

KHODORKOVSKY FOUNDATION

ACCOUNTS FOR THE YEAR

ENDED 31 DECEMBER 2014

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Company No: 4988238

Charity No: 1106885

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KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Trustees submit their annual report and audited accounts for the year ended 31 December 2014.

REFERENCE AND ADMINISTRATIVE DETAILS

Trustees	A Tulloch A Smith B Saltykov R Caldecott
Company secretary	D Forsdick
Registered office	4 Hill Street London W1J 5NE
Company registration number	4988238
Charity number	1106885
Bankers	Lloyds Bank Plc Berkeley Square Branch London W1J 6AF
Investment managers	Morgan Stanley & Co. International Limited 25 Cabot Square Canary Wharf London E14 4QA Black Rock 33 King William St London EC4R 9AS Goldman Sachs International 133 Fleet Street London EC4A 2BB
Auditors	Critchleys LLP Greyfriars Court Paradise Square Oxford OX1 1BE

KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

STRUCTURE, GOVERNANCE AND MANAGEMENT

The charity is governed by its Memorandum and Articles of Association.

Trustees are selected on the basis of the skills and experience they were able to contribute in the fields of education in Russia and the UK, investment management and charity administration and have been drawn from persons known to the trustees as supportive of the charity's work. New trustees were inducted into their role as trustees in a series of briefings on the work of the charity.

Organisational structure

The charity is managed by its Board of Trustees.

The charity supports the work in Russia of the Oxford Russia Fund, another UK Charity, the majority of whose trustees are also trustees of the charity. The Oxford Russia Fund focuses on grants to Russian universities for the provision of scholarships, the distribution of English language academic books to Russian universities.

OBJECTIVES AND ACTIVITIES FOR THE PUBLIC BENEFIT

The main objects of the charity are to advance education in the Russian Federation through the provision of scholarships to students and the making of donations to educational establishments.

Other than the support of the Oxford Russia Fund, the charity supports the Podmoskovny Lyceum, a boarding school for 178 socially deprived children, situated outside of Moscow.

The Trustees have complied with the duty in section 17(5) of the Charities Act 2011 to have due regard to the public benefit guidance published by the Charity Commission

Grant-making policy

The Foundation was endowed with \$500 million for the purpose of advancing education in Russia and thus supporting the development of a robust and active civil society in Russia.

The Trustees consider that these objects would be advanced by:

- a) the provision of scholarships for students (of Russian nationality) attending Russian universities in the Humanities;

The Foundation will not entertain individual applications for scholarships and will only provide scholarships through other UK Charities and Russian universities that are willing to administer the scholarships.

- b) the support of Russian educational institutions and non-profit organisations focused on education;
- c) the support of educational institutions in the UK, which indirectly advance education in Russia through the provision of training, research programmes, student/teacher exchange programmes and cultural activities; and

KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Grant-making policy (continued)

- d) the support of conferences, wheresoever held, on topics related to Russian education and other initiatives which might advance education in Russia.

The Trustees are of the view that the majority of their grant making will lie in the provision of scholarships to Russian students and the support of educational institutions in Russia.

The Trustees' current policy is normally to accept grant proposals which have been initiated by the Foundation.

These policies will be annually reviewed in the light of the growing understanding of the needs of Russia and the Trustees intend to respond flexibly to the newly identified needs of succeeding generations of Russian citizens.

STRATEGIC REPORT

ACHIEVEMENTS AND PERFORMANCE

Through the grant making activities of the Oxford Russia Fund which is supported by the charity;

3,000 undergraduate students at 20 Russian Universities were in 2014 awarded annual scholarships of approximately USD1,230 (USD2,000, Higher School of Economics; Far Eastern Federal University, USD1,300) each. The scholarships are awarded on merit and are designed to encourage the study of the humanities in Russian Universities. In 2015 the number of undergraduates at 20 Russian Universities who will hold ORF Scholarships is forecast to be 2,400.

Over 2,000 English Language academic books across the humanities have been distributed to each of the 20 Russian Universities, whilst 457 titles are available from the ebook electronic library.

