

ANNUAL REPORT 2011

DONATIONS

The Jane and Aatos Erkko Foundation was established in 2002 to support high-level international medical, technological and economic research. The Foundation also supports arts and culture as well as sports and physical education and well-being in order to promote the interests of Finland.

In line with previous years, the Foundation's activities in 2011 focused on processing donations: preparing future donations, monitoring the donations previously granted, surveying new donation recipients and conducting background studies. The Foundation adopted an electronic application system to enable more efficient processing of applications and implementation of decisions.

The number of contacts with the Foundation has increased steadily, with 262 applications recorded in 2011 (203 in 2010; 160 in 2009; 131 in 2008; 62 in 2007). In addition to written applications, the Foundation received numerous enquiries by phone and e-mail. The decisions made and published by the Foundation have improved its visibility. Contacts with universities and other foundations have also increased.

In 2011, the Foundation granted a total of EUR 4,356,436.15 in donations. It continued to contribute to university capital fundraising by donating EUR 1 million to the Hanken School of Economics for its 100th anniversary campaign (HANKEN 100). The Foundation also made a donation of EUR 1 million to Nuuksiokeskus Oy for the construction of the Finnish Nature Centre Haltia and to Crisis Management Initiative (CMI) for enhancing its peace mediation abilities and establishing an office in New York.

In 2011, the Foundation granted the following donations:

Hanken School of Economics, HANKEN 100 fundraising campaign, EUR 1 million

Nuuksiokeskus Oy, for the construction of the Finnish Nature Centre Haltia, EUR 1 million

Crisis Management Initiative (CMI), for the enhancement of peace mediation abilities and the establishment of an office in New York, EUR 1 million

Anu Wartiovaara, University of Helsinki, for research into mitochondria, EUR 415,000

Helsinki Music Centre Foundation, Vienna Philharmonic in concert on 24 February 2012, EUR 200,000

Hanssin-Jukka (Douglas DC-2 aircraft), restoration, EUR 116,000; book and translation project, EUR 10,000

University of Tampere, Summer School Series 2012, EUR 103,000

Taitoluisteluklubi ry, financial support for figure skating, EUR 100,000

Finnish Comics Society, national archiving project, EUR 60,000

Helsinki International Ballet Competition Association, Helsinki International Ballet Competition 2012, EUR 60,000

Icebreaker S/S Turso, EUR 53,000

Icebreaker S/S Turso, visit to St Petersburg, EUR 53,000

Finnish Lighthouse Society, for the renovation of the Märket lighthouse, EUR 50,000

Avanti! Chamber Orchestra, visit to Carnegie Hall, New York, autumn 2011, EUR 30,000

Helsinki Print-Shop Foremen's Club (Helsingin Faktoriklubi), centennial publication, EUR 25,000

Bard College, SummerScapeFestival 2011, New York, EUR 25,000

Ballet dancer Lilli Dahlberg, professional studies, EUR 4,000

Scholarships for Erkko Upper Secondary School of Orimattila:

2 Eero Erkko scholarships, EUR 600 each

2 J.H. Erkko scholarships, EUR 600 each

Ruuto Erkko scholarship, EUR 2,500

Jane and Aatos Erkko Foundation's special scholarship, EUR 1,000

Pitäjäsanomat Oy, 60th anniversary of the *Orimattilan Sanomat* local newspaper, EUR 2,500

American Scandinavian Foundation, Centennial Ball, 21 October 2011, Platinum Table and Silver Table, USD 60,000 (EUR 44,036.15)

Applications for donations and grants are processed at the Foundation on an ongoing basis. The Foundation expects recipients to report on the progress and results of their projects.

Electronic application system

In late 2011, the Foundation adopted an electronic system for processing applications for donations and grants. When submitting an application to the Foundation, applicants provide personal information. This information is entered into a personal data register. Information on the Foundation's privacy policy concerning its registers of applicants and recipients is available on its website.

INVESTMENT AND FINANCING ACTIVITIES

Minister Aatos Erkko donated EUR 20 million to the Foundation in 2011. This donation allowed the Foundation to continue with the expansion of its activities as provided in the Foundation's bylaws.

In the spring of 2011, the Board of Trustees prepared a development plan for the Foundation's investment activities. According to the plan, as the Foundation continues to grow, it will gradually begin to invest directly in shares. The Foundation made preparations to this effect and opened separate accounts for domestic and foreign shares. It also entered into an asset management agreement for its foreign shares. The Foundation has proceeded cautiously in purchasing shares and increased the quantity of its shares moderately.

