned subsidiary of Sitra that owns and administers management companies in Finland and neighbouring regions and also supervises and develops Sitra's investments in venture-capital companies in Finland's neighbouring countries. Sitra has invested in the Norum (Cyprus) Ltd fund, which is run by Sitra Management Oy through its partly owned company Norum Oy. Norum (Cyprus) Ltd's funds amount to \$ 3 million, of which Sitra's share is approximately a third. Also controlled by Norum Oy is the \$ 110 million Russia fund, of which almost all has been invested. During the year under review steps were taken to start collecting funds for a new venture-capital fund that will invest in European Russia. Sitra will act as lead investor in the new management fund together with Den norske Bank and Finnfund (Finnish Fund for Industrial Cooperation Ltd).

Sitra Management Oy reported a profit of € 0.4 million for the year and the Balance Sheet total amounted to € 4.9 million.

ADMINISTRATION

Sitra is a public fund under the supervision of the Finnish Parliament. Its Supervisory Board is made up of Supervisory Council of the Bank of Finland, which is appointed by the Finnish Parliament. During the year under review the composition of the Supervisory Board changed following the general election held on 2.4.2003, when Parliament appointed a new Supervisory Council to the Bank of Finland. Before the election the members consisted of MPs Ilkka Kanerva, Virpa Puisto, Olavi Ala-Nissilä, Anneli Jäätteenmäki, Antero Kekkonen, Mauri Pekkarinen, Martti Tiuri, Kari Uotila and Ben Zyskowitz. During the

year under review this Board met on one occasion before its dissolution. MPs Olavi Ala-Nissilä (chairman), Eero Heinäluoma (vice-chairman), Arja Alho, Janina Andersson, Sirkka-Liisa Anttila, Ilkka Kanerva, Mari Kiviniemi, Martti Korhonen and Ben Zyskowitz were appointed new members of the Supervisory Board following the general election of 2.4.2003 and a by-election on 29.4.2003. The new Board met on four occasions with Anton Mäkelä continuing to act as secretary to the Board.

Sitra's Board of Directors met ten times in the course of the financial year. Members of the Board of Directors were Raimo Sailas (chairman), Erkki Virtanen (vice-chairman), Markku Linna, Prof. Satu Lähteenmäki, Hannele Pohjola and Sitra's president, Aatto Prihti. Secretary to the Board was Kirsti Uotila.

Auditors appointed by the Finnish Parliament to act until 2.4.2003 were Johannes Leppänen MP (chairman), (deputy Paula Lehtomäki MP), MPs Juha Karpio (Kaler-vo Kummola), Iivo Polvi CPFA, AA (Arto Kuusiola, APA), Matti Saarinen (Ulla Juurola), and Prof. Reino Majala APA (Kari Manner APA). Following the general election of 2.4.2003 Johannes Leppänen, BSc (Agri) continued as chairman (deputy Esko Kiviranta MP), Matti Saarinen MP (Susanna Huovinen MP), Prof. Reino Majala, APA (Keijo Kauppinen APA). New auditors were Timo Seppälä MP (Olli Nepponen), Veli Vanhanen APA (Arto Kuusiola APA). Secretary to the auditors was Prof. Kalervo Virtanen APA.

Juha Wahlroos APA of the auditing company Price-waterhouseCoopers Oy was appointed by the Supervisory Board to be responsible for Sitra's internal audit and for auditing Sitra's portfolio investments.

Sitra's present president Aatto Prihti DSc.(Econ.) will retire in June 2004. On 27.11.2003 the Supervisory Board appointed Esko Aho M.Soc.Sc. to be his successor for the period 1.7.2004 - 31.12.2009.

Sitra is a knowledge-intensive organisation that has to develop continually. During the year under review the values that guide Sitra's operations were updated in co-operation with the entire personnel. A comprehensive questionnaire on how these values could best be put into practice was sent out to all employees. In autumn a new management course was started to try and evolve a common management culture for the whole of Sitra and improve the management skills of Sitra's leaders. Tele-work-

ing was also begun in the autumn of 2003 in order to facilitate the reconciliation of family life and work. All computer technology and language training was held on Sitra's premises and the individual professional skills of the personnel were supported in different ways.

Sitra's personnel at the end of the year under review numbered 92, of whom 34 were employed in development posts, 27 in venture-capital posts and 31 in administration. Fifty-nine per cent of the personnel are women and forty-one per cent men.

