

## Annual Report 2014

### GENERAL

The Jane and Aatos Erkko Foundation was established in 2002 to support high-level international medical, technological and economic research. The Foundation also has as its aim the promotion of arts and culture, as well as sports and physical education and well-being for the good of Finnish society. Based on its founding charter, the Foundation's aims reflect the values of its founders and are sufficiently broad-based to allow the Foundation to respond to the needs of a changing world.

Ms Jane Erkko, the other founder of the Foundation, passed away at her home on Sunday, 16 March 2014, following a long illness. As the founder of the Foundation and Vice Chair of its Board, Jane Erkko actively promoted the goals set out in its charter to promote high-quality international research, arts and culture. Through her personal input, Jane Erkko highlighted the founders' values and objectives. The Foundation is grateful for her work and will cherish her memory.

With the passing away of Jane Erkko, the Foundation has moved to an era where it can no longer benefit from the personal contribution of its founders. The work that Minister Aatos Erkko and Ms Jane Erkko made in founding and developing the Foundation during the first decade built a solid basis for its functioning. The Board of the Foundation will continue on the way paved by the founders in order to implement the Foundation's purpose in line with their wishes.

### GRANTS

The grants of the Foundation exceeded EUR 32 million in 2014. This includes a conditional grant of EUR 15 million awarded to The Dance House investment project. Other, actual grants awarded by the Board of the Foundation amount to approximately EUR 17 million. The largest individual grant of EUR 3 million was awarded to University of Helsinki 375 – anniversary.

#### Tanssin talo

The decision concerning The Dance House investment project is a major grant in the Foundation's scale and it is intended as a tribute to the two founders. The grant was awarded on the condition that the city of Helsinki and the State participate in the project by way of an adequate investment and that the implementation of the project is agreed in cooperation with other important parties using a framework agreement approved by the Jane and Aatos Erkko Foundation's Board within a reasonable time frame. The framework agreement should be made by the end of the year 2015. Due to its conditional nature, the grant has not yet been recognised as an expense on the income statement.

The allocated grants are specified in Appendix 1.

Appendix 2 includes statistics on the Foundation.

## Decision-making principles

Recipients of grants were selected in accordance with the goals of the charter, and its broader purpose was taken into account when making decisions on grants. In line with the established practice, the Board continued to award grants for larger projects. Due to the large amount of applications received, the Board has had to choose even between high-level projects.

## Criteria for scientific research

In terms of scientific research, the Foundation targeted grants at projects that help Finnish researchers rise up to an international level and status. The Foundation has funded e.g. research visits abroad, on the condition that the visit is long enough, usually at least one year, and that the host institute represents international top level.

In the selection of research projects, key criteria included project goals, the researcher's credentials and professional skills, the project implementation plan and the significance of the results. By granting long-term funding, the Board has wished to guarantee freedom of research and stable working conditions for the researchers.

The goals of the research plan were required to be clearly defined, but were allowed to include scientific risk-taking. Grants were awarded to young and advanced researchers alike. Key criteria included scientific productivity, where emphasis was placed on quality and quantity. The researchers' achievements have also been evaluated in proportion to the duration of their career.

Project implementation plans were required to be realistic and include descriptions of the research material and data collection methods as well as the processing and interpretation of results. In addition, the size of the material was required to be sufficient, and its collection methods were required to be functional and realistic in terms of schedule, among other aspects.

The expected significance of the results reflects the goals of the research and must be evaluated in proportion to the risks taken. If successful, high-risk projects often have high scientific significance, and they often raise new questions even if they fail.

When taking decisions, the Foundation uses external advisers according to its discretion. The Foundation does not justify its decisions nor announce the names of the advisers. In the case of researchers applying for further financing, the Foundation has considered the objectives already reached and the added value that the further financing could bring.

## Criteria for cultural projects

In terms of cultural projects, the general criteria were the high level and international dimension of the project. Dance and music were well represented among the grant decisions, and the purpose was to target grants at young people as far as possible. Due to the diverse range of cultural projects, the selection criteria were more case-specific and flexible.

## Processing and reporting of grant decisions

The Foundation processes applications on a continuous basis. However, due to their large number, the Foundation has had to distribute applications between meetings. The processing of applications is flexible. When researchers apply for grants for larger projects, the Secretary General meets the applicants or the head of the research team in person, as before.

Issues of legal incapacity are taken into account in the processing of grant applications. The Foundation has determined related parties and the effects of any incapacity or conflicts of interest on processing and decision-making. In case of incapacity, those concerned have to announce their incapacity and its grounds themselves. The Foundation's officials and the members of its Board and other bodies report any commitments or conflicts of interests that affect the preparation of grant decisions and do not participate in the processing or the decision-making in case of a conflict of interest.

The Foundation requires successful applicants to submit reports on their project's progress and results.