Income from the Foundation's investments totalled EUR -3,259,253.14 in 2011 (net income EUR 5,106,182.79 in 2010; EUR 8,386,128.00 in 2009). The largest items were profit shares from funds, totalling EUR 2,482,531.44 (EUR 1,690,199.08 in 2010; EUR 1,519,704.86 in 2009), and investment write-downs, totalling EUR 5,408,452.02 (investment write-ups EUR 3,305,086.37 in 2010; EUR 6,733,696.26 in 2009).

Because of the donation from Minister Aatos Erkkö, surplus for the period totalled EUR 12,100,373.56 (EUR 20,026,158.41 in 2010; EUR 5,627,212.46 in 2009). Short-term creditors in the balance sheet, totalling 5,462,946.01 (EUR 4,381,900.00 in 2010; EUR 4,574,500.00 in 2009), consisted of donations to be paid over the coming years in accordance with the agreed schedules.

At the turn of the year, the market value of the Foundation's assets stood at EUR 88.4 million (EUR 79.1 million in 2010). Share investments accounted for 67% (87%) and fixed-income investments for 33% (13%) of the total amount.

Calculated at market value, the return on investment in 2011 was -8.1% or EUR -7.3 million (16% or EUR 10.3 million in 2010). The return on share investments was -11.4% (21.0%), and the return on fixed-income investments was 1.0% (3.0%). The relative result for share investments was slightly lower than the comparison indices. Index funds in Europe and the United States performed well, as did direct investments in Finnish shares. However, small and mid-cap funds in Europe and the United States as well as Finnish and Japanese stock funds underperformed in relation to general indices.

Risk management

The purpose of the Foundation's investments is to maintain and increase the capital over the long term and to ensure steady cash flow and sufficient liquidity for the Foundation's operations. With a long investment horizon, the Foundation's investment strategy is share-orientated, and the investment portfolio is not generally protected.

In line with the Foundation's investment strategy, its investments are dispersed geographically and by sector, company and currency. The Foundation's investments are in liquid securities and funds that can be realised quickly. In other words, the Foundation has a very low funding and liquidity risk.

The domestic and international economy is reflected in the Foundation's investments. The risks are mainly related to the general market risk, that is, the performance of international stock markets and dividend income over the long term. The Foundation maintains liquidity buffers that cover the Foundation's commitments and ensure favourable conditions for its operations.

Assets have been managed and investments have been made in line with the investment policy approved by the Board of Trustees. Matters related to investments have been processed by the Financial Committee.

ADMINISTRATION

Board of Trustees

The Chairman of the Board is Nils Ittonen. His term of office will last until the next annual meeting. Jane Erkko continues as Vice Chair of the Board.

Jaakko Rauramo, Sakari Alhopuro and Heli Rahka were re-elected to the Board as members. The Board members' term of office will last until the next annual meeting. The Board of Trustees convened four times in 2011.

Financial Committee

In its annual meeting on 21 March 2011, the Board of Trustees appointed a Financial Committee with Nils Ittonen as Chairman and Heli Rahka, Marja Leskinen and Karl Tujulin as members. The Board of Trustees requests statements from the committee on important financial issues. The committee prepares matters related to finances for the Board of Trustees and the Working Committee to decide on. The Financial Committee convened seven times in 2011.

Working Committee

In its annual meeting on 21 March 2011, the Board of Trustees appointed a Working Committee with Nils Ittonen as Chairman and Jane Erkko, Heli Rahka and Marja Leskinen as members. The Working Committee prepares matters for the Board to decide on. The Committee convened four times in 2011.

Officials

Marja Leskinen is Secretary General of the Foundation, and Dita Eklund serves as a part-time clerical employee.

AUDITING

In its annual meeting on 21 March 2011, the Board appointed Johanna Perälä, M.Sc. (Econ.), APA, and Samuli Perälä, M.Sc. (Econ.), APA, as the Foundation's auditors, and Sari Airola, M.Sc. (Econ.), APA, and Henrik Sormunen, M.Sc. (Econ.), APA, as alternate auditors.

OUTLOOK FOR 2012

The Foundation will continue with its chosen policy, looking for opportunities to support high-quality international scientific research in accordance with its bylaws and objectives. The focus will be on fairly large projects and operational flexibility.

In addition, the Foundation aims to keep the annual number of donations and grant stable and ensure the continuity of long-term donations. The Foundation's financial situation and its effect on the return on investment assets are considered when deciding about donations.