ENDOWMENT CAPITAL

The nominal value of Sitra's endowment capital is € 235 million and the market value of its investments at year-end € 562 million, in other words much the same as the previous year.

Responsibility for managing Sitra's endowment capital has been mainly entrusted to outside asset-management companies. Alfred Berg Omaisuuudenhoito Oy and Mandatum Omaisuuudenhoito Oy handle the Finnish equity portfolio. During the year under review € 15 million were invested in the Pohjola Finland Value Fund managed by Pohjola Rahastoyhtiö Oy. Finnish equity and financial market investments account for 48 per cent of the market value of Sitra's endowment capital.

Lombard Odier Darier Hentsch & Cie, Morgan Stanley & Co. Int. Ltd, JP Morgan Fleming Asset Management Ltd and Handelsbanken Ab acted as asset managers for foreign equity investments. In addition Sitra has invested in the hedge funds managed by ABN Amro.

Some of Sitra's endowment capital is also invested in real estate and venture-capital funds. Sitra is one of the owners of a new underground car park, Erottajan Pysäköintilaitos Oy, which was completed during the financial year.

PROPOSAL FOR THE DISPOSAL OF PROFIT

The Board of Directors proposes that the net profit for the year, amounting to €1,430,425.74, be carried forward.

PROFIT AND LOSS ACCOUNT

(in € 1,000)

		1.1.–31.12.2003	1.1.–31.12.2002
		€	€
ORDINARY OPERATIONS			
Corporate funding			
Income			
Profit from sales		975	1,122
Income from investment funds		653	1,076
Other income		609	1,986
	1)	2,237	4,184
Expenses			
Investment expenses	2)	-34,595	-47,448
Other expenses	3)	-560	-665
Share of general expenses		-3,179	-3,491
		-38,333	-51,604
		-36,096	-47,420
Innovation and business development, research and training			
Income			
Income from investment	4)	206	87
Expenses			
Investment expenses	5)	-9,165	-9,386
Other expenses	6)	-341	-375
Share of general expenses		-2,645	-1,748
		-12,151	-11,508
		-11,945	-11,421
Administration			
Expenses			
Personnel expenses	7)	-7,602	-7,114
Depreciation	8)	-499	-545
Other expenses		-1,376	-1,315
Transfer to operations		5,824	5,239
		-3,653	-3,736
Loss		-51,694	-62,577
INVESTMENT OPERATIONS			
Income from endowment capital	9)	56,013	69,458
Expenses from endowment capital	10)	-2,888	-69,481
		53,124	-23
NET PROFIT/LOSS FOR THE YEAR		1,430	-62,600

BALANCE SHEET

(in € 1,000)

		31.12.2003	31.12.2002
		€	€
ASSETS			
Fixed assets			
Tangible assets			
Machinery and equipment		765	1,040
Shares and participations		14,518	14,518
Other investments		71	110
	11)	15,354	15,669
Funding operations			
Shares and participations		111,312	144,124
Capital loans		17,997	18,278
Other loans		9,241	10,816
	12)	138,551	173,218
Endowment capital investments			
Bonds and notes		112,570	112,314
Shares and participations		143,520	144,506
Fund investments		64,221	56,360
Real estate investments		46,963	46,477
Other investments		98,570	95,550
	13)	465,844	455,208
		619,748	644,096
Current assets			
Receivables			
Accrued income	14)	6,985	3,975
Cash and bank receivables		2,350	2,208
		9,335	6,183
TOTAL ASSETS		629,084	650,279
LIABILITIES			
Equity			
Endowment		235,463	235,463
Retained earnings		315,895	378,495
Net profit/loss for the year		1,430	-62,600
		552,788	551,358
Accumulated appropriations			
Reserves from funding operations		27,747	32,042
Liabilities			
Short-term			
Accrued expenses	15)	19,167	21,238
Liabilities from funding operations	16)	29,382	45,640
		48,549	66,879
TOTAL LIABILITIES		629,084	650,279

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

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 funding) a risk reserve is made in accordance with the principle of prudence (reserves from funding operations)
- expenses incurred in business development operations, seed funding and innovative projects, research 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.

