

BUILDING A SUCCESSFUL FINLAND FOR TOMORROW

Sitra, the Finnish Innovation Fund, is an independent public foundation promoting the well-being of Finnish society under the supervision of the Finnish Parliament. Sitra was established 40 years ago, in 1967, to mark the 50th anniversary of Finnish independence.

Sitra's responsibilities are stipulated in law. Since its establishment, Sitra's duty have been to promote stable and balanced development in Finland, the qualitative and quantitative growth of its economy and its international competitiveness and co-operation.

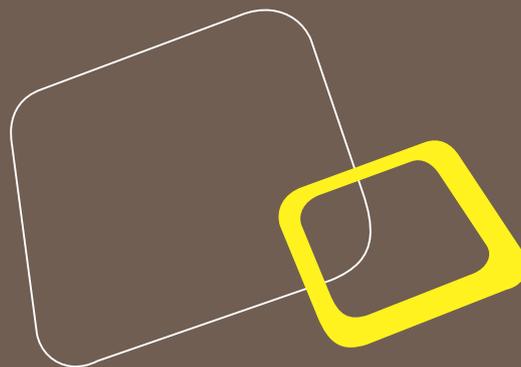
Our operations are governed by a vision of a successful and skilled Finland. We have always approached our operations with strong belief in the future and in the ability of the latest technology to generate well-being.

Sitra has always been quick to address questions central to the growth of the Finnish economy and the well-being of its citizens. Sitra's independent and autonomous position has provided it with an ideal foundation wherewith to carry out this task.

We have organised our operations into fixed-period programmes by which we aim to achieve as great a social impact as possible.

Our current programmes focus on health care, food and nutrition, the environment, Russia and India and they are geared to improve Finnish competences and competitiveness in collaboration with other partners. The programmes comprise studies, strategy processes, innovative experiments, business development and corporate funding.

Sitra's activities are financed by the yield from its own endowment capital and its financing activities. Esko Aho is the President of Sitra, which has a personnel numbering 100.



Annual Report 2006

4	President's Review	23	Board report for the year 2006
6	Strategy	28	Profit and loss account
8	Innovate	29	Balance sheet
12	Influence	30	Notes to the financial statements
16	Network	36	Auditors' report
20	Working for Sitra	37	Sitra publications 2006
22	Sitra's Supervisory Board and Board of Directors	38	Sitra at your service
		39	Organisation



40

Sitra 1967-2007

40 years of innovations

One of the first Sitra projects was the acquisition of a Univac mainframe computer in 1971 for use by the Finnish universities. Promoting the adoption of new technology continues to be a key aspect of our operations. In honour of our anniversary year, we have made an online health-care library available for public use at www.terveyskirjasto.fi

Our potential lies in innovation

When Sitra was founded in 1967, its function was to construct the foundation for Finland's future economic success and well-being. Our task has probably never been as challenging as it is today during the four decades since.

Many international comparisons show that small nations have had the greatest success in using globalisation to their advantage and making progress in creating a society based on knowledge and skill. Although it is true that one should always view comparisons of competitiveness with some reservations, it cannot be all coincidence that the top places are usually occupied by small nations.

The strength of a small nation lies in its flexibility and in its capacity for renewal. The history of Finland holds many examples of situations where we have been able to turn sudden changes in circumstance to our own advantage.

These are characteristics that we can also rely on today when we are forced to seek a new competitive edge to compensate for some of the losses that inevitably ensue from globalisation and technological advances.

As worn as the phrase may sound, our potential lies in innovation. The standard of science, research, education and development work must be raised so it is at the top level in the world. Similarly, top expertise must be more efficiently turned into money and well-being.

Following the strategy change in 2004, Sitra has been carrying out this work in selected focus areas. Our own experiences and an external intermediate evaluation of the strategy implementation both indicate that this particular operating model is the one that allows us to best serve the need for renewal of Finnish society.

The need and potential for innovative solutions in health care, food and nutrition or in environmental expertise are universally recognised. Practical actions demand development input and risk taking, but also networking; all of these are part of Sitra's special expertise.

The Russia and the India Programmes are needed in order to focus systematic national investments in these areas, which are vital for economic growth and the future well-being of the Finns.

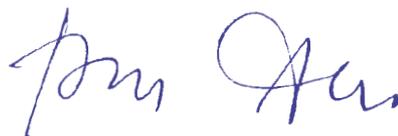
During 2006, we achieved considerable practical results in all our programme areas. At the same time, we saw clear signs that the programmes are resulting in new, permanent co-operation structures in Finland.

It is a particular challenge for the future to reinforce our position in the European field of operations. There is demand for Finnish insight and experience as the European Union strives to consolidate its own competitiveness in science, technology and innovation. Conversely, many of our own national reform projects need European solutions to support them.

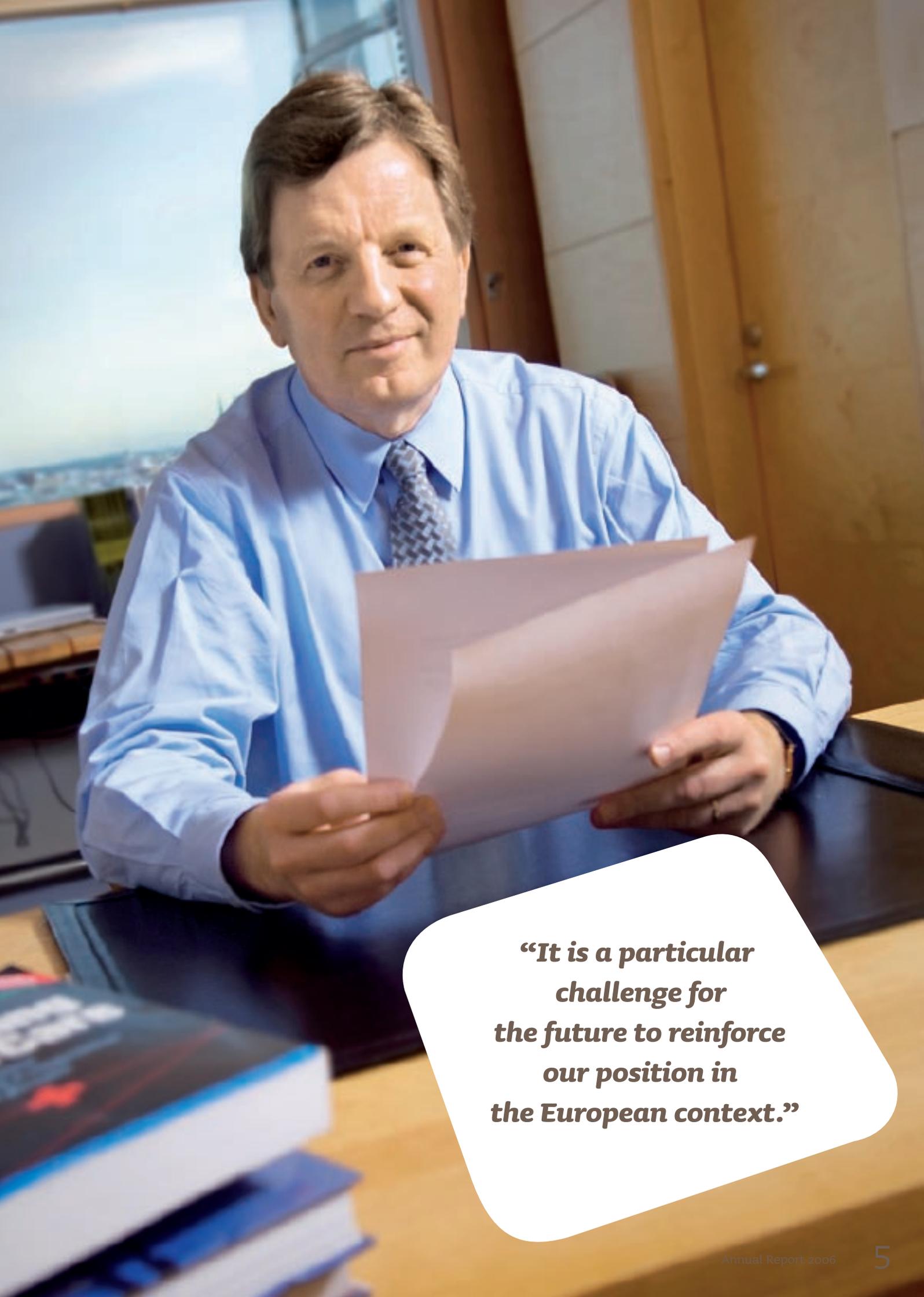
During Finland's presidency, the Union received a clear agenda to develop its innovation policy. There is a natural opening here for Sitra to participate both on a general level and through its programmes in the implementation of this agenda.

We are now better equipped than ever to do so, since the development of the innovation environment continues as a permanent aspect of Sitra's operations even after the completion of the Innovation Programme. A new unit which focuses on innovation operations, together with the programmes and the corporate funding, will form a strong core for the renewed Sitra.

I want to thank everyone at Sitra, our Board of Directors, our Supervisory Board and our auditors for their excellent co-operation and for a good year in terms of both operations and finances in 2006. It puts us in a strong position to respond to new challenges in 2007, Sitra's 40th anniversary.



Esko Aho
President



“It is a particular challenge for the future to reinforce our position in the European context.”

Sitra's new strategy a success

Growing social impact

Sitra transferred to a programme-based operating model in its 2005–2007 strategic period. The first programmes to be started were the Innovation Programme, Health Care Programme, Food and Nutrition Programme, Environmental Programme and the Russia and India Programmes. With the help of its programmes, Sitra creates new operating models and promotes the distribution of good practices together with its partners.

The social impact is reinforced through studies, strategy processes, innovative experiments, business development and corporate funding. Sitra's operations are funded with endowment capital and returns from corporate funding operations. Sitra's annual budget comes to about EUR 40 million.

Intermediate evaluation of programme-based operations now completed

An external organisation specialising in evaluation performed an intermediate evaluation of the implementation of the strategy halfway through the strategic period in summer 2006. According to the evaluation, the guidelines for programme-based operations are successful and the programmes have all progressed according to plan. The challenge for programme-based operations is to focus on the essentials in a wide field of operations, specifically on effective implementation of the most important projects.

The duration of programmes and plans for the exit process were adjusted in 2006. The Innovation Programme ended at the end of 2006 but Sitra will continue to develop the Finnish innovation environment through a new unit, Innovations and New Solutions, which started operating at the beginning of 2007. Sitra's Food and Nutrition Programme, ERA, will continue until 2008. The other programmes are progressing according to their original plans: the Environmental Programme, the Russia Programme and the India Programme will end in 2007, and the Health Care Programme in 2009.

