

# ANNUAL REPORT 2015

## GENERAL

The Jane and Aatos Erkko Foundation was established in 2002 to support high-level international medical, technological and economic research. The Foundation also aims to promote 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.

The Board of Trustees of the Foundation has continued along the path paved by Aatos Erkko and Mrs Jane Erkko in order to implement the Foundation's purpose in line with their wishes.

## FULFILLING THE PURPOSE OF THE FOUNDATION

In 2015, the Foundation fulfilled its purpose by awarding grants in line with its charter. The grants it decided to award in 2015 totalled around EUR 28 million. The list of grants published by the Foundation will be complemented when the implementation of the projects is confirmed.

The Foundation participated in ongoing university fundraising campaigns in 2015. Its single largest donation (EUR 1.5 million) was granted to the University of Oulu's Growing Together campaign for general university operations. In addition, the Foundation granted EUR 1.0 million to the Hanken Returns fundraising campaign of the Hanken School of Economics. By means of the donation, the Foundation wanted to enhance the internationally high-quality economic education and research at Hanken. In 2014, the Foundation granted EUR 3 million to the fundraising campaign related to the 375th anniversary of the University of Helsinki.

The grants awarded by the Foundation continued to focus on the medical sciences to a significant degree. Of the total amount of grants awarded by the Foundation in 2015, EUR 15 million was targeted at medical research. The effective implementation of research plans often requires a long-term perspective and sufficient personnel resources, which increase costs. In the autumn, the largest research grants were awarded to the research teams of Academy Professor Kari Alitalo and Professor Päivi Peltomäki. The quality and goals of both of the teams show extremely high scientific ambitions.

With regard to scientific research, the grants were primarily targeted at research teams, and grants were not awarded for individual dissertations.

The selection criteria for arts and cultural projects included high quality and an international scope. The personal interests of the founders were taken into account as far as possible. As in previous years, the Foundation supported international visits and operations that are excluded from public funding or receive scarce public support.

The total number of applications submitted to the Foundation was at the same level as in the previous year.

The allocated grants are specified in Appendix 1.

Appendix 2 includes statistics on the Foundation.

## SPECIAL PROJECTS

### Dance House

On 1 October 2014, the Board of Trustees of the Jane and Aatos Erkko Foundation decided to award a conditional grant of EUR 15 million to the association established to implement the Dance House project, a new building dedicated solely to dance and the performing arts in Helsinki. The conditions included the project implementation being discussed and agreed upon in more detail between the City of Helsinki, Kiinteistö Oy Kaapelitalo (a limited liability property company owned by the City of Helsinki), the Dance House association, the State of Finland and the Jane and Aatos Erkko Foundation. Adequate financial input from the City of Helsinki and the Finnish government was also a requirement. The goal was to sign a framework agreement by the end of 2015, unless otherwise agreed.

The framework agreement on the investment project was signed on 18 December 2015. The parties to the agreement are the City of Helsinki, Kiinteistö Oy Kaapelitalo, the Dance House Association and the Jane and Aatos Erkko Foundation. The Finnish state will provide funding for Dance House and the activities that will take place in the building, but is not a party to the agreement.

The Dance House working group estimates the total cost of the new building at EUR 27 million. In accordance with the framework agreement, the city and the state will fund on an equal basis the portion of the total cost that is not covered by the grant awarded by the Foundation. The funding required from the city and the state is not expected to be more than EUR 6 million from each.

The grant awarded by the Foundation is intended for the construction of the new building, including fittings, furniture and other interior installations.

The grant will be paid in instalments based on the actual progress of the project and the costs incurred. In addition, the total amount of public funding must at least equal each instalment paid by the Foundation. The payment schedule will be specified during the project planning phase and finalised after the alteration of the town plan required for the project has become valid.

The agreement also includes provisions on reclaiming the grant in the event of a breach of agreement.

The project plan is expected to be completed in autumn 2016. The new building and the renovation project are intended to be completed in 2020. The grant did not have an effect on the financial statements for 2015.

### History project

The oral history project related to Jane and Aatos Erkko, the founders of the Foundation, was successfully completed on schedule by 30 September 2015. The project was headed by researcher Niina Naarminen from the University of Helsinki, and its monitoring group consisted of Marja Leskinen, the secretary general of the Foundation, and Reetta Meriläinen and Heli Rahka, members of the Board of Trustees of the Foundation. The monitoring group convened on a monthly basis.

The interview material is stored in the archive of the Jane and Aatos Erkko Foundation. The Foundation has the right of ownership to the material. For the time being, the Foundation has no

plans to use the material in publications or for research purposes. At the requests of the people who were interviewed, most of the recordings will not be made public until 2027.

## GRANT OPERATIONS

### 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.

### Criteria for scientific research

The Foundation awards grants for high-quality research that aims at significant international breakthroughs. Key criteria for assessing research projects include the project goals, the researchers' professional skills and credentials, the project implementation plans and the significance of the results. By granting long-term funding, the Board seeks to guarantee freedom of research and stable working conditions for the researchers.