Structure of the financial statements

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

Valuation of investments

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

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

Valuation of fixed assets

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

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

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

Foreign currencies

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

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

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

CORPORATE FUNDING

1. Income from corporate funding	2003	2002
Industry Ventures	384	1,809
Life Sciences	140	991
Investment in venture-capital funds	1,713	1,384
	<u>2,237</u>	<u>4,184</u>

Industry Ventures

capital refunds	10	86
interest payments	207	219
profit from sales	0	408
dividends	123	887
other income	44	209
	<u>384</u>	<u>1,809</u>

Life Sciences

capital refunds	15	0
interest payments	112	224
profit from sales	2	623
dividends	0	145
other income	11	0
	<u>140</u>	<u>991</u>

Investment in venture-capital funds

capital refunds	0	112
shares in profits	653	1,076
interest payments	1	6
profit from sales	973	92
dividends	86	98
other income	0	1
	<u>1,713</u>	<u>1,384</u>

2 Expenses from corporate funding

	2003	2002
Industry Ventures	2,419	13,743
Life Sciences	19,789	21,391
Investment in venture-capital funds	12,387	12,314
	<u>34,595</u>	<u>47,448</u>

Industry Ventures

expenses	1,131	1,015
value adjustment	3,564	19,150
change in risk reserve	-2,275	-6,422
	<u>2,419</u>	<u>13,743</u>

Life Sciences

expenses	714	385
value adjustment	21,145	23,068
change in risk reserve	-2,071	-2,062
	<u>19,789</u>	<u>21,391</u>

Investment in venture-capital funds

expenses	740	72
value adjustment	11,647	12,242
	12,387	12,314

3 Other expenses	2003	2002
Industry Ventures	249	384
Life Sciences	298	250
Investment in venture-capital funds	12	31
	560	665

INNOVATION AND BUSINESS DEVELOPMENT AND RESEARCH AND TRAINING

4 Income from investment	2003	2002
Business Development		
capital refunds	17	5
interest payments	37	4
dividends	56	56
PreSeed		
capital refunds	76	0
other income	8	3
Innovative projects	1	0
Research	12	19
	206	87

5 Investment expenses	2003	2002
Business Development		
investment expenses	257	648
value adjustment	784	251
PreSeed	1,153	990
value adjustment	50	0
change in risk reserve	50	140
Innovative projects	4,097	4,019
Research	1,532	2,109
Training	1,243	1,229
	9,165	9,386

6 Other expenses	2003	2002
Business Development	98	56
PreSeed	67	48
Innovative projects	70	140
Research	47	65
Training	57	66
	341	375

The Innovation and Business Development unit covers business innovations, social innovations and Sitra's internal development. Altogether 14 projects were funded during the year under review. Also the PreSeed service including LIKSA funding, the INTRO marketplace, the DIILI service and seed funding consortia belonged to this unit. The most important activities in these sectors were

Business innovations

- developing contract practices
- experiences of the Chinese market
- eHealth project
- PreSeed service

Social innovations

- Learning Regions
- All-Day School
- New models for producing welfare services

During the year under review altogether 30 research and training projects were funded. The most significant were

Research

- Europe 2020 - research programme
- The impact of globalisation on the world of experts and import trade
- Social innovations and society's capacity for renewal
- Cultural know-how as a component of national competitiveness
- Training policy
- Social choices for the biosociety
- Knowledge-intensive service companies - preliminary study
- eWelfare - new technology and welfare services - preliminary study

Publications (in Finnish)

- The Integrating and Fragmenting European Union
- Payment by Results and Changing Pay Formation in Industry
- Bosses and Families - Work and Family Well-Being
- Lessons from America - Changes Facing the Welfare State
- Pennies from Heaven? 25 years of organising courses on economic policy
- Best before 01012015, Future-Makers, Finland 2015
- Steps into the future, Finland 2015

Training

- Jubilee Seminar - economic policy training 25 years Finland 2015 programme - summit seminar
- Future-Makers, Finland 2015 - course for young people
- Young Russian Future-Makers - Finland familiarisation programme

ADMINISTRATION

7 Personnel expenses	2003	2002
Personnel expenses		
wages and salaries	5,392	5,036
pension expenses	1,004	882
other payroll expenses	1,206	1,195
	7,602	7,114
Personnel at year-end		
corporate funding	27	34
innovation and business development	14	7
research and training	13	15
administration	31	36
	85	92

During the year two persons from corporate funding were on nursing leave. From administration two were on maternity leave and one on nursing leave.

The number of people engaged in Sitra's projects was seven (2002 ten). The wages and salaries and other payroll expenses for project personnel amounted to € 0.6 million (in 2002 € 1.0 million) and are included in expenses for funding projects.