Decisions on starting new programmes will be made in 2007.

Improving the effectiveness of venture-capital investments

The strategy also outlines Sitra's investment activities. New market-based investments will focus on the programme areas. Administration of the venture-capital investment targets and the venture-capital investment operations within the programmes were made more efficient by concentrating the expertise in the Sitra

Ventures unit. The unit is in charge of developing the approximately 80 companies in Sitra's venture-capital investment portfolio, as well as organising the possible further funding rounds, the eventual successful exits and preparation for investments made in the programmes together with the programmes themselves.

Sitra also strives to raise additional capital for its portfolio companies. Biotechnology companies in particular have needed more capital than anticipated. Sitra selected 16 companies from its biotech portfolio and began to systematically construct a new international fund, for which additional capital was raised through a major project covering Finland, the Nordic countries and Western Europe. Although this fund project was not implemented in the end, Sitra will continue to fund the portfolio companies that would have been part of it.

The aim is to secure the development of these companies in the best possible way, and also to ensure that Sitra's investments are recovered. Many of Sitra's biotech companies have since received additional financing from Finnish and international investors.

New funds support growth and competitiveness

Sitra is encouraging Finnish venture-capital investment activity to expand into new sectors. Sitra established the Terveysterveys Oy health-care fund in September. Its aim is to bring added effectiveness to the public health-care sector.

Other potential areas for fund investments will be investigated in 2007. Possible areas worth exploring include environment technology and other sectors in need of venture capital in order to develop. Funds strive to support aspects of development such as any structural change that may be needed in a particular sector.

Business development takes on more prominence

Previously, Sitra had a clear role in funding early-stage companies. Today, work related to business development in early-stage companies is characteristic of Sitra.

Sitra's business development services include PreSeed financing and the Yrke business development programme. The results and experiences gained from these create a good starting point for disseminating the best practices in Finland and Europe.

The aim for 2007 is to clarify the roles and services of public bodies so that they can serve early-stage companies even more effectively than hitherto.

Innovate

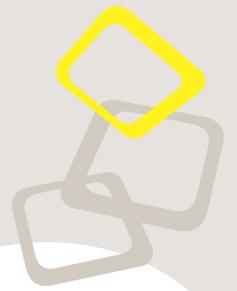


Influence



Network





New approaches and new operating models

The use of technology brings new solutions

Sitra strives to reinforce innovation in all its projects. The Finns can only succeed in global competition through creativity, flexibility and the capacity for innovation.

Sitra promotes the adoption and utilisation of new technology. Co-operation is pursued in the programmes particularly at the interface of the private and public sectors. Sitra's operating model and tools are perfectly suited to developing organisational and functional innovations. International practices are also used as models.

Work done together with other actors can, at its best, lead to both national and international success stories.



NEW APPROACHES AND ONLINE SERVICES FOR HEALTH CARE

The Health Care Programme attained its biggest goal so far in December 2006, when the Finnish Parliament passed legislation on the electronic processing of client information in the social-welfare and health-care services and on electronic prescriptions. After a four-year transition period set down in the legislation, these electronic services will become available to all Finns.

Sitra provided the Ministry of Social Affairs and Health with background information and a project plan for the preparation of the bills.

The health-care sector in Finland is already using electronic systems but they are not mutually compatible. Once a uniform data system has been introduced, it will eventually be useful in managing budgeting and planning in the health-care sector and in monitoring the effectiveness of care processes.

“The main thing is to ensure that patients benefit from the care they are given. Once it is known how the money allocated to health care is actually spent and what quality standard is achieved with this, it will also be possible to improve the efficiency of service production and lower costs. This will improve the position of both patients and taxpayers. A transparent system like this will also improve patient safety,” says **Hannu Hanhijärvi**, Executive Director of the programme.

The Ministry of Social Affairs and Health will assume responsibility for the supervision of the integrated electronic services and the Social Insurance Institution of Finland will be in charge of implementation. Both parties will continue to co-operate with the Health Care Programme.

“Our long-term goal is to create a user-focused system within which the use and handling of information is extended to everyone and expanded so as to eventually include online services.”

New approaches and an acceptance of change are imperative in seeking to develop the structure of the health-care sector. For its own part, Sitra strives to test new operating models. One example is Terveystaloy Oy, a health-care fund established by Sitra in September, which makes investments in public-private-partnership health-care services.

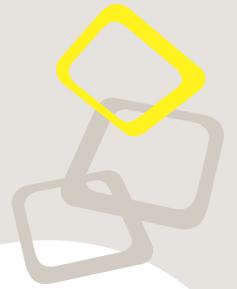
“The aim of the fund is not to privatise services. We are simply offering an alternative form of ownership for the new service companies. In this way, we can promote the transparency and effectiveness of services and accelerate the introduction of the purchaser-provider model,” says Hanhijärvi.

Read more: www.sitra.fi/en/programmes/health_care



Hannu
Hanhijärvi:
“We are striving
for what is best for
the public.”

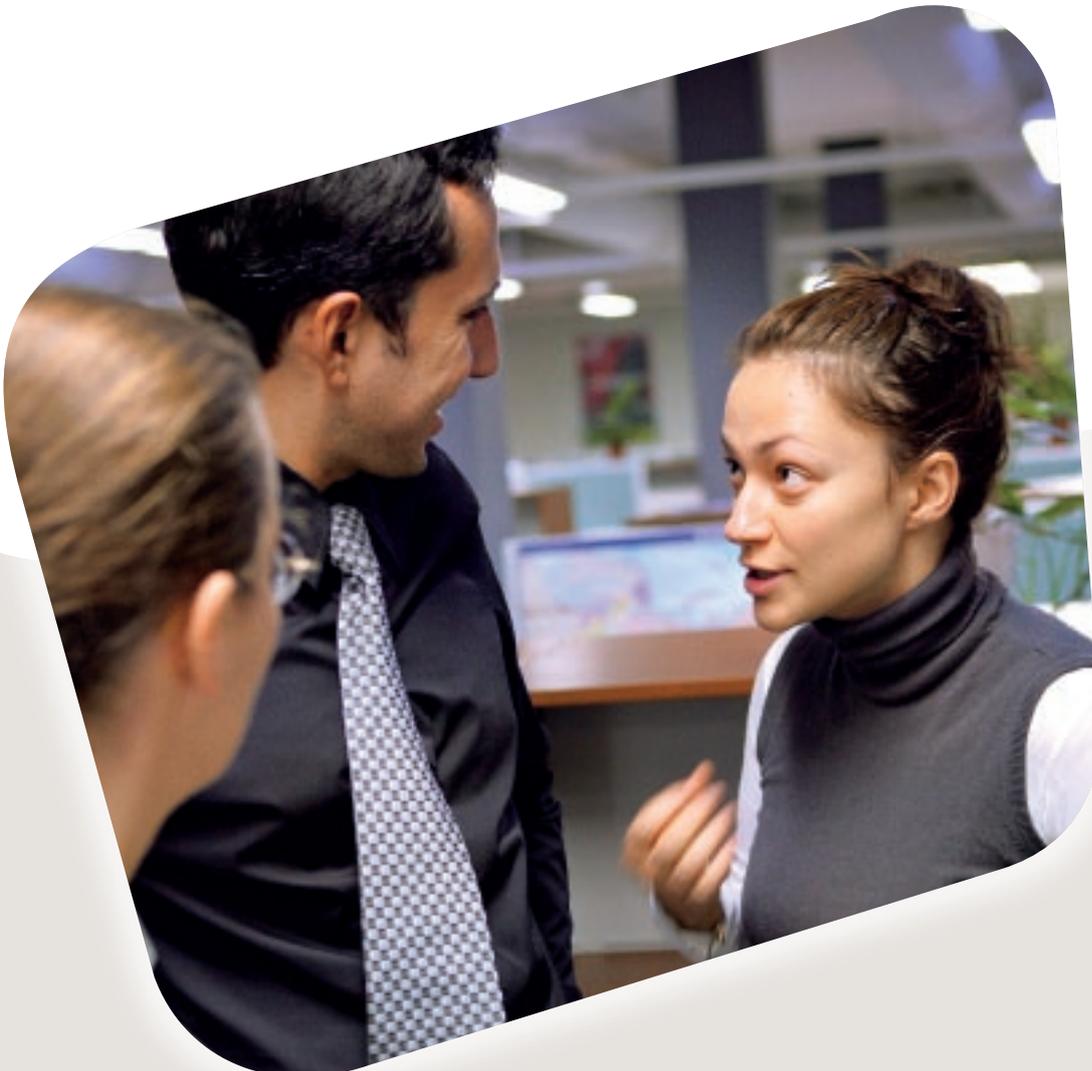




New operating models emerge through experimentation

Sitra boldly ventures into spheres of society that no other body is as yet interested in taking responsibility for renewing. Sitra's role has changed in the past few years: in addition to initiating projects, it now also participates more forcefully than before in implementing them and in helping establish new practices together with its partners. The aim of Sitra's programmes is to seek out and test best practices both in Finland and abroad. When a new operating model that has been found to be good has been established and a good setting has been found for it, Sitra relinquishes its leadership responsibility and moves on to new challenges.

Innovation often requires risk taking and new approaches. It is important to be able to let go of old attitudes and operating methods and to clear the way for new good practices. Sitra ensures that there is a favourable climate for innovations. It is also prepared to take risks and to take responsibility in cases where the success of projects cannot be guaranteed. As a public body, Sitra is a reliable partner.



INDUSTRIAL PARK OFFERS NEW OPERATING MODEL FOR COMPANIES

The industrial park project is co-ordinated by Sitra's Russia Programme and is part of the Integration sub-programme within the Russia Programme. Its participants include about 80 SMEs looking for new operating and networking potential in Russia. There are about 20 companies, chiefly in the machinery and equipment sector, that are interested in the industrial park.

The industrial park will be built on a plot of land of some 20 hectares near St. Petersburg. The plot was found after a thorough search; some thirty possible locations were explored.

"We want to give entrepreneurs as realistic an impression as possible of the development of the Russian economy and the operating conditions over there. Finnish SMEs are small operators on the Russian market. Sitra has offered them the support of a bigger organisation, the potential for starting operations in Russia: feasibility studies and consulting services, legislative concepts and training. We are acting as the trailblazer for the project and are responsible for Russian stakeholder relations. We have constructed a new operating model built on these

companies' needs. If it works, similar industrial parks can also be built elsewhere in Russia," says **Maaret Heiskari**, Executive Director.