For long-term grants and donations, the beneficiary must report on their spending and results usually with an annual progress report and a final report. For short-term projects, a report is required once the project has been completed. The report should illustrate how the objectives set for the project have been realized and what eventual problems have been encountered during the project.

The grants have been paid according to the payment schedules defined by the recipients; some of the schedules may have been flexible. In long-term projects, the Foundation has required financial and content reporting before the payment of the next instalment. The awarded research grants have mainly been paid through a university or another research community.

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.

## Communication

The Foundation reports on its activities openly, thereby allowing its operations to be monitored as closely as possible. Its website provides all essential information that is publicly available, such as the Foundation's goals pursuant to its founding charter, the Foundation's bylaws, the members of its Board of Trustees and Executive and Financial Committees, as well as the Foundation's annual report and financial result and balance sheet data. The notes to the accounts are not published on the website, because they do not provide substantial information about the functioning of the Foundation.

The website also contains information on any grants awarded. The Foundation does not justify nor publish the grounds for its decisions. The Foundation does not provide information about refused applications.

The Foundation regularly issues press releases on the grants it has awarded.

## INCOME STATEMENT AND INVESTMENT ACTIVITIES

### General

At the end of 2014, the Foundation's assets consisted of a securities portfolio in its direct ownership as well as Sanoma shares. In addition, the Foundation owns Oy Asipex Ab, which has a subsidiary, Asipex AG. These two companies constitute the Asipex Group. The total market value of the Foundation's assets was EUR 837 million. Of the total assets, 91% were invested in shares.

The market value of the diversified investment assets in the direct ownership of the Foundation was EUR 201 million, including cash on hand. The market value of the Sanoma shares held by the Foundation (37,731,832 shares or 23.18% of the shares and voting rights) was EUR 174 million. The market value of the Asipex Group's investment portfolio was EUR 450 million, including cash on hand. In addition, the book value of the Foundation's shares in housing companies amounted to EUR 12 million.

### Income statement

The deficit on ordinary activities amounted to EUR 17.7 million (EUR 19.7 million in 2013). Grant decisions in 2014 amounted to approximately EUR 32.3 million (EUR 21.0 million), of which EUR 17.3 million was recognised as expenses (EUR 19.3 million). The EUR 15 million grant awarded to The Dance House has not yet been recognised as an expense, due to the conditional nature of the decision. Operating costs in 2014 totalled EUR 0.4 million (EUR 0.3 million).

The book expense of the investments in the direct ownership of the Foundation was EUR 57.9 million (profit EUR 11.4 million). The largest items were EUR 67.0 million in impairment on Sanoma shares (EUR 5.4 million in impairment), EUR 4.2 million in income from dividends (EUR 7.5 million), EUR 3.0 million in profit shares in funds (EUR 2.6 million) and EUR 1.3 million in proceeds from the sale of investments (EUR 3.4 million).

Received donations amounted to EUR 78.3 million due to Jane Erkkö's will (EUR 0.0 million).

The surplus for 2014 was EUR 2.7 million (deficit EUR 8.3 million).

### Investment activities

The total return on investments in the direct ownership of the Foundation amounted to 12% or EUR 15.7 million on 2014 (+18% or EUR 18.9 million in 2013). The return on share investments was 14% (+22%), and the return on short-term fixed-income investments was 1.4% (+0.4%). In absolute terms, the results of investment activities were good, and the return on share investments surpassed slightly the market return calculated with the corresponding geographical allocation.

The yield review does not account for Sanoma shares or the Asipex Group. These included, the total return on the investments in the ownership of the Foundation amounted to +0.2% or EUR 2 million in 2014 (+10% or EUR 76 million). Excluding Sanoma shares, the total return amounted to +12% or EUR 65 million (+20% or EUR 93 million).

At the end of the year, the market capitalisation of the Foundation's assets (including the Asipex Group) was EUR 837 million (EUR 768 million). Share investments accounted for 91% (94%), fixed-

income investments for 8% (6%) and shares in housing companies for 1% (0%).

#### Sanoma shares

The Foundation holds 37,731,832 Sanoma shares, which represents 23.18% of all Sanoma shares and voting rights.

In 2014, the Foundation received EUR 3.7 million (EUR 7.1 million) in dividend payments from Sanoma. The return was negative in the amount of -27% or EUR -63 million when accounting for unrealised changes in value (-6% or EUR -17 million).

#### The Asipex Group

The Foundation owns the entire share capital of Oy Asipex Ab. The company is domiciled in Helsinki. It has full ownership of its Swiss subsidiary Asipex AG. Oy Asipex Ab engages in investment activities. Its entire share capital was transferred to the Foundation in the will of Aatos Erkko in 2012.

The total return on the Asipex Group's investments in 2014 was +12% or EUR 50 million (+20% or EUR 74 million). The corresponding yield from share investments was +14% (+26%). In absolute terms, the results of investment activities were good, and the return on share investments was close to the same level as the market return calculated with the corresponding geographical allocation.