8 Depreciation	2003	2002
Depreciation according to plan		
machinery and equipment	447	491
other capitalised expenditure	49	51
renovation of office premises	3	3
	499	545

Depreciation of € 0.2 million (in 2002 € 0.3 million) has been included in expenses for investment operations.

INVESTMENT OPERATIONS

9 Income from endowment capital	2003	2002
profits from sales	32,938	45,212
interest income	7,856	9,192
bond price gains	4,016	2,689
exchange-rate gains	243	1,168
dividend income	7,949	8,492
rental income	2,967	2,688
shares in profit	43	17
	56,013	69,458

10 Expenses from endowment capital	2003	2002
asset depreciations	4,735	47,654
regained depreciations	-10,493	-880
losses on sales	2,754	18,182
bond price losses	2,129	1,020
exchange rate losses	2,840	2,688
asset management fees	515	677
real estate expenses	841	980
value adjustment of real estate shares	-437	-770
other expenses	3	-71
	2,888	69,481

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

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

11 Tangible assets

During the year Sitra acquired fixed assets amounting to € 0.2 million (2002 € 0.4 million).

	Acquisition cost Dec. 31, 2003	Accumulated depreciation according to plan Dec. 31, 2003	Book value Dec. 31, 2003
machinery and equipment	2,979	2,424	554
other capitalised expenditure	418	353	65
renovation of office premises	617	611	6
other fixed assets	211	0	211
	4,225	3,388	836

	2003	2002
shares and participations		
shares in office premises	14,509	14,509
other shares	9	9
	14,518	14,518

12 Funding operations

	2003	change	2002
Industry Ventures	23,785	1,103	22,682
Life Sciences	42,949	-3,421	46,370
Investment in venture-capital funds	69,187	-31,432	100,620
Business Development	1,905	-968	2,873
PreSeed	190	50	140
Other investments	533	0	533
	138,551	-34,667	173,218

Investment in Industry Ventures companies

During the year under review four new Industry Ventures companies were added to Sitra's portfolio. A total of € 1.5 million has been invested in these companies. During the year eight companies were removed from the portfolio. Of these six have been sold, one went into liquidation and one was dropped from the active portfolio. In these 60 companies Sitra has invested

	Dec 31, 2003	change	Dec 31, 2002
shares and participations	37,649	1,801	35,848
capital loans	7,762	78	7,684
other loans	3,082	-866	3,948
value adjustment	-24,707	91	-24,798
	23,785	1,103	22,682

Portfolio companies

Add2Phone Oy	LT Linkkitechdas Oy
Ailocom Oy	Mail Systems Oy
Aplac Solutions Oy	Meconet Oy
Aplicom Oy	Medixine Ltd
Audibit Oy	Megatrex Oy
Avain Technologies Oy	Nanoway Oy
B-Band Oy	Neomed Oy
Bevesys Oy	Neorem Magnets Oy
Boxit Oy	Nesenta Oy
Buildercom Oy	Net Release Global Oy
Chempolis Oy	Okmetic Oyj
Clothing Plus Oy	Oseir Oy
DBC International Ltd Oy	Panphonics Oy
Diomed Inc.	Privanet Capital Oyj
EC-Engineering Oy	R 5 Vision Oy
EigenValue Oy	Robogrind Oy
Elcard Oy	Sabriscan Oy
Enterprixe Software Ltd	Setec Oy
Exomi Oy	Shanghai Fimet Medical Instruments Co. Ltd
Fimet Oy	Smartner Information Systems Ltd
Finnsonic Oy	Smilehouse Oy
Geniem Oy	Source Code Finland Oy
Glocal Oy	Synron Tech Oy
Hauler Oy	Sysline Oy
Heptagon Oy	Toolmakers Lahti Oy
Ion Blast Oy	TR-Tech. Int. Oy
IST International Security Technology Oy	u-NAV Microelectronics Corporation
IWS International Oy	Viope Solutions Oy
Kielikone Oy	VLSI Solution Oy
Kuntokumppanit Oy	
Lamicon Oy Ltd	

Investment in Life Sciences companies

During the year no new Life Sciences companies were added to the portfolio. Seven companies were removed from the portfolio. Of these three have been sold, two went into liquidation (original sum invested € 1.0 million) and one has been transferred to another Life Sciences company in the form of a capital contribution. In addition two companies merged. In these 39 companies Sitra has invested