Sitra will handle the negotiations on investor benefits for the companies, but it will not participate in the building of the industrial park or in the investments. Instead, these will be handled by an international real-estate investor and a construction company. The companies will purchase the real estate and maintenance services from the real-estate company and focus on their own activities. Sitra is both the public force behind the project and its co-ordinator.

The service providers that will operate in the administration building of the industrial park will offer the Finnish companies services such as economic and personnel administration, logistics services and health care, and also catering, banking and insurance services.

Construction of the industrial park in Russia will begin in 2007, and the registration of local Finnish companies will proceed in tandem with the construction process. Industrial facilities of about 80,000 sq m are scheduled for completion in spring 2008.

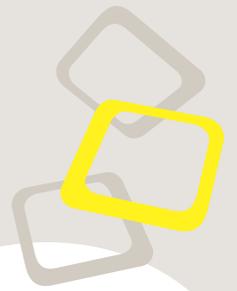
"This project will not take jobs away from Finland; quite the contrary: as these companies expand their operations into Russia, this will also bring more orders to Finland."

Read more: www.sitra.fi/en/programmes/russia



Maaret Heiskari:
"Russia is
an opportunity
for Finland."





Expertise and capacity to change

Strategy processes create a shared vision

The general objective of Sitra's programmes is to influence social decision-making and the capacity of Finnish society to renew itself. A crucial aspect of this is to attain agreement on the need for renewal.

Reliable and current information is essential in reinforcing the willingness to change. Sitra's programmes produce reports on topical issues that are important for Finland, for the use of decision-makers and experts alike.

The mutual understanding and shared information between different sectors are reinforced in the strategy processes of Sitra's programmes. The programmes invite some of the leading Finnish decision-makers and experts from the programme areas; these leaders then network and explore the opportunities and future challenges of their particular fields from many different perspectives. Drawing on their discussions and the international research findings, they then create a vision and strategy for their field, complete with an action plan that will help attain the goals.

Thanks to initiatives from Sitra, an innovation strategy and Finland's economic strategy for Russia were drawn up in 2005, and a national food and nutrition sector strategy in 2006. A national action plan for developing environmental businesses will be published in 2007.



THE FOOD AND NUTRITION SECTOR IS APPLYING AN AMBITIOUS STRATEGY

Actors in the food and nutrition sector in Finland have decided that Finland will establish itself as a competitive forerunner in healthy nutrition by 2015. This was the conclusion of a strategy report published in May 2006 as part of Sitra's Food and Nutrition Programme, ERA.

"What is important is that the unprecedented co-operation that was created within the strategy project will continue in the sector during the programme and after it ends. In addition to Sitra, the process participants included 30 experts from primary production, research, large- as well as small- and medium-sized food companies, trade, public administration and public health organisations," says **Anu Harkki**, Executive Director of the programme.

According to the strategy, Finland aims to become a forerunner in the area of smart food. Smart food is created by combining the quality of basic Finnish foods with expertise in developing functional foods, an area where Finland is already a European forerunner with export potential. Smart food and smart eating are a topic of interest outside Finland, too, as lifestyle diseases compromise well-being in all countries experiencing economic

growth. Enjoyable food that helps prevent cardiovascular diseases, diabetes and obesity, which are national chronic diseases in Finland, is smart food at its best.

"Finland is in an excellent position to become a forerunner because we are already answering the challenge presented by the Confederation of the Food and Drink Industries in the EU (CIAA) in the ETP "Food for life" vision in 2005 to actors in the food industry in all EU Member States to engage in social involvement," Harkki says in an outline of the strategy process. "We all want people to stay healthy and fit for work, and the food industry shares this aim."

A key factor in improving the competitiveness proposed in the strategy is the establishment of the Strategic Centre for Science, Technology and Innovation in the field of food and nutrition. It will help focus and co-ordinate research, reinforce co-operation on innovations and promote the commercialisation of research results.

"The Strategic Centre will enable us to become a global forerunner in selected fields. It will have considerable economic impact throughout the Finnish food chain," Harkki says.

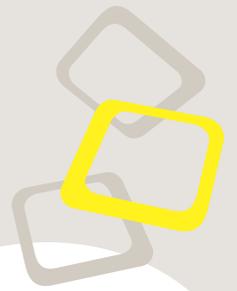
The image of a model country of healthy nutrition will also be constructed by reinforcing the SME sector through measures such as creating mini-clusters, through venture-capital investment and mentoring.

The Smart Snacks project, aimed at children and young people, started in autumn 2006. The project encourages children and young people to grow into healthy adults through sensible eating. The public and the private sectors are involved in far-reaching co-operation to develop school meals and healthy snacks.

Read more: www.sitra.fi/en/programmes/era



Anu Harkki:
"We are making
Finland a competitive
forerunner in healthy
nutrition."



Corporate funding brings growth and internationalisation

Sitra's aim is to create and develop new international business operations in Finland because, in order to succeed, Finland needs competitive companies that are internationally networked. Corporate funding has long been one of Sitra's foremost tools. At the end of 2006, there were about 100 companies in Sitra's portfolio. Sitra makes new venture-capital investments in companies operating in its programme areas that have the capacity and desire to enter international markets. New investments were made in the Health Care Programme, in the Environmental Programme and in the Food and Nutrition Programme ERA. In addition to funding, Sitra contributes expertise by participating in the companies' Boards of Directors.

Co-operation with the companies also gives Sitra practical information on the needs of the companies and helps develop new innovative services, particularly for start-up companies. As an example, Sitra's PreSeed service accelerates the process of bringing companies into the sphere of venture-capital funding. Experiences gained from the PreSeed services help Sitra develop more new services, particularly for the commercialisation of top-level research. The Development Programme for Business Incubators (Yrke), aimed at public bodies, helps make business incubators in Finland more effective so that they can better serve knowledge-based companies aiming for international markets.



CLEANTECH DEVELOPS INTO A NOTABLE INVESTMENT TARGET

In 2006, the Environmental Programme commissioned a report on the international finance market for clean industrial technologies (cleantech). The results show that environmental issues and responsible investment are clearly becoming part of the investment policies of major institutions and corporations.

There are also promising cleantech companies in Finland that need capital and expertise in order to succeed.

“Our aim with the Environmental Programme is to contribute to generating profitable business operations with a focus on the environment,” says **Jukka Noponen**, Executive Director of the programme.

The central tool in the programme is venture-capital investments. In 2006, the programme made investments in the internationalisation of two companies. “Our search for investment targets focuses on companies that strive for technological development, internationalisation and growth. Sitra’s main role is to pave the way for an increase in corporate financing and other venture-capital investors.”

In addition to capital, the programme also offers portfolio companies expertise by actively participating in the work of each company’s Board of Directors.

“We strive to create new funding models, among other things. Finnish companies employ good technology, but they often do not have their first references. Cleantech products are often investment intensive and consequently, clients tend to be unwilling to take risks with the adoption of new technologies.”

The programme strives to help companies become international. Co-operation projects are currently in progress in markets in North America, China, Russia and India. In order to enter international markets, companies must develop a new approach. Instead of separate innovations, their clients need complete concepts, and the implementation of such concepts often requires the founding of consortiums. Involvement in a consortium brings SMEs opportunities for rapid internationalisation.

In order to reinforce the cleantech sector, it will also have to be profiled. The international Cleantech Forum for investors, clean technology companies and development organisations in the field convened for the first time in Finland in June 2006. Sitra’s Environmental Programme was one of the main organisers of the event. Reinforcement of the sector continues through the implementation of the national action plan entitled Cleantech Finland during 2007. Some of the main actors in the industry have participated in drafting the action plan.

Read more: www.sitra.fi/en/programmes/environment



*Jukka Noponen:
“We aim to boost
environmental
business.”*



Co-operation across borders



Open exchange of views

For over 40 years one of Sitra's strengths has been in creating co-operation. Actors from different fields meet at seminars and workshops, training programmes and discussions arranged by Sitra. Useful opportunities for decision-makers and experts to meet and initiate co-operation are provided within all Sitra programmes.

The aim is to create discussion forums where different experts can freely exchange opinions and experiences. Being independent and unaffiliated, Sitra generally succeeds in even bringing to the negotiating table parties that might otherwise find it difficult to co-operate.

Sitra creates close and confidential interaction with partners from Finland and elsewhere and also with other public actors.



SITRA GATHERED TOGETHER VISIONARIES FOR A NATIONAL FORESIGHT NETWORK

The Innovation Programme initiated a National Foresight Network at the start of 2006. The aims set for the network were to identify the new challenges facing Finnish society and to bring them to the attention of decision-makers and public debate. Another aim for the network is to intensify the interaction between Finnish experts in the field and decision-makers. The network was involved in co-operation with bodies such as the Foresight Forum of the Ministry of Trade and Industry, the Foresight Network of the Prime Minister's Office and the joint FinnSight 2015 project of the Academy of Finland and Tekes.

The members of the network discussed the change trends and weak signals in Finnish society and its operating environment with fresh insight, using the latest anticipation information. They worked in theme groups in

workshops and seminars. The themes chosen for the network's first year were welfare and everyday life, working life, the public sector, the environment and multiculturalism. The results were published in the Finnish-language final report, *Kohti hyvinvoivaa ja kilpailukykyistä yhteiskuntaa* (Towards a competitive welfare society).

"Joint discussions on the future between experts and decision-makers help construct a common view of the future that supports inter-organisational co-operation and co-ordination of their operations," says **Timo Hämäläinen**, Foresight Director at Sitra, who edited the report. "Other institutions can use the work of the National Foresight Network to start research and studies of changes that they consider important. The report has attracted wide interest."

The report highlights the silent change that has affected everyday welfare, something that has been overshadowed by the public debate on the globalisation of the economy and the renewal of the welfare state.

The themes of the report were also dealt with at the *TulevaisuusFoorumi - Future Forum*. The Forum brought together an impressive gathering of experts and decision-makers, who spent two days pondering Finland's future.

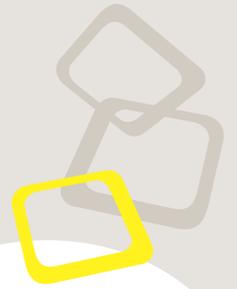
Sitra will continue to develop and network Finnish anticipation activities. In 2007, the emphasis will be on developing the processes for utilising anticipation information.