Podmoskovny Lyceum

As a result of the support of the Podmoskovny Lyceum, a boarding school outside of Moscow for socially deprived children, 178 children now receive a secondary school education of the highest quality in a caring environment.

Apart from Financial constraints and the need to expand the work of the charity and that of the Oxford Russia Fund in a prudent manner so as to ensure that the grants are used in the most effective manner, the trustees do not feel that there are factors inside or outside of the charity constraining the work of the charity in the above areas.

FINANCIAL REVIEW

Funding Sources

The charity was provided in December 2003 with an expendable endowment of USD500m and the funds for the work of the charity is derived from the income and capital gains generated by the endowment.

KHODORKOVSKY FOUNDATION**TRUSTEES' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)****FINANCIAL REVIEW (continued)****Investment policy**

The charity has adopted as its long term current target return for its investment portfolio 4% over increases in the US Consumer Price Index and it is recognised that this policy envisages fluctuations in investment returns over the business cycle.

Two international investment banks manage the bulk of the charity's funds, with certain specialist managers managing smaller portfolios.

Currency

There is an inherent mismatch between the majority of the charity's expenditure being directly or indirectly to Russian institutions (the needs of which are Russian Rouble based) and using as the charity's reference currency the US dollar. However for prudent investment management, the USD has been chosen as the reference currency.

Anticipated Disbursements

The long term aim of the charity is to make annual grants of at least 3% of the charity's funds. The above spending rate is designed to preserve the real value of the charity's funds over the long term.

Risk

The investment policy has a conservative attitude to risk.

Administration

The monitoring of the performance of the charity's investment portfolio has been delegated by the Trustees to an investment committee whose members include experienced investment management practitioners. The investment committee also reviews performance of the managers and the allocation between all classes of assets from time to time to ensure that the total portfolio is prudently invested.

Performance

Over the year, the aggregate value of the Foundation's investments (USD 499m; 2013: USD 512m) decreased. Overall the value of the managed portfolio reduced by -2.5 % over the year, particularly on account of poor Russian equity performance. The average annual expenditure for the past three years as a percentage of invested assets (as at the end of the financial year) is approx. 2.95%.

Reserves policy

Having regard to the charity's endowment based income, the reserves to cover fluctuations in donations are not required. Instead the charity's investment policy plans for fluctuations in income and capital growth and the need for funds to meet on-going commitments of the charity during periods of low dividend yield and nil or negative capital growth.

KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Principal risks and uncertainties

The trustees conduct the overall supervision and monitoring of the financial position of the charity. There are risks to income as a result of fluctuations in world equity and bond markets but the charity's investment policy adopted should minimise the risks to an acceptable level.

Internal Risks are mitigated by the implementation of procedures for the authorisation of all transactions by at least two of the trustees.

Statement of Trustees' Responsibilities

The Trustees are responsible for preparing the Trustees' Report and the accounts in accordance with applicable law and regulations.

Company law requires the Trustees to prepare accounts for each financial year. Under that law the Trustees have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Trustees must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the charity and the incoming resources and application of resources, including the net income or expenditure, of the charity for that period. In preparing these accounts, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Trustees are aware, there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the charitable company's auditors are unaware; and

each Trustee has taken all steps that they ought to have taken as a director in order to make themselves aware of relevant audit information and to establish that the charitable company's auditors are aware of that information.

This report was approved by the Trustees on 31.3.15



..... A Tulloch (Trustee)

KHODORKOVSKY FOUNDATION
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHODORKOVSKY FOUNDATION

We have audited the accounts of Khodorkovsky Foundation for the year ended 31 December 2014 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As explained more fully in the Trustees' Responsibilities Statement set out on page 5, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the Trustees' Report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2014 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Report and Strategic Report for the financial year for which the accounts are prepared is consistent with the accounts.