	Dec 31, 2003	change	Dec 31, 2002
shares and participations	63,667	13,381	50,286
capital loans	23,924	1,109	22,815
other loans	5,054	1,743	3,311
value adjustment	-49,696	-19,654	-30,042
	42,949	-3,421	46,370

Portfolio companies

Biofons Ltd	Ipsat Therapies Oy
Bio-Nobile Oy	Juvantia Pharma Oy Ltd
BioTie Therapies Oyj	Kibron Oy
Bonalyse Oy	Labmaster Ltd
Boneca Oy	Medikro Ltd
BPM Group Oy	Med-In Oy
Camelina Ltd	Mega Electronics Ltd
CTT Cancer Targeting Technologies Oy	Mehiläinen Oy
Delfin Technologies Ltd	Mobidiag Oy
FibroGen Inc.	Nexstim Oy
FIT Biotech Oyj Plc	Optatech Oy
Fluilogic Ltd	Pharmatory Oy
Focus Inhalation Oy	Polymer Corex Kuopio Oy
Galilaeus Oy	Prowellness Oy Ltd
GeneOS Oy	Puuman Oy
Hidex Oy	Reactionlab Ltd
Hormos Medical Oyj	SafetyCity Ltd Oy
Innomedica Ltd	Stick Tech Ltd Oy
Innotrac Diagnostics Oy	Unicrop Oy
	Vivoxid Ltd

Investment in venture-capital funds

	Dec. 31, 2003	change	Dec. 31, 2002
international funds and management companies	39,181	-8,457	47,638
regional funds and management companies	3,311	-17,186	20,497
other Finnish funds and management companies	26,695	-5,789	32,485
	69,187	-31,432	100,620

International funds and management companies

No new investment was made in international funds during the financial year. Two funds have been disbanded. Sitra has the following sums invested in these 25 funds and 1 management company

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	51,033	-2,689	53,722
capital loans	0	0	0
other loans	3,096	-62	3,158
value adjustment	-14,948	-5,706	-9,242
	39,181	-8,457	47,638

Regional funds and management companies

During the year under review investments in 19 regional funds have been sold. Sitra has invested in one regional fund and in six management companies

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	3,311	-18,106	21,417
capital loans	0	0	0
other loans	0	0	0
value adjustment	0	920	-920
	3,311	-17,186	20,497

Other Finnish funds and management companies

During the year under review one new fund investment has been made. In these ten funds and one management company Sitra has invested

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	37,103	488	36,615
capital loans	150	150	0
other loans	3,220	-150	3,370
value adjustment	-13,778	-6,277	-7,501
	26,695	-5,789	32,485

Funds

Apple Tree Ventures II L.P.	Euroventures Nordica II B.V.
Associated Venture Investors III	Finnventure Rahasto II Ky
Atlas Venture Fund III	Finnventure Rahasto III Ky
Baltic Investment Fund I	Global Private Equity II L.P.
Baltic Investment Fund II	Hambros Advanced Technology Trust III L.P.
Baltic Investment Fund III	HealthCap 1999 KB
Baring Capricorn Ventures	InnKap 2 Partners
Bio Fund Ventures I Ky	InnKap 3 Partners
Bio Fund Ventures II Ky	Matkailunkehitys Nordia Oy
Bio Fund Ventures II, Follow-on-Fund L.P.	MB Equity Fund Ky
Bio Fund Ventures III Ky	Merlin Biosciences Fund L.P.
Boston Millennia Partners LP	Norum (Cyprus) Ltd
CIM Venture Fund for Creative Industries Ky	Russian Technology Fund L.P.
Crescendo III, L.P.	Strategic European Technologies N.V.
Diamondhead Ventures L.P.	Technologieholding Central and Eastern European Fund N.V.
Edison Venture Fund IV	Trident Capital Fund V
Eqvitec Teknologiarahasto I Ky	Ventech Capital II L.P.
Eqvitec Teknologiarahasto II Ky	
European Renaissance Capital L.P.	