Read more: www.sitra.fi/en/innovations



*Timo Hämäläinen,
Foresight Director:
"We need information
on the challenges
Finland will face
in the future."*





Opening the doors to the world

In addition to solid national networks, Finland also needs international networks. We cannot afford to be left on the sidelines of globalisation. Through its activities, Sitra strives to open the doors to the world.

All Sitra programmes search for new opportunities outside Finland's borders. The Russia and India Programmes are helping to augment Finnish awareness of the economies and cultures of the two countries in question and thus create a good foundation for co-operation. The Health Care Programme is creating a constant connection with the most advanced service providers in the USA and the European Union. With the help of the Environmental Programme, SMEs in environmental technology are getting networked into markets in North America, China and India. The Environmental Programme and the Food and Nutrition Programme ERA are both using experience, contacts and operating models gained from the Russia Programme. Financing activities are also international. Sitra has good contacts with international investors. Sitra's PreSeed service is participating in an EU project aimed at creating a network of European business angels.



COMPETENCE EXCHANGE PROVIDES MUTUAL BENEFITS FOR FINLAND AND INDIA

The India Programme provides and disseminates information on the opportunities created by developments in India and builds networks with partners in Finland and abroad. The focus is on creating co-operation beneficial to both Finland and India.

The India Programme has produced information on India from many different perspectives. In 2006, for instance, a four-part series entitled *Suomalaisten Intiat* (Finnish Indias) was published, giving information on the regions, growth centres, population groups and business sectors that interest Finns.

The third phase of the India Programme will focus on promoting expert exchange between Finland and India.

Vesa-Matti Lahti, Research Manager at Sitra and Head of Sitra's India Programme, will be working in India for much of 2007: in New Delhi in the north in spring and probably in Chennai in the south in the autumn.

"My office is in the Finpro export centre. Finpro India is a natural choice of partner even in terms of its strong

local knowledge and good contacts. I will be visiting prominent universities and research institutions and marketing Finnish universities and polytechnics. Some letters of intent were signed years ago, but there has not been enough practical co-operation and competence exchange. My task will be to encourage more activity in this area and to initiate new co-operation."

The plan is to invite an expert from India to engage in similar networking in Finland. He or she would be based at Sitra.

"There are great benefits to be gained from meetings and networking between individual people. Even a couple of people who are good at networking may generate a great deal of co-operation between our countries." Sitra has allocated EUR 200,000 in the form of Sitra Fellowships. CIMO (the Centre for International Mobility), an organisation under the auspices of the Finnish Ministry of Education, is in charge of the implementation of this grant programme, which started at the beginning of 2007.

"With these grants, we hope to improve mobility between India and Finland and support the internationalisation of research and education, and also create contacts between Finnish and Indian universities and research institutions," Lahti says.

The India Programme will finish at the end of 2007.

"We believe that we are sowing seeds and opening new doors with our India Programme. However, we may have to wait a number of years to see the tangible benefits of the competence exchange."

Read more: www.sitra.fi/en/programmes/india



*Vesa-Matti Lahti:
"We are promoting
co-operation between
Finland and India."*



A skilled workplace with rapid response to change

When Sitra transferred to a programme-based operating model in accordance with its new strategy, the organisation was restructured to comply with the new requirements. Where Sitra personnel were concerned, the change required the ability to adapt, a willingness to develop and an ability to co-operate flexibly across boundaries between programmes and units.

One challenge in this new operating model is to secure expertise in all programme areas. The best experts in the field are needed for the programmes. The emphasis in Sitra's personnel administration is on personnel exchange with partner organisations and fixed-term employment relationships of the same duration as the programmes.

Direction of development outlined by the personnel strategy

Personnel administration is developed systematically and with a long-term perspective. The personnel strategy drawn up in autumn 2006 outlines the personnel-related aims up until 2008.

The aim is to ensure that Sitra has a skilled staff and a personnel structure that allows a rapid response to change, that everyone is fully aware of the importance of networking both in Finland and abroad, that people approach new phenomena and challenges with an open mind, and that any uncertainty in the operating environment is viewed simply as an aspect of constant change.

A corporate culture in line with Sitra's values will be reinforced. Sitra's operations emphasise a customer focus, a goal-oriented approach, improvement of exper-

tise and initiative, openness and co-operation with respect for the individual. In developing the operations, supervisors play a key role. They will be given training and opportunities for exchanging experiences and learning from each other. The entire staff gather for an afternoon together five times a year. The workplace atmosphere is assessed in annual surveys.

Improving and exchanging expertise

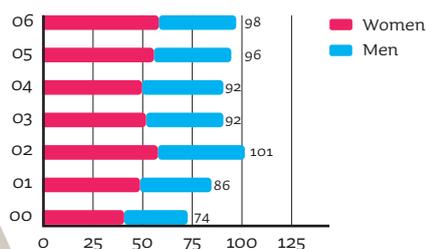
With the introduction of the programmes, an international outlook has become a natural aspect of the work of each employee at Sitra. A skilled employee is able to operate and improve co-operation in an international environment as elsewhere.

Systematic training and development programmes support personnel in their occupational development and in career advancement.

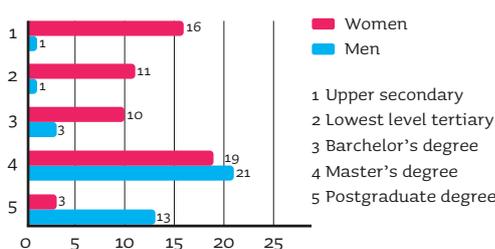
Language training has been overhauled and streamlined. Preparations are under way for introducing job rotation in organisations in Finland and elsewhere. In 2007, Sitra will also begin preparations for international competence exchange.

The upgrading of Sitra's ICT systems will also present another new challenge in terms of expertise. The new system will comprise intranet, extranet and Internet services, and also project management, client management, document management and archiving functions. The latter parts of the system will be introduced in 2007. The entire personnel will make the transition to using uniform ICT tools, something which will make our work easier and more efficient.

Sitra's personnel 2000–2006



Distribution by education 2006







From the left
Esko Aho, Pekka Pokela,
Satu Lähteenmäki, Raimo Sailas,
Erkki Virtanen, Markku Linna
and Pia Heikkurinen.

Sitra's Supervisory Board and Board of Directors

Board of Directors

Chairperson

Raimo Sailas,

Permanent State Secretary

Ministry of Finance

Member of the Board since 1995

Vice-chairperson

Erkki Virtanen, Permanent Secretary

Ministry of Trade and Industry

Member of the Board since 1998

Markku Linna, Permanent Secretary

Ministry of Education

Member of the Board 1995–2006

Satu Lähteenmäki, Professor

Turku School of Economics and

Business Administration

Member of the Board since 2003

Pekka Pokela, Management Consultant

Eera Finland Oy

Member of the Board 2004–2006

Esko Aho, President

Sitra

Member of the Board since 2004

Secretary

Pia Heikkurinen, Executive Assistant

Sitra

Secretary of the Board since 2006

New members of the board 2007–2008

Anne Brunila, President

Finnish Forest Industries

(Replacing Pekka Pokela)

Harri Skog, Permanent Secretary

Ministry of Education

(Replacing Markku Linna)

Supervisory Board

Chairperson

Mari Kiviniemi, MP

Vice-chairperson

Jouni Backman, MP

Arja Alho, MP

Janina Andersson, MP

Jyri Häkämies, MP

Jyrki Katainen, MP

Martti Korhonen, MP

Markku Koski, MP

Eero Lankia, MP

Secretary

Anton Mäkelä, L.I.B

Board report for the year 2006

OPERATING ENVIRONMENT

The world economy grew vigorously during the year. Economic activity improved across a wide geographical area as the economies of Europe and Asia began to pick up noticeably. Economic growth for the whole year reached over five per cent.

The Finnish economy grew clearly faster than the euro-zone average in 2006. This favourable trend was boosted by foreign trade, which continued unabated, and particularly the export success of metal industry products. The growth in domestic consumption was helped along by households' solid confidence in favourable market trends and an improvement in the employment situation.

The international stock market showed a very favourable development, measured by yield figures, in Europe and especially in Finland. The yield figures of many emerging markets also remained high. Investors encountered disappointments mainly on the stock markets of North America and Japan. As market rates rose, the return on interest-bearing instruments remained modest.

FOCUS POINTS OF SITRA'S OPERATIONS

2006 was the 39th year in the history of Sitra, the Finnish Innovation Fund. During the year, Sitra continued its programme-based operations in accordance with its strategy.

During the year, operations focused on the Innovation Programme, the Health Care Programme, the Food and Nutrition Programme, the Environmental Programme and the Russia and India Programmes. The Innovation Programme was completed at year end. Following the end of the programme, innovation operations, which are part of Sitra's fundamental tasks, were reorganised to become a permanent part of the operations as of the beginning of 2007.

Sitra's operations are financed with the yield from its endowment capital and its corporate funding. The returns on both endowment capital and venture-capital operations were excellent during the year. The total sum of Sitra's investment decisions came to EUR 28.6 million and the profit for 2006 was EUR 73.1 million.

PROGRAMMES

Innovation Programme

The Innovation Programme started in autumn 2004 with a strategy process that brought together the key players in the Finnish innovation system. The programme had completed most of the projects defined in its action plan by the end of 2006, so it was decided to terminate the programme at the end of the year. A new unit that focuses on

innovation operations will continue Sitra's work to develop the Finnish innovation environment.

During the year, Sitra carried out a pilot project for the National Foresight Network within the Innovation Programme. On the basis of experiences gained during the pilot stage, it was decided to continue the operations of the network with the aim of improving the interaction between anticipation experts and the decision-makers who need anticipation data, thus improving the utilisation of anticipation data in Finnish decision-making.

In accordance with the action plan for the programme, a Finnish innovation centre, FinNode, was established in California during the year, and a new centre promoting clustering in digital content production and services, Forum Virium, was established in Helsinki. Sitra has played an important part in the roll-out of the operations of both centres.

The projects Innovative Reform of the Welfare Society, Innovation and Creativity Management, and Tax Incentives and Innovation and Entrepreneurial Policies all published their final reports during the autumn. The last projects in the programme – the Innovation Environment in China and Reasons and Mechanisms for Dropping Out of School – will end in spring 2007.

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

Sitra and Tekes's joint funding programme LIKSA, which had been in operation for five years, concluded at the end of the year. The purpose of LIKSA was to accelerate initial investments in potential growth companies by providing expertise and funding for making a commercialisation plan for the companies. Studies show that LIKSA had considerable impact on initial investments.