As a company engaging in investment activities, the Asipex Group presents its income from investment activities in its net sales. In 2014, the Asipex Group's net sales were EUR 143.7 million (EUR 121.8 million). Its operating profit was EUR 29.4 million (operating profit EUR 25.6 million). Its financial costs were EUR 0.2 million (financial income EUR 0.2 million) and its profit for the period after taxes was EUR 28.5 million (EUR 25.4 million).

At the end of 2014, the Asipex Group's balance sheet stood at EUR 347.1 million (EUR 312.7 million). Its equity capital amounted to EUR 346.2 million (EUR 312.0 million), and its equity ratio was 99.7% (99.8%). At the end of 2014, the book value of shares and funds included in inventories was EUR 338.3 million (EUR 296.2 million), and their market value stood at EUR 442.1 million (EUR 386.3 million).

The Asipex Group had an average of three employees in 2014.

#### Risk management

The primary goal of investment activities is to retain and increase the long-term real value of the Foundation's assets. The Foundation's investment activities also aim to secure a steady cash flow and sufficient liquidity for its core operations. With a long investment horizon, the Foundation's investment strategy is equity-oriented (equity allocation was 91% at the end of 2014), and the investment portfolio is not generally hedged against market risks. Short-term market fluctuations are not relevant to the Foundation when the goals rest on long-term real yield and cash flow.

In line with the Foundation's investment strategy, its investments are diversified 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 economic situations are 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.

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.

The Asipex Group's investment activities and risk management comply with the investment policy approved by its Board of Directors. The policy is in line with the investment policy of the Jane and Aatos Erkkö Foundation.

## ADMINISTRATION

### Board of Trustees

The Chairman of the Board is Nils Ittonen. His term of office will last until the next annual meeting. Jane Erkkö continued as Vice Chair of the Board until her death. The annual meeting elected Juhani Mäkinen as the new Vice Chair of the Board. His term of office will last until the next annual meeting.

Jaakko Rauramo, Heli Rahka, Reetta Meriläinen and Juhani Mäkinen were re-elected to the Board as members. In addition, Kerstin Rinne was elected to the Board. The Board members' term of office will last until the next annual meeting. The Board of Trustees convened six times in 2014.

### Financial Committee

In its annual meeting on 27 March 2014, the Board of Trustees appointed Nils Ittonen as Chairman of the Financial Committee and Marja Leskinen and Karl Tujulin as members of the Committee.

The Financial Committee closely follows developments in financial markets and general economic trends. It operates within the framework of the investment strategy adopted by the Board of Trustees. The Financial Committee convened four times in 2014.

### Executive Committee

In its annual meeting on 27 March 2014, the Board of Trustees appointed Nils Ittonen as Chairman of the Executive Committee and Juhani Mäkinen and Marja Leskinen as members of the Committee.

The Executive Committee prepares matters for the Board to decide on. The Committee convened four times in 2014.

## Remuneration

The Board members have received a monthly remuneration and a meeting remuneration. The monthly remuneration of the Board Chairman has been EUR 1,200 per month and that of the Board members EUR 1,000 per month. The Chairman has received a meeting remuneration of EUR 500 and the members a meeting remuneration of EUR 400.

## Officials

Marja Leskinen is the secretary general of the Foundation. Dita Eklund serves as a part-time clerical employee.

The secretary general has acted as a member of the Board of Directors of the Council of Finnish Foundations and as the Chairperson of the committee charged of updating the Council's good government.

## Modification of bylaws

The Finnish Patent and Registration Office has approved a modification made to the Foundation's bylaws on 22 July 2014. Personal deputy members were given up; according to the modified bylaws, the Board of Trustees can elect from 1 to 3 deputy members to the Board.

## AUDITING

In its annual meeting on 27 March 2014, the Board appointed Samuli Perälä, M.Sc. (Econ.), APA, and audit corporation PricewaterhouseCoopers Oy, APA, as the Foundation's auditors, along with Sari Airola, M.Sc. (Econ.), APA, and Marko Kämp, M.Sc. (Econ.), APA, as deputy auditors.

## OUTLOOK FOR 2015

The recipients are selected in accordance with the goals of the founding charter, and the allocation of grants to larger projects will continue. The Foundation will continue to seek recipients whose support will in turn promote high-level scientific research on a par with international standards.

When considering major new initiatives, the Foundation must take account of financial restrictions and the considerable grant awarded to the Dance House investment project, if the project goes ahead. The Foundation will strive to establish new areas of focus in the fields of economics and technology on the condition that it receives good applications from these fields of research.

Activities during the operating year will focus on the investigation and preparation of grants for projects that are in line with the Foundation's goals as well as on any related decisions. Operations will also include the monitoring and oversight of the grants awarded. Networking will be kept up.

The actual return on the Foundation's investments over the long and short term as well as expected returns and the Foundation's financial situation will be considered when making decisions about grants.