Management companies

3TS Venture Partners Oy *)
Aboa Venture Management Oy
Baltcap Oy *)
Baltic Investment Fund Management Ltd *)
Baltic SME Management B.V. *)
Baltic Venture Advisers Oy *)
BIF Management Ltd *)
Bio Fund Management Oy *)
Eqvitec Partners Oy *)
European Fund Investments Carried Interest Unit Trust *)
Innofinance Oy
Nordia Management Oy
Nordic Russian Venture Partners Ltd *)
Norum (Cyprus) Ltd
RTF Founders Ltd *)
RTF Management Ltd *)
Sentio Invest Oy
Sitra Management Oy
Teknia Invest Oy
Teknoventure Management Oy
*) through Sitra Management Oy

Innovation and business development**Business development**

During the year under review no new investment has been made in technology-transfer companies. In addition Sitra has exited from one company. In these ten companies Sitra has invested

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	2,300	-213	2,513
capital loans	505	0	505
other loans	0	-143	143
value adjustment	-899	-611	-288
	1,905	-968	2,873

PreSeed

During the year under review one investment has been made in one new company. In these three companies Sitra has invested

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	40	0	40
capital loans	200	100	100
other loans	0	0	0
value adjustment	-50	-50	0
	190	50	140

Portfolio companies

AboaTech Ltd
 CadFaster Inc.
 Culminatum Oy
 Deltagon Group Oy
 Finn-Medi Research Ltd
 Helsingin Yliopiston Holding Oy
 Helsinki Business and Science Park Oy Ltd
 Innokarelia Oy
 Innotalli Oy
 Licentia Ltd
 Oulutech Ltd
 Sitrans Oy Ltd *)
 Staselog Ltd
 Tuotekehitys Oy Tamlink

*) through Sitra Management Oy

Other investments

In these fifteen objects Sitra has invested

	Dec. 31, 2003	change	Dec. 31, 2002
shares and participations	5,500	201	5,299
capital loans	2,092	436	1,656
other loans	811	-24	835
value adjustment	-7,870	-613	-7,257
	533	0	533

NASDAQ Europe S.A.

Navicre Oy

Thirteen companies dropped from the active portfolio.

13 Endowment capital investments 2003 2002

Long-term investments		
bonds and notes	112,570	112,314
Finnish shares	76,638	90,214
foreign shares	66,882	54,292
mutual fund investments	42,937	31,791
private equity fund investments	21,283	24,569
real-estate investments	46,963	46,477
Short-term investments		
bonds and notes	14,886	2,733
certificates of deposits	80,734	89,487
cash	2,920	3,268
other short-term investments	29	62
	465,844	455,208

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

market value	280,073	286,996
corresponding book value	186,460	176,300
difference	93,614	110,696

14 Accrued income

Interest for the financial year has been entered as income from investment operations and amounted to € 4.5 million (2002 € 3.2 million).

15 Accrued expenses

Accrued liabilities include € 13.6 million (2002 € 17.2 million) debts to private equity funds, where agreement has already been reached and for which Sitra's liability exists.

16 Liabilities from funding operations

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

LOANS DUE FOR REPAYMENT ENTERED AS EXPENSES 31.12.2003

Loans due for repayment have been entered as expenses. They amounted at the end of the financial year € 2.9 million (in 2002 € 3.1 million). Of these loans € 0.4 million (0.1 million) are sums that have been repaid and where repayment follows a fixed timetable, and € 1.7 million (2.0 million) where repayment is bound to royalties instead of a fixed timetable. Loans that have not been repaid or where the terms of repayment have not been agreed amounted to € 0.8 million (€ 0.9 million).

OFF-BALANCE SHEET LIABILITIES 31.12.2003

Where funding has been agreed but no agreement yet signed	2003	2002
Industry Ventures	7,928	7,515
Life Sciences	7,731	11,555
Fund Investments	7,037	6,025
Business Development	3,083	309
PreSeed	886	3,544
Innovative projects	2,665	5,194
Research	2,313	1,766
Training	0	63
	31,643	35,971

GUARANTEES

Guarantees for others total € 0.1 million (in 2002 € 0.1 million).

Helsinki, February 12, 2004



Raimo Sailas



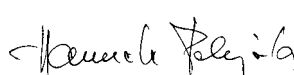
Erkki Virtanen



Markku Linna



Satu Lähteenmäki



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 2003 to the extent required by good auditing practice.

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

The financial statements, which show a net profit of € 1,430,425.74 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 the net profit for the year made by the Board of Directors in their report be approved.