During the year, Sitra arranged six INTRO business forums, where more than 40 companies were introduced to business angels. The community of nearly 450 business angels gathered by Sitra is the biggest single network of its kind in Europe. Over a period of four years, nearly 180 companies have been introduced at the INTRO marketplace, and more than 30 per cent of them have found initial investments at the marketplace. Sitra was also invited as an expert member to the two-year EASY development project to be initiated by the European Union in September. The aim of the project is to create a European marketplace for early-stage companies and to attract cross-border investment in these companies from business angels.

Operations focusing on business development and the commercialisation of technology are developing operating

Accounts

models for the main intermediary organisations in the innovation system. Sitra collaborates with regional players to boost the number of new innovative companies and the commercialisation of technologies and expertise that derive from universities and research institutions.

The Development Programme for Business Incubators (Yrke) focused on ensuring that the development measures agreed earlier were implemented and that new models and tools were introduced into the business incubator operations. By the start of 2006, the number of new knowledge-based incubator businesses had nearly doubled since the start of the programme, and it is estimated that there will continue to be about 200 businesses a year.

Health Care Programme

Sitra's participation in the preparation of a national electronic health-record system was one of the main tasks of the Health Care Programme in 2006. Working together with the Ministry of Social Affairs and Health, the Government's Ministerial Group on the Information Society Programme and with international partners, Sitra drew up a proposal for a new operating procedure that would help remove the obstacles to utilising the electronic health records systems of each region and thus ensure a seamless operation of services. As a result of the project, the Ministry of Social Affairs and Health drafted bills on national electronic archiving of patient data and electronic prescriptions, which were passed by Parliament in December. The laws will enter into force on 1 April 2007. Thanks to the project, a unit governing the development of electronic health records was established at the Ministry of Social Affairs and Health. Implementation of the project was made the responsibility of the Social Insurance Institution of Finland.

One of the programme's aims, to set up a new health-care fund, was attained in autumn 2006, when the Terveysturva Oy health-care fund was established, operating as a limited company. The capital of the new fund came to over EUR 25 million at year end, of which Sitra's contribution accounted for close to 40 per cent. Following the

founding of the fund, it made two new investments and exited from one investment towards the end of the year. The fund's management company is Korona Invest Oy.

As part of the Health Care Programme, Sitra strives to establish best practices in the health-care sector, including internationally verified practices. In order to facilitate this, Sitra together with the local authorities responsible for the field began during the year to analyse health-care expenditure and the care processes currently in use and their productivity in primary health care and hospital care. The regions of Jämsä, Vaasa, Lahti, Raisio and Naantali agreed to act as testing grounds. The project also involves a new approach to activating health-care clients. The testing of the Citizens' Health Portal, which is in progress at present, is an excellent opportunity to improve the seamless co-operation between health-care clients and staff.

Food and Nutrition Programme, ERA

The report Food and nutrition sector strategy report: Finland – a competitive forerunner in healthy nutrition was published in May. During the year, Sitra worked with key actors in the sector to promote the guidelines and proposed measures put forward in the report.

One proposed measure that would improve the effectiveness of research and development in the sector is to establish a Strategic Centre for Science, Technology and Innovation in the field of food and nutrition, as defined by the Science and Technology Policy Council of Finland. During the year under review, Sitra co-ordinated and advanced preparations for the Strategic Centre together with the Finnish Food and Drink Industries' Federation. A group of representatives of trade and industry were invited to help outline a strategy for research, development and commercialisation in the food industry.

Fifteen different organisations are involved in the Coeliac minicluster, and models for supporting the cluster's international business operations were sought in co-operation with Finpro. Work with the Finnish Coeliac Society focused on building co-operation and exerting an influence on European and national organisations in the sector.

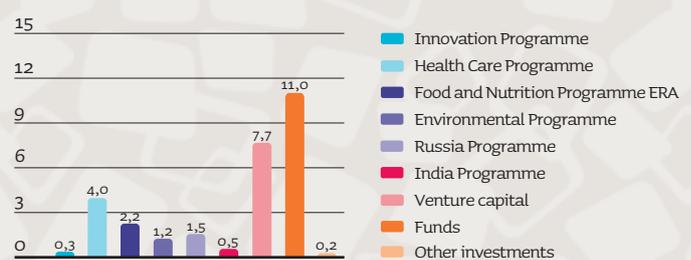
Funding decisions 2000–2006

€ million



Funding decisions by area of operations 2006

€ million



The Berry minicluster arranged a research forum with the aim of exploring ideas involving berries that could profitably be turned into commercial products. A second research forum was arranged in November, and December saw the Berry minicluster launch seminar, whose participants included businesses and players in the sector together with the main organisations and research institutions.

The Russia minicluster convened three times during the year, and more than 50 companies were involved in the work of the cluster. Arranging logistics for small consignments of goods has become the foremost area of the cluster.

Sitra worked to promote the health of schoolchildren through its Smart Snacks Project, implemented in co-operation with a broad selection of other organisations. They include the National Public Health Institute, the University of Oulu, the University of Kuopio and Finnish Bread. The project strives to identify ways of improving children's health while creating practical models that can be exported.

During the year, the programme made its first venture-capital investment in the food industry.

Environmental Programme

The Environmental Programme strives to boost the growth of environmental business operations and their internationalisation, and to help the sector become more unified.

The national action plan Cleantech Finland was drafted by a working group that comprised representatives of businesses, organisations, authorities and research institutions in the sector. The strategy process comprised four workshops of different durations and field trips to the Netherlands, Denmark and Japan. The aim of the action plan is to make Finland a leading country in environmental business operations and to turn cleantech into a cornerstone of Finnish industry. In the interest of reaching these goals, four sets of measures were prepared. These are concerned with Finland's image as an environ-

mental country and marketing this environmental expertise, and with developing the domestic market, top expertise and networks.

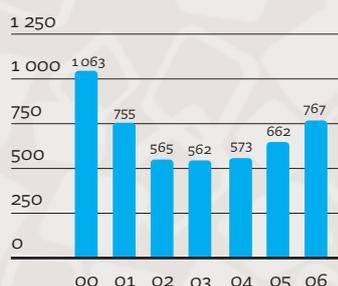
In order to improve the conditions for environmental business, the programme developed the statistics systems for business operations in the sector and in venture-capital investments, for instance. Agreement was reached with the Finnish Venture Capital Association concerning monitoring of investments in the sector. Together with Tekes and the Chemical Industry Federation of Finland, Sitra studied the opportunities for the Finnish business sector created by the EU's new regulatory framework for the Registration, Evaluation and Authorisation of Chemicals (REACH) and the establishment of the European Chemicals Agency. Sitra also worked with the Ministry of the Environment to prepare a business plan for oil-spill prevention and response in the Gulf of Finland. Together with Greenet Finland and Measurepolis, Sitra initiated the development of business activity in environmental measuring and monitoring. Sitra also drafted a project plan for the commercialisation of the value chain in environmental measuring and monitoring. The programme also explored obstacles on the domestic market and ways of improving the market, conducted a skills survey of the waste management and recycling sector, and developed the purchaser-provider model for the provision of municipal water management with municipalities in the Kouvola region.

Sitra studied the funding of environmental business operations and the development of international funds and the requirements for an environmental fund. Sitra participated in two projects of the Nordic Innovation Center in order to develop Nordic co-operation in the funding of environmental business operations.

Business networking projects for the international market focused on India, China (Finnish Environmental Cluster for China, FECC), North America (North American Access Programme, NAAP) and Russia. Numerous small and medium-sized enterprises and leading-edge enterprises in the environmental sector are involved in

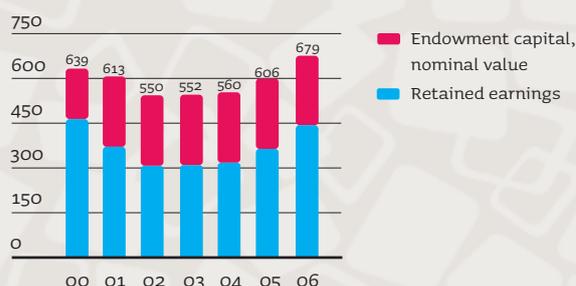
Market value of endowment capital 2000–2006

€ million



Sitra's equity 2000–2006

€ million



Accounts

the projects. The companies test and develop different operating models together with their partners.

Sitra arranged numerous events linked with the environmental sector. Cleantech Forum Lahti gathered together companies, investors and experts in the environmental sector. Finnish companies had more success than others in the European Business Awards for the Environment scheme, whose Finnish award scheme had been arranged by Sitra. Sitra was involved in a Nordic environmental technology workshop, arranging seminars on topics such as anticipation, environmental measuring, cleantech investments and funds.

The Russia Programme

Finland's economic strategy for Russia that Sitra drafted in 2005 produced a great deal of public debate on Russia during the year and further projects were started. In September, the Russia Programme published a comparative analysis by researchers at the Bank of Finland entitled *Russia in the Finnish Economy*, shedding light on the real significance of Russia today for the Finnish economy and Finland's development and welfare. A Russian strategy for the Finnish construction industry was completed, and published by the Confederation of Finnish Construction Industries RT in November.

During the year, Sitra arranged three forums on the topic of Russia. In January, a Finnish-Russian forest industry forum was held to discuss the global trends in the forest industry and the development prospects of the forest industry in Russia; the forum also outlined co-operation models. An event for the Finnish and Russian building industries held in September dealt with the outlook for the building industries of both countries and co-operation models between the private sectors in the countries concerned. The Finnish-Russian construction forum produced initiatives for the creation of bilateral strategic partnerships and new perspectives on the Russian strategy process of the Finnish building industry. In November, a Finnish-Russian logistics forum was arranged in co-operation with a Russian think tank, the Center for Strategic Research.

During the year, a project plan was completed for a Finnish-Russian industrial park in Russia, and the process of obtaining approval and permits for the project of constructing the industrial park began. Sitra, the real estate investor and the construction company are working together to negotiate for investor benefits with the regional administration in Leningrad on behalf of the companies.

The year also saw the start of the Environmental Programme and the Russia Programme's joint Russian network for environmental companies. The project focuses on providing training for Finnish companies, helping them

establish operations in Russia and participate in co-operation projects in the public and private sectors in Russia. The sectoral focus was defined as independent energy production and waste management.

India Programme

During the year, the stage of the programme that focused on producing and disseminating information about India was completed.

In June, a report was published on environmental issues and the commercial potential of Finnish environmental technology in India. A second report published in June dealt with areas and outlook for commercial co-operation between Finland and India. In October, a four-part series entitled *Suomalaisten Intiat (Finnish Indias)* was published, attracting favourable publicity and feedback.