The goals of the research plan must be clearly defined, but may include scientific risk-taking. Grants are awarded to young and advanced researchers alike. Key criteria include scientific productivity, with an emphasis on quality as well as quantity. The researchers' achievements are also evaluated in proportion to the duration of their career.

The requirements for grants for independent research teams to be established include meritorious postdoctoral experience at a high-quality research institute and an ambitious, independent research plan. In addition, it is essential that the research team has access to appropriate infrastructure and partnerships or has the required expertise. The team may choose to integrate into a team that provides these resources.

Research plans presented by experienced senior researchers are required to include an ambitious yet realistic goal to shed light on or resolve a significant scientific issue. Applicants are required to have an independent career in education or research, as well as an impressive resume and high-quality publications. They are also expected to have served as doctoral advisers, hold an adjunct professorship or a similar position, and have previously been granted significant, completed funding.

The research position related to a research visit abroad is expected to be of an internationally high quality, and the duration of the visit is required to be from one to two years. Funding may be granted for a third year based on the research results, the applicant's motivation and a statement from their supervisor.

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

The expected significance of the results must reflect 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.

Funding is granted on a case-by-case basis, and the budget must be specified and justified. Further funding may be granted if the research results show significant scientific value that leads to new research initiatives.

When making decisions, the Foundation uses external advisers at its discretion. The Foundation does not justify its decisions or announce the names of the advisers.

#### Criteria for cultural projects

In terms of cultural projects, the general criteria are the high level and international dimension of the project. Grants are targeted at young people as far as possible. Due to the diverse range of projects, the selection criteria are 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. The secretary general meets applicants or heads of research teams in person.

Issues of legal incapacity are taken into account in the processing of grant applications. The Foundation has determined its 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 realised and what problems were 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 about 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 website also contains information on any grants awarded. The Foundation does not justify or publish the reasons for its decisions.

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

## FINANCES

### General

At the end of 2015, 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. 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 market value of the Foundation's assets was EUR 876 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 219 million, including cash in hand. The market value of the Sanoma shares held by the Foundation (38,184,313 shares, or 23.45% of the shares and voting rights) was EUR 149 million. The market value of the Asipex Group's investment portfolio was EUR 497 million, including cash in hand. In addition, the book value of the Foundation's shares in limited liability housing companies amounted to EUR 11 million.

### Consolidated income statement

The deficit on ordinary activities amounted to EUR 33.7 million (EUR 28.0 million in 2014). Grant decisions in 2015 amounted to approximately EUR 27.8 million (EUR 32.3 million), of which EUR 22.9 million was recognised as expenses (EUR 17.3 million). Depreciation on consolidated goodwill amounted to EUR 10.3 million in 2015 (EUR 10.3 million). Other operating costs were EUR 0.5 million (0.4 million).

The recorded expenses of the investments in the direct ownership of the Foundation were EUR 2.8 million (EUR 29.4 million). The largest items were EUR 3.5 million in net income from the subsidiary Group (EUR 28.5 million), EUR 26.1 million in impairment on Sanoma shares (EUR 67.0 million), EUR 9.5 million in income from dividends (EUR 4.2 million), EUR 2.8 million in profit shares in funds (EUR 3.0 million), and EUR 4.4 million in proceeds from the sale of investments (EUR 1.3 million).

The deficit for 2015 was EUR 38.1 million (surplus EUR 20.9 million).

## Related-party transactions

The fees paid to the members of the Board of Trustees and the salary (subject to withholding tax) paid to the secretary general totalled EUR 244,529.80 in 2015.

The members of the Board of Trustees were paid a monthly fee, as well as meeting fees, for their work on the Board and Committees. The monthly fee paid to the chairman of the Board was EUR 1,200. The monthly fee paid to the members and deputy member of the Board was EUR 1,000. The meeting fees paid to the chair of the Board and the Committees were EUR 500. The meeting fees paid to the members and deputy member of the Board and the Committees were EUR 400.

Through Jane Erkko's will, the Foundation came into the possession of nine units in limited liability housing companies. The tenants had been selected by Jane Erkko. She had also determined the content of the tenancy agreements before the units were transferred to the ownership of the Foundation. The Foundation is obligated to comply with the terms and conditions of the tenancy agreements concerning the current tenants. All of the rents collected from the tenants were lower than market rents. One of the apartments is occupied by the secretary general's son and his family. Their monthly rent of EUR 1,000 does not correspond to market prices. The market rent can be considered to be EUR 1,789 per month, based on the Finnish Tax Administration's decision concerning the principles of calculating fringe benefits in 2015. It has been agreed that this tenancy agreement will end during spring 2016.

The Foundation had no other transactions against or without payment with related parties in 2015, nor did it grant loans or securities to related parties.