Helsinki, February 13, 2004



Johannes Leppänen



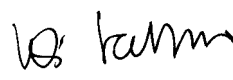
Reino Majala
Authorised Public Accountant



Matti Saarinen



Timo Seppälä



Veli Vanhanen
Authorised Public Accountant



./ Kalervo Virtanen
Authorised Public Accountant

Sitra at your service

Finnish National Fund for Research and Development

Itämerentori 2, P.O. Box 160

FI-00181 Helsinki, Finland

Phone +358 9 618 991

Fax +358 9 645 072

E-mail first name.surname@sitra.fi or sitra@sitra.fi

www.sitra.fi

Senior Management of Sitra

Aatto Prihti, President

(Esko Aho from July 1, 2004)

Kari Tolvanen, Vice President

Magnus Sjöblom, Director of Finance and Corporate Funding

Jaana Ekström, Executive Assistant

Kirsti Uotila, Executive Assistant

Life Sciences

Hannu Hanhijärvi, Director

Industry Ventures

Heikki Ojanperä, Director

Innovation and Business Development

Tapio Anttila, Director

Research and Training

Antti Hautamäki, Director

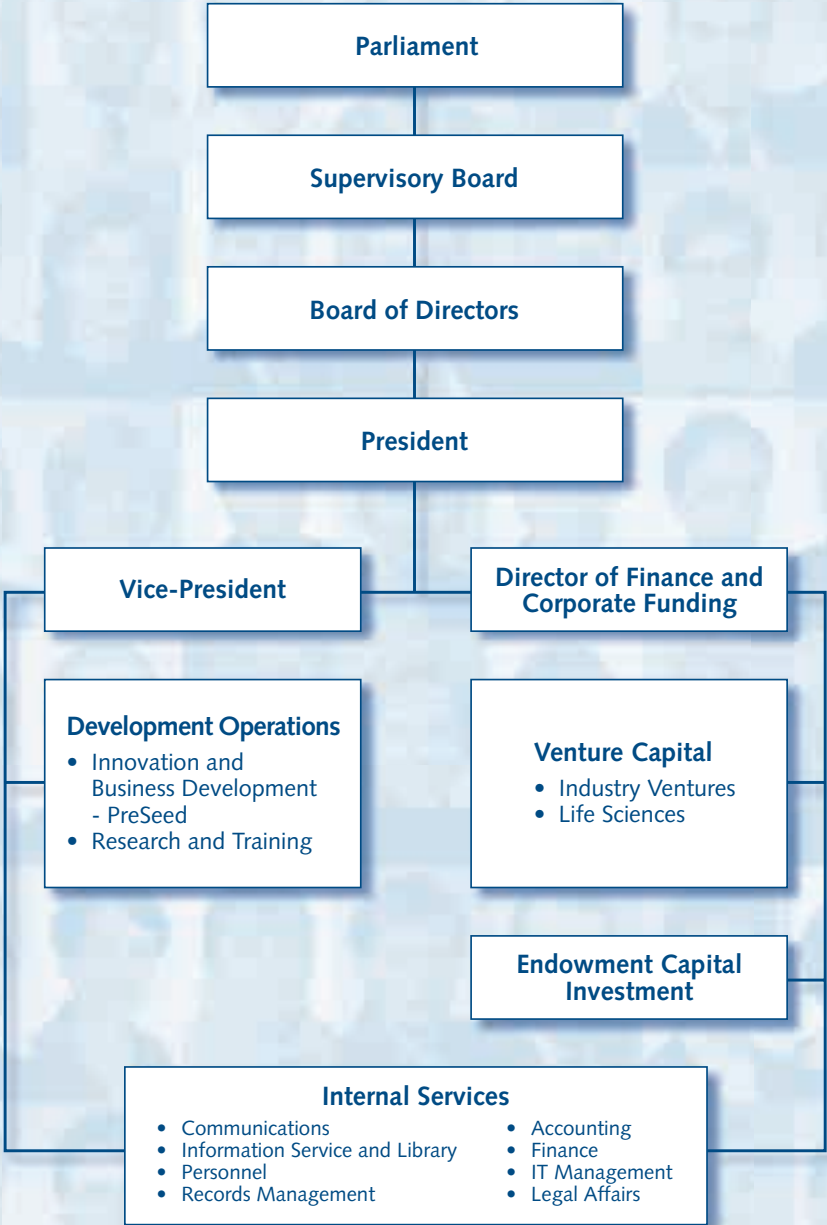
Legal Affairs

Jorma Jaalivaara, Head of Legal Affairs

Communications

Marja-Leena Hilke, Head of Communications

Organisation





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