The last report that was part of the information-producing stage was published in December: *The New Geography of Innovation: India, Finland, Science and Technology*. The report was produced in co-operation with the British think tank Demos. The report studied India's rapidly growing effect on global knowledge production and charted the opportunities presented to Finland by this development.

The final stage of the programme, to be implemented in 2007, will focus on promoting Finnish-Indian competence exchange.

VENTURE-CAPITAL OPERATIONS

Sitra Ventures

During the year, the effectiveness of venture-capital operations was boosted by merging the Life Science and Industry Ventures teams into a new unit, Sitra Ventures. The unit chiefly managed venture capital invested by Sitra in previous years and worked with the programme teams to prepare and implement investments in the programme areas.

The market for venture capital showed favourable development compared with previous years. Further investments were made in eight companies. New investors were even successfully recruited for further funding of key portfolio companies, thus ensuring the continued operations of the companies.

There were also successful exits from earlier portfolio companies and the portfolio handled by the Sitra Ventures unit was reduced by 14 companies. There was also a partial exit from three further companies. All exits produced favourable financial results. The year's biggest transaction was the exit from *Mehiläinen Oyj*, a hospital company. At year end, there were 53 companies in the portfolio.

A fund project planned as a means of providing further capital for the 16 portfolio companies chosen in the Life Sciences was abandoned, because investors did not

commit to the full funding needed to set up the fund. However, it was still possible to provide further funding for these companies according to plan thanks to the cash flow from the successful exits.

In the interests of developing Finnish venture-capital operations in general, Sitra conducted a study of the differences in yield of European and North American venture-capital funds. The interviews were conducted in Finland, Israel and the United States. The results were reported at a seminar for Finnish venture capitalists and fund investors in November.

Sitra Management Oy

The task of Sitra Management Oy is to manage Sitra's holdings in management companies engaged in venture-capital operations and to supervise and augment Sitra's investments in venture-capital funds in Finland's neighbouring areas. The company's holding in Bio Fund Management Oy was sold during the year.

ADMINISTRATION

Sitra's Supervisory Board is made up of the Parliamentary Supervisory Council. In 2006, the Supervisory Board convened four times. At the end of the year, the Supervisory Board was made up of the Members of Parliament Mari Kiviniemi (Chairperson), Jouni Backman (Vice-Chairperson), Arja Alho, Janina Andersson, Jyri Häkämies, Jyrki Katainen, Martti Korhonen, Markku Koski and Eero Lankia. Anton Mäkelä, Senior Lawyer, acted as Secretary to the Board.

The Board convened five times during 2006. Members of the Board of Directors were Raimo Sailas, Permanent State Secretary (Chairperson), Erkki Virtanen, Permanent Secretary (Vice-Chairperson), Markku Linna, Permanent Secretary, Satu Lähteenmäki, Professor, Pekka Pokela, Management Consultant and Esko Aho, President. At its meeting on 12 December 2006, the Supervisory Board re-elected the Board of Directors for the next two-year term of office 2007–2008, though replacing Markku Linna with Harri Skog, Permanent Secretary, and replacing Pekka Pokela with Anne Brunila, President.

Sitra's auditors, appointed by Parliament, were the following at the end of 2006: Timo Seppälä MP as Chairperson (with Olli Nepponen as Deputy), and members Arto Bryggare MP (Sirpa Paatero), Esko Kiviranta MP (Mika Lintilä), Markku Koskela, APA (Keijo Kauppinen, APA), and Veli Vanhanen, APA (Arto Kuusiola, APA). The Secretary was Professor, Kalervo Virtanen, APA. The authorised public accounting firm PricewaterhouseCoopers Oy appointed by the Supervisory Board was responsible for Sitra's internal audit and for auditing the targets of Sitra's financing activities. The auditor in charge was Juha Wahlroos, APA.

A personnel strategy was drawn up for Sitra in 2006, outlining the personnel-related aims up to 2008. Staff health was boosted with the introduction of the SYTYKE model for well-being at work, which enabled every member of staff to evaluate their own lifestyle and change their ingrained habits. During the year, several discussion and training seminars were arranged for management. The entire staff gathered five times during the year to discuss Sitra's operations. In autumn, Sitra took part in a survey on the best places to work in Finland. The project for comprehensive upgrading of Sitra's ICT systems progressed from competitive tendering to planning and implementation.

ENDOWMENT CAPITAL

During the year under review, the market value of Sitra's endowment capital increased to EUR 767 million from EUR 662 million at the end of the previous year. The invested assets produced an annual yield of 12.4 per cent. Responsibility for managing most of Sitra's endowment capital has been entrusted to external asset-management companies.

Sixty per cent of the market value of the endowment capital consists of Finnish instruments. ABN AMRO Omaisuu-denhoito Suomi Oy and Mandatum Omaisuu-denhoito Oy manage the Finnish equity portfolio, as well as the interest-bearing instruments in the euro zone. Sitra has also invested Finnish value shares in the OP-Suomi Arvo fund. In addition to these, an investment was also made in March in the OP-Focus fund.

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

Sitra also has holdings in two hedge funds (Union Bancaire Privée's Selectinvest and ABN Amron Multi Strategy). In March, Sitra made a new investment in the OKO Equity Hedge special mutual fund.

Some of Sitra's endowment capital is also invested in venture-capital funds and real estate. The building at Erottajankatu 15–17 was sold in May. In November, investments were made in ABN AMRO's Property Securities Fund Europe, which makes investments in European listed REITs and property investment companies.

PROPOSAL FOR THE DISPOSAL OF PROFIT

The Board of Directors proposes that the net profit for the financial year, amounting to € 73,118,584.41, be carried forward.

Profit and loss account

(€ 1 000)

1 Jan–31 Dec 2006

1 Jan–31 Dec 2005

ORDINARY OPERATIONS**Venture-capital investment**

Income

Profit from sales		25 111	9 398
Income from investment funds		811	2 618
Income from other investments		2 517	1 110

	1)	28 439	13 126
--	----	--------	--------

Expenses

Investment expenses	2)	-6 027	-9 792
Other expenses	3)	-443	-317
Share of general expenses		-2 991	-3 392

		-9 462	-13 501
--	--	--------	---------

Total

		18 977	-375
--	--	--------	------

Programmes and other research and development

Income

Income from projects	4)	10	15
----------------------	----	----	----

Expenses

Expenses from projects	5)	-4 726	-5 300
Other expenses	6)	-628	-489
Share of general expenses		-3 717	-3 260

		-9 071	-9 050
--	--	--------	--------

Total

		-9 061	-9 034
--	--	--------	--------

Administration

Expenses

Personnel expenses	7)	-8 959	-9 040
Depreciation	8)	-290	-303
Other expenses		-3 066	-2 224
Transfer to operations		6 708	6 653

		-5 607	-4 914
--	--	--------	--------

Profit/loss

		4 310	-14 324
--	--	-------	---------

INVESTMENT OPERATIONS

Income from endowment capital	9)	80 009	64 084
Expenses from endowment capital	10)	-11 200	-3 984

		68 809	60 100
--	--	--------	--------

NET PROFIT

		73 119	45 776
--	--	---------------	---------------

Balance sheet

(€ 1 000)

31 Dec 2006

31 Dec 2005

ASSETS**Fixed assets**

Tangible assets

Machinery and equipment

596

488

Shares and participations

14 518

14 518

Other investments

266

77

11)

15 381

15 083

Venture-capital investments

Shares and participations

90 870

88 421

Capital loans

8 023

9 832

Other loans

3 248

6 803

12)

102 141

105 056

Endowment capital investments

Bonds and notes

128 168

122 617

Shares and participations

217 157

170 925

Fund investments

106 547

90 221

Real estate investments

26 807

34 396

Other investments

119 665

98 034

13)

598 343

516 193

715 865

636 332

Current assets

Receivables

Other receivables

14)

4 467

4 352

Cash and bank receivables

2 830

1 299

7 296

5 651

TOTAL ASSETS**723 161****641 983****EQUITY AND LIABILITIES****Equity**

Endowment capital

235 463

235 463

Retained earnings

370 743

324 967

Net profit for the year

73 119

45 776

679 325

606 206

Accumulated appropriations

Reserves from funding operations

17 527

10 708

Liabilities

Short-term

Other liabilities

15)

9 799

11 245

Liabilities from funding operations

16)

16 509

13 823

26 309

25 069

TOTAL EQUITY AND LIABILITIES**723 161****641 983**

Notes to the financial statements

ACCOUNTING PRINCIPLES

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

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

Structure of the financial statements

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

Valuation of investments

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

The balance sheet value of investments in portfolio companies and funds is recorded at their historical acqui-

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

Valuation of fixed assets

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

Useful life as used in depreciation according to plan

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

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

Foreign currencies

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

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

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

Venture-capital investment

	Programmes		Corporate funding		Fund investments		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
1 Income from investments								
capital refunds	0	0	48	61	0	0	48	61
shares in profit	0	0	0	0	811	2 618	811	2 618
interest payments	135	0	602	330	1 408	102	2 144	432
profit from sales	1 216	0	23 895	9 398	0	0	25 111	9 398
dividends	6	0	217	575	47	0	271	575
other income	0	0	54	42	0	0	54	42
Total	1 357	0	24 816	10 406	2 266	2 720	28 439	13 126
2 Investment expenses								
expenses	-580	0	-1 355	-1 833	0	0	-1 935	-1 833
value adjustment	551	-5 036	2 203	-16 996	-28	3 719	2 726	-18 313
change in risk reserve	-887	2 628	-5 931	7 726	0	0	-6 818	10 354
Total	-916	-2 408	-5 083	-11 103	-28	3 719	-6 027	-9 792
3 Other expenses								
other expenses	0	0	-441	-317	-2	0	-443	-317

Programmes and other research and development

	2006	2005
4 Income from projects		
Innovation Programme	0	0
Health Care Programme	0	0
Food and Nutrition Programme	0	0
Environmental Programme	0	0
Russia Programme	0	0
India Programme	0	0
Other research and development activities	10	15
	10	15
5 Expenses from projects	2006	2005
Innovation Programme	-1 217	-819
Health Care Programme	-740	-1 189
Food and Nutrition Programme	-632	-213
Environmental Programme	-1 134	-325
Russia Programme	-508	-673
India Programme	-347	-204
Other research and development activities	-148	-1 877
	-4 726	-5 300
6 Other expenses	2006	2005
Innovation Programme	-32	-45
Health Care Programme	-148	-138
Food and Nutrition Programme	-251	-135
Environmental Programme	-108	-59
Russia Programme	-73	-73
India Programme	-15	-13
Other research and development activities	-1	-26
	-628	-489

Administration

	2006	2005	2004
7 Personnel expenses			
Personnel expenses			
wages and salaries	-6 516	-6 406	-5 523
pension expenses	-1 106	-1 107	-956
other statutory payroll expenses	-596	-788	-648
other payroll expenses	-741	-739	-615
	-8 959	-9 040	-7 742
Personnel at year-end			
Venture-capital investment	24	16	32
Programmes and other research and development	32	38	27
Administration	42	42	33
	98	96	92

Wages and salaries and other payroll expenses from project personnel were € 0.1 million (€ 0.1 in 2005) and are included in expenses from projects.