## Investment activities

The total return on investments in the direct ownership of the Foundation amounted to 14.5% or EUR 28.8 million on 2015 (11.9% or EUR 15.7 million in 2014). The return on share investments was 18.1% (13.9%), and the return on short-term fixed-income investments was 0.3% (1.4%). In absolute terms, the results of the investment activities were excellent, and the return on share investments clearly surpassed 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 6.8% or EUR 58.8 million in 2015 (0.2% or EUR 1.9 million), including unrealised changes in market value. Excluding Sanoma shares, the total return amounted to 11.1% (12.0%), or EUR 77.3 million (EUR 65.2 million), including unrealised changes in market value.

At the end of the year, the market capitalisation of the Foundation's assets (including the Asipex Group) was EUR 876 million (EUR 837 million). Share investments accounted for 91% (91%), fixed-income investments for 8% (8%) and shares in limited liability housing companies for 1% (1%).

## Sanoma shares

The Foundation holds 38,184,313 Sanoma shares, which represents 23.45% of all Sanoma shares and voting rights.

In 2015, the Foundation received EUR 7.5 million (EUR 3.7 million) in dividend payments from Sanoma. The return was negative in the amount of -11.0% or EUR -18.5 million when accounting for unrealised changes in value (-26.7% or EUR -63.3 million).

The Asipex Group

The total return on the Asipex Group's investments in 2015 was 9.7% (12.0%), or EUR 48.5 million (49.5 million), including unrealised changes in market value. The corresponding return from share investments was 12.5% (14.1%). In absolute terms, the results of investment activities were good, and the return on share investments slightly surpassed market yield when calculated using 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 2015, the Asipex Group's net sales were EUR 88.1 million (EUR 143.7 million). Its operating profit was EUR 4.7 million (operating profit EUR 29.4 million). Its financial expenses were EUR 0.7 million (EUR 0.2 million), and its profit for the period after taxes was EUR 3.5 million (28.5 million).

At the end of 2015, the Asipex Group's balance sheet stood at EUR 382.1 million (EUR 347.1 million).

Its equity capital amounted to EUR 381.1 million (EUR 346.2 million), and its equity ratio was 99.7% (99.7%). At the end of 2015, the book value of shares and funds included in inventories was EUR 374.3 million (EUR 338.3 million), and their market value stood at EUR 489.9 million (EUR 442.1 million).

The Asipex Group had an average of three employees in 2015.

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 weight was 91% at the end of 2015), and the investment portfolio is not generally hedged against 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

Nils Ittonen served as the chairman of the Board of Trustees, and Juhani Mäkinen served as its vice chairman. Their term of office will last until the next annual meeting.

Jaakko Rauramo, Heli Rahka, Reetta Meriläinen and Kerstin Rinne were re-elected to the Board as members. Mikko Mursula was elected as a new member of the Board, and Marianne Heikkilä was elected as the deputy member. Their terms of office will last until the next annual meeting. The Board of Trustees convened four times in 2015.

### Financial Committee

At its annual meeting on 26 March 2015, the Board of Trustees appointed Nils Ittonen as chairman of the Financial Committee and Mikko Mursula, Marja Leskinen and Karl Tujulin as members of the Committee.

The Financial Committee closely follows developments in the 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 2015.

### Executive Committee

At its annual meeting on 26 March 2015, 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 Executive Committee convened four times in 2015.

### 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. The Foundation's guidelines for good governance were completed in autumn 2015.



## AUDITING

At its annual meeting on 26 March 2015, the Board appointed Samuli Perälä, M.Sc. (Econ.), APA, and audit corporation PricewaterhouseCoopers Oy, APA, as the Foundation's auditors, with Sari Airola, M.Sc. (Econ.), APA, and Marko Kämp, M.Sc. (Econ.), APA, as deputy auditors.

## OUTLOOK FOR 2016

During the year, the Foundation will examine, prepare and decide on grants, and monitor and supervise the use of awarded grants and the progress of the related projects.

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.

The annual total of the grants awarded by the Foundation has increased since 2012. So far, the Foundation has awarded more than EUR 100 million in grants. When considering major new initiatives, the Foundation must take account of financial restrictions and the considerable grant awarded to the Dance House investment project. The return on the Foundation's investments over the long and short terms, as well as expected returns and the Foundation's financial situation, will be considered when making decisions about grants.

The Foundation has agreed to implement a pilot project in cooperation with the Technology Industries of Finland Centennial Foundation, with the aim of starting initiatives to renew strategic expertise at universities. If successful, this cooperation project will bring a technology focus to the Foundation's grant operations in line with its charter.

The new Foundations Act, which came into effect on 1 December 2015, will not cause significant changes to the operations or administration of the Foundation.

The Foundation's website will be revamped, and the instructions concerning the selection criteria and application procedure will be further specified and included in the revamped website. The improved structure of the website, as well as more precise instructions, will enable the Foundation to communicate its goals and provide information about its operations more effectively. This will facilitate the assessment of the Foundation's operations and goals as a non-profit organisation in line with its charter.

The project to paint a portrait of Jane Erkkö, a founder of the Foundation, was completed, and the portrait was revealed on 9 March 2016, when she would have turned 80.