	2006	2005
8 Depreciation		
Depreciation according to plan		
machinery and equipment	-224	-257
other capitalised expenditure	-53	-44
renovation of office premises	-13	-2
	-290	-303

Depreciation of investment assets € 0.0 million (€ 0.8 million in 2005) has been included in expenses from investment operations.

Notes to the financial statements

Investment operations

9 Income from endowment capital	2006	2005	10 Expenses from endowment capital	2006	2005
profit from sales	55 512	37 487	asset depreciations	-5 467	-2 033
interest income	8 664	7 832	regained depreciations	1 980	4 487
bond price gains	148	3 494	losses on sales	-2 635	-2 133
exchange rate gains	364	1 464	bond price losses	-1 707	-931
dividend income	10 124	10 863	exchange rate losses	-2 163	-667
rental income	2 324	2 453	asset management fees	-710	-625
shares in profit	2 874	491	real estate expenses	-508	-1 570
	80 009	64 084	value adjustment of real estate shares	0	-500
			regained value adjustment of real estate shares	0	0
			other expenses	10	-12
				-11 200	-3 984

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 EUR 0.6 million (EUR 0.3 million in 2005).

	Book value 1.1.2006	Increases	Decreases	Depreciation for the financial period 31.12.2006	Book-value 31.12.2006
machinery and equipment	261	329	17	224	349
other capitalised expenditure	76	131	0	53	154
renovation of office premises	1	124	0	13	112
other tangible assets	227	20	0	0	247
	565	604	17	290	862

	2006	2005
shares and participations		
shares in office premises	14 509	14 509
other shares	9	9
	14 518	14 518

12 Venture-capital investments	2006	change	2005
Programmes	6 612	1 021	5 591
Corporate funding	35 761	-6 288	42 049
Fund investments	58 469	1 535	56 934
Other investments	1 299	817	482
	102 141	-2 915	105 056

Programmes

Shares, participations and other investments held by Sitra

	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Health Care Programme				
Avain Technologies Oy	13%	336	1 314	1 650
GeneOS Oy	60%	3 470	529	3 999
IST International Security Technology Oy	32%	1 561	620	2 181
Medhelp Group Oy	50%	6 585	749	7 334
Medixine Oy	18%	1 026	0	1 026
Prowellness Oy	19%	1 747	272	2 019
		14 725	3 484	18 209

Food and Nutrition Programme

Neomed Oy	10%	13	135	148
Kyrönmaan Juustomestari Oy	14%	34	366	400
		47	501	548

Environmental Programme

AW-Energy Oy	7%	500	0	500
Stellac Oy	14%	750	0	750
Syncron Tech Oy	27%	144	0	144
Waterix Oy	12%	110	0	110
Watrec Oy	25%	400	0	400
		1 904	0	1 904

Programme total

20 661

Cumulative change in value

-14 049

Book value

6 612

Corporate funding

Shares, participations and other investments held by Sitra

Business development and commercialisation of technologies	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Culminatum Oy	3%	14	0	14
Finn-Medi Tutkimus Oy	18%	67	0	67
Helsinki Business and Science Park Oy	14%	168	0	168
Innokarelia Oy	25%	4	0	4
Innotalli Oy	44%	170	0	170
Licentia Oy	31%	435	505	940
Tuotekehitys Oy Tamlink	17%	168	0	168
		1 026	505	1 531

PreSeed	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Confidex Oy	0%	0	20	20
Critical Solution Technologies Oy	0%	0	29	29
Deltagon Group Oy	21%	71	0	71
Dermagene Oy	0%	0	40	40
Detrexim Oy	0%	0	19	19
SpeedPass Oy	0%	0	20	20
Staselog Oy	0%	0	100	100
Vioteq Oy	0%	0	50	50
		71	278	349

Sitra Ventures

Life Sciences

Biotie Therapies Oyj	16%	14 855	673	15 528
Boneca Oy	33%	750	1 250	2 000
BPM-Group Oy	45%	885	53	938
CTT Cancer Targeting Technologies Oy	50%	3 500	0	3 500
Delfin Technologies Oy	37%	55	164	219
FibroGen Inc.	3%	3 515	0	3 515
FIT Biotech Oyj Plc	63%	4 080	2 500	6 580
Galilaeus Oy	60%	5 026	4 662	9 688
Hidex Oy	38%	795	605	1 400
Innomedica Oy	51%	270	571	841
Ipsat Therapies Oy	15%	3 386	0	3 386
Juvantia Pharma Oy Ltd	52%	2 946	1 155	4 101
Karyon Oy	48%	607	0	607
Karyon-CTT Oy	0%	0	405	405
Kibron Oy	23%	257	888	1 145
LAB International Inc.	11%	8 829	0	8 829
Labmaster Oy	30%	175	2 021	2 196
Medikro Oy	18%	129	0	129
Mobidiag Oy	42%	2 568	790	3 358
Nexstim Oy	20%	46	3 560	3 606
Pharmatory Oy	24%	759	540	1 299
QuatrX Pharmaceuticals Company	2%	3 646	0	3 646
Reactionlab Oy	38%	52	805	857
Stick Tech Ltd Oy	13%	1 345	0	1 345
Vivoxid Oy	35%	4 022	0	4 022
		62 498	20 642	83 140

Notes to the financial statements

Other portfolio companies	Shares and participations		Capital loans and other loans	Investment total	Fund investments	Amount
	Holding	Amount	Amount			
Add2phone Oy	20%	1 960	0	1 960	Aloitusrahasto Vera Oy	2 000
Aplicom Oy	24%	796	0	796	Apple Tree Partners II L.P.	4 195
B-Band Oy	14%	151	0	151	Atlas Venture Fund III	1 797
Buildercom Oy	12%	150	250	400	Baltic Investment Fund III	1 002
CadFaster Oy	3%	0	615	615	Baring Capricorn Ventures	211
DBC Management Oy	6%	1 302	0	1 302	Bio Fund Ventures I jatkosijoitusrahasto Ky	500
EC-Engineering Oy	32%	900	0	900	Bio Fund Ventures I Ky	7 571
Enterprike Software Ltd	22%	22	658	680	Bio Fund Ventures II jatkosijoitusrahasto Ky	750
Exomi Oy	14%	666	0	666	Bio Fund Ventures II Ky	2 831
Fimet Oy	47%	496	0	496	Bio Fund Ventures III Ky	3 934
Fluid House Oy	10%	150	520	670	Boston Millennia Partners LP	1 569
Geniem Oy	19%	336	200	536	Crescendo III, L.P.	1 890
Heptagon Oy	19%	3 221	0	3 221	Diamondhead Ventures L.P.	3 822
Kuntokumppanit Oy	29%	833	844	1 677	EBRD North-West and	
Neorem Magnets Oy	40%	808	500	1 308	West Russia Regional Venture Fund	594
Nesenta Oy	50%	4	2 300	2 304	Edison Venture Fund IV	373
Panphonics Oy	36%	1 334	0	1 334	Eqvitec Teknologiarahasto I Ky	2 272
Robogrind Oy	20%	200	520	720	Eqvitec Teknologiarahasto II Ky	4 738
Sabriscan Oy	25%	500	0	500	Finnventure II Ky	49
Seven Networks	1%	1 653	0	1 653	Finnventure III Ky	17
Shanghai Fimet Medical Instruments Co. Ltd	13%	278	0	278	Hambros Advanced Technology Trust III L.P.	703
Solibri Oy	14%	150	472	622	HealthCap 1999 KB	4 788
Space Systems Finland Oy	15%	250	750	1 000	InnKap 2 Partners	957
Tieturi Vision Oy	51%	1 944	0	1 944	InnKap 3 Partners	3 000
TR-Tech Int. Oy	25%	147	0	147	Matkailunkehitys Nordia Oy	3 229
u-NAV Microelectronics Corporation	1%	168	348	516	MB Equity Fund Ky	7
Viope Solutions Oy	15%	160	400	560	Merlin Biosciences Fund L.P.	6 585
VLSI Solution Oy	40%	505	0	505	PMI Venture Fund L.P.	1 897
		19 084	8 377	27 461	Russian Technology Fund L.P.	378
Corporate funding total				112 481	Sitra Management Oy	470
Cumulative change in value				-76 720	Strategic European Technologies N.V.	4 437
Book value				35 761	Technologieholding Central and Eastern European Fund N.V.	1 202
					Trident Capital Fund V	2 728
					Terveysrahasto Oy	10 000
					Ventech Capital II, L.P.	4 861
						85 357
					Cumulative change in value	-26 888
					Book value	58 469

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

Management companies and carried interest units

3TS Capital Partners Ltd
 Baltic SME Management B.V.
 Baltic Venture Advisers Oy Ab
 BIF Management Ltd
 Bio Fund Management Oy

Eqvitec Partners Oy
 European Fund Investments Carried Interest Unit Trust
 Oy Nordic Russian Management Company Ltd
 RTF Founders L.P.
 RTF Management Ltd

Other investments	Shares and participations		Capital loans and other loans	Investment total
	Holding	Amount	Amount	
Chip-Man Technologies Ltd	0%	0	80	80
Easdaq S.A.	0%	138	0	138
Eigenvalue Oy	14%	432	0	432
Hi-Col Oy	0%	0	275	275
Kitewing Sports Oy Ab	0%	0	17	17
Mega Elektroniikka Oy	0%	0	113	113
Megatrex Oy	0%	0	101	101
Navicre Oy	0%	0	252	252
Okmetic Oyj	0%	0	753	753
Optatech Oy	0%	0	1 070	1 070
Oseir Oy	0%	0	150	150
Ras-Met Oy	0%	0	395	395
		570	3 206	3 776

Cumulative change in value -2 477

Book value 1 299

13 Endowment capital investments 2006 2005

Long-term investments			
bonds and debentures	128 168	122 617	
Finnish shares	135 559	112 405	
foreign shares	81 598	58 521	
mutual fund investments	89 318	70 812	
private equity fund investments	17 228	19 408	
real-estate investments	26 807	34 396	
Short-term investments			
bonds and notes	5 467	0	
certificates of deposit	107 560	92 062	
cash accounts	6 438	5 972	
other short-term investments	200	0	
	598 343	516 193	

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

	2006	2005
total market value	464 739	377 952
corresponding book value	306 475	241 738
difference	158 264	136 214

14 Accrued income

Interest for the financial year has been entered as income from investment operations and came to € 3.8 million (€ 3.3 million in 2005).

15 Accrued expenses

Accrued liabilities include € 5.2 million (€ 8.0 million in 2005) debts to private equity funds where agreement has already been made and for which Sitra's liability exists.

16 Liabilities from funding operations

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

LOANS DUE FOR REPAYMENT ENTERED AS EXPENSES 31 DECEMBER 2006

Loans due for repayment have been entered as expenses. They amounted to € 2.2 million at the end of the year (€ 2.5 million in 2005). Of these loans, € 0.8 million (0.8) are sums for which the terms of repayment have been fulfilled and the repayment of which follows a fixed schedule, and € 1.3 million (1.4) are sums for which repayment is bound to royalties instead of a fixed schedule. Loans for which the terms of repayment have not been fulfilled or for which the terms of repayment have not been agreed amounted to € 0.1 million (0.3).

OFF-BALANCE SHEET LIABILITIES 31 DECEMBER 2006

Where funding has been agreed but no agreement yet signed

	2006	2005
Innovation Programme	775	1 599
Health Care Programme	3 684	251
Food and Nutrition Programme	1 781	14
Environmental Programme	496	990
Russia Programme	0	0
India Programme	436	71
Programmes total	7 172	2 925
Corporate funding	7 135	16 088
Fund investments	2 061	5 487
Other investments	848	2 112
	17 216	26 612

Helsinki, 12 February 2007


Raimo Sailas


Erkki Virtanen


Anne Brunila


Satu Lähteenmäki


Harri Skog


Esko Aho

Auditors' report

Having been appointed by the Finnish Parliament as auditors we have examined the bookkeeping, the financial statements, the Board report and administration of Sitra, the Finnish Innovation Fund for the financial period 2006 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 € 73,118,584.41 have been drawn up in accordance with current legislation. The financial statements and the Board report present a correct and adequate description of the Fund's activities and its financial position.

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

Helsinki, 16 February 2007



Arto Bryggare



Timo Seppälä



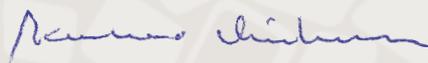
Esko Kiviranta



Markku Koskela, Authorised Public Accountant



Veli Vanhanen, Authorised Public Accountant



./ Kalervo Virtanen, Authorised Public Accountant

Sitra publications 2006

Sitra series

Publisher: Edita Publishing Oy.
Sales: Edita customer services and bookshop and bookshops throughout Finland.

Kiven ja raudan Intia. Vienti
(The India of Stone and Iron. Exports)
E. Grundström
Sitra 276

Nokian Intia. Teleala
(The India of Nokia. The telecommunications sector)
M. Möttölä
Sitra 277

Vaateostajan Intia. Tuonti
(The India of Clothing Buyers. Imports)
S. Särkkä
Sitra 278

It-alan Intia. Kaukohankinta
(The India of IT. Outsourcing)
J. Nousjoki
Sitra 279

Innovatiivisuuden johtaminen
(Innovation management)
T. Antola, J. Pohjola
Sitra 280

Sitra Reports series

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

Virtual Regions?
A Web Site Based Comparison of Finnish and Norwegian Inter-municipal partnerships
S. Sandberg
Sitra Reports 47

Verhovenstvo prava.
Perspektivy
P. Hallberg
Sitra Reports 57

From trade to partnership: Finland's economic strategy for Russia
S.-E. Ollus, N. Torvalds (ed.)
Sitra Reports 58

Koulutuksen taloudelliset vaikutukset. Koulutuksen makro- ja mikro-taloudelliset vaikutukset
(The Economic Impact of Education. The macro- and micro-economic impact of education and training)
R. Asplund, M. Maliranta
Sitra Reports 60

Ympäristötekniikan ennakointi. Taustoja ja puheenvuoroja
(Foresight work in environmental technology. Background and viewpoints)
L. Järvinen (ed.)
Sitra Reports 61

Prospects for India-Finland Economic Cooperation. Areas for Business Opportunities from an Indian Perspective
S. Bhide, D. Mukhopadhyay, D. Singh
Sitra Reports 62

Opportunities for Finnish environmental technology in India
J. Loikala, S. Hulkkonen, S. Itkylä, A. Kaushik, S. Keränen, R. Nisula, U. Roiha, H. Saren, J. Alam, P. Kuusela, T. Phan, T. Rautanen, M. Saijonmaa, S. Strand
Sitra Reports 63

Tuottavuus, innovaatiokyky ja innovatiiviset hankinnat
(Productivity, innovation ability and innovative procurement)
J. Yliherva
Sitra Reports 64

Media uudistuvassa yhteiskunnassa. Median muuttuvat pelisäännöt
(Media in the new society. The changing rules of the media)
J. Wiio
Sitra Reports 65

Russia in the Finnish Economy
S.-E. Ollus, H. Simola
Sitra Reports 66

Yksilön ääni. Hyvinvointivaltio yhteisöjen ajalla
(The Voice of the Individual. The welfare society in a time of communities)
A. Neuvonen, R. Mokka
Sitra Reports 69

The Prospects for Successful Early-Stage Venture Capital in Finland
M. Maula, J. Ahlström, K. Haahkola, M. Heikintalo, T. Lindström, H. Ojanperä, A. Tiainen
Sitra Reports 70

The New Geography of Innovation. India, Finland, Science and Technology
K. Bound, C. Leadbeater, P. Miller, J. Wilsdon
Sitra Reports 71

Other Sitra publications

Food and nutrition sector strategy report: Finland – a competitive forerunner in healthy nutrition
M. Uusikylä (ed.)
(electronic publication only)

Kohti hyvinvoivaa ja kilpailukykyistä yhteiskuntaa. Kansallisen ennakoitiverkoston näkemyksiä Suomen tulevaisuudesta
(Towards a competitive welfare society. Views of the National Foresight Network on Finland's Future)
T. Hämäläinen

All Sitra publications, see www.sitra.fi/en/publications



Sitra at your service

Senior Management of Sitra

Esko Aho, President

Mikko Kosonen, Executive Vice President
from 1.8.2007 (innovative operations)

Kari Tolvanen, Executive Vice President
(administration)

Magnus Sjöblom, Director of Finance
and Corporate Funding

Health Care Programme

Hannu Hanhijärvi, Executive Director

Food and Nutrition Programme

Anu Harkki, Executive Director

Environmental Programme

Jukka Noponen, Executive Director

Russia Programme

Maaret Heiskari, Executive Director

India Programme

Vesa-Matti Lahti, Research Manager

Sitra Ventures

Pauli Marttila, Director

Development of the Corporate Funding

Heikki Ojanperä, Director

Business Development and Technology Commercialisation

Anu Nokso-Koivisto, Director

PreSeed Services

Risto Kalske, Director

Development and Internal Services

Tapio Anttila, Director

Legal Affairs

Jorma Jaalivaara, Head of Legal Affairs

Communications

Laura Niemi, Communications
Manager

Sitra, the Finnish Innovation Fund

Itämerentori 2, P.O. Box 160

FI-00181 Helsinki, Finland

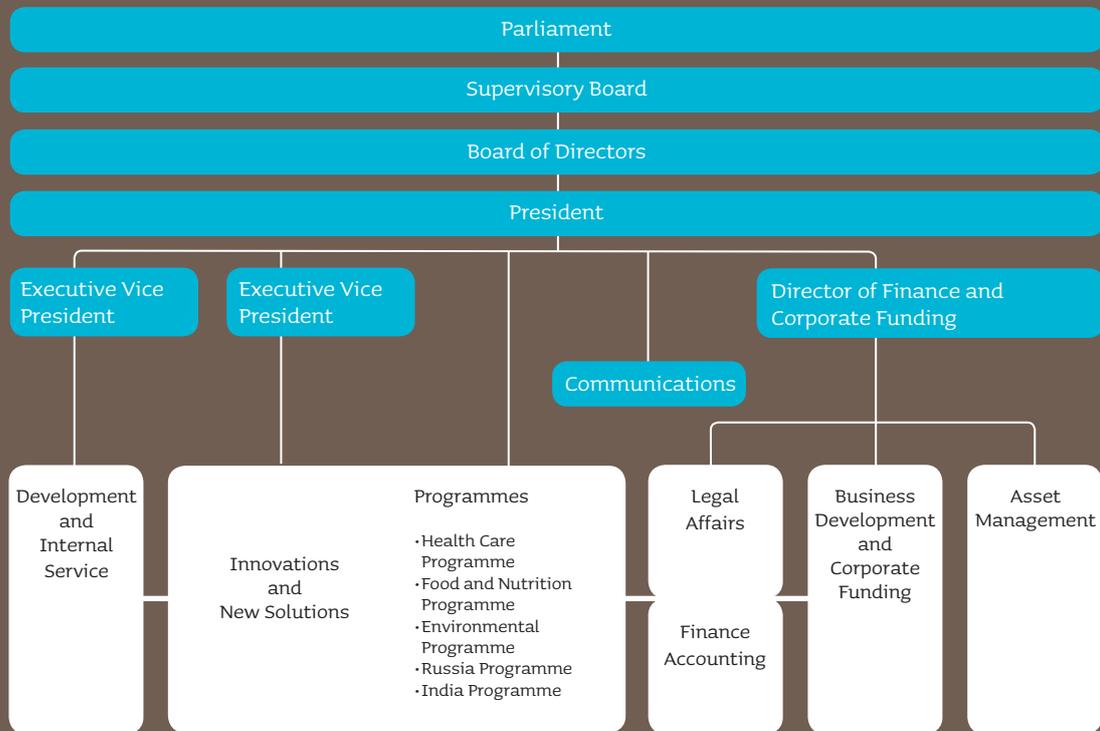
Phone +358 9 618 991

Fax +358 9 645 072

E-mail first name.surname@sitra.fi

Contact details for Sitra staff can be
found on www.sitra.fi/en

Sitra organisation



SITRA