KHODORKOVSKY FOUNDATION
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHODORKOVSKY FOUNDATION
(CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Robert Kirtland
Senior Statutory Auditor
For and on behalf of Critchleys LLP, Statutory Auditor
Oxford

17/4/2015

KHODORKOVSKY FOUNDATION

STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Unrestricted Funds \$000	Endowment Funds \$000	Total 2014 \$000	Total 2013 \$000
Incoming Resources					
Incoming resources from generated funds					
Investment income	2	<u>5,060</u>	<u>-</u>	<u>5,060</u>	<u>5,132</u>
Total incoming resources		<u>5,060</u>	<u>-</u>	<u>5,060</u>	<u>5,132</u>
Resources Expended					
Costs of generating funds					
Investment management costs	3	-	1,042	1,042	1,427
Charitable activities	4	12,129	-	12,129	13,111
Governance costs	6	<u>81</u>	<u>-</u>	<u>81</u>	<u>86</u>
Total resources expended		<u>12,210</u>	<u>1,042</u>	<u>13,252</u>	<u>14,624</u>
Net (outgoing) resources before transfers		(7,150)	(1,042)	(8,192)	(9,492)
Transfers	1c	<u>7,150</u>	<u>(7,150)</u>	<u>-</u>	<u>-</u>
Net (outgoing) resources		-	(8,192)	(8,192)	(9,492)
(Losses)/gains on investment assets	7	<u>-</u>	<u>(2,732)</u>	<u>(2,732)</u>	<u>66,028</u>
Net movement in funds		-	(10,924)	(10,924)	56,536
Total funds brought forward		<u>-</u>	<u>509,075</u>	<u>509,075</u>	<u>452,539</u>
Total funds carried forward		<u>-</u>	<u>498,151</u>	<u>498,151</u>	<u>509,075</u>

All activities are continuing and there are no gains or losses other than those shown above.

KHODORKOVSKY FOUNDATION
(company no: 4988238)

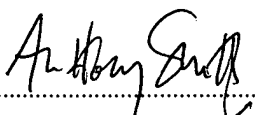
BALANCE SHEET
AT 31 DECEMBER 2014

	Note	2014 \$000	2013 \$000
Fixed assets			
Investments	7	<u>498,967</u>	<u>511,651</u>
Current assets			
Cash at bank and in hand		1,476	429
Creditors: amounts falling due within one year	8	<u>(2,292)</u>	<u>(2,974)</u>
Net current liabilities		<u>(816)</u>	<u>(2,545)</u>
Total assets less current liabilities		498,151	509,106
Creditors: amounts falling due after more than one year	9	—	(31)
Net assets		<u>498,151</u>	<u>509,075</u>
Funds			
Endowment funds (expendable)	11	498,151	509,075
Unrestricted income funds		—	—
Total charity funds		<u>498,151</u>	<u>509,075</u>

These accounts are prepared in United States Dollars.

The rate of exchange at 31 December 2014 is £1 = \$1.5532 (2013: £1 = \$1.6488)

These accounts were approved and authorised for issue by the Trustees on **31. 3. 15**

 A Smith (Trustee)

KHODORKOVSKY FOUNDATION

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$000	2013 \$000
Net cash (outflow) from operating activities	A	(8,905)	(9,135)
Financial investment			
Purchase of investments		(352,660)	(511,213)
Proceeds from sales of investments		<u>368,877</u>	<u>482,387</u>
		<u>16,217</u>	<u>(28,826)</u>
Increase/(decrease) in cash in the year	B	<u>7,312</u>	<u>(37,961)</u>

NOTES TO THE CASH FLOW STATEMENT

	2014 \$000	2013 \$000
A RECONCILIATION OF NET OUTGOING RESOURCES TO NET CASHFLOW FROM OPERATING ACTIVITIES		
Net (outgoing) resources	(8,192)	(9,492)
(Decrease)/increase in creditors	<u>(713)</u>	<u>357</u>
Net cash (outflow) from operating activities	<u>(8,905)</u>	<u>(9,135)</u>

	31 December 2013 \$000	Cash Flow \$000	31 December 2014 \$000
B ANALYSIS OF NET FUNDS			
Cash at bank	429	1,047	1,476
Cash within investment portfolio	<u>25,462</u>	<u>6,265</u>	<u>31,727</u>
	<u>25,891</u>	<u>7,312</u>	<u>33,203</u>

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2014

1 ACCOUNTING POLICIES

a) **Basis of preparation**

The accounts have been prepared under the historical cost convention (as modified by the revaluation of investments) and in accordance with the Charities (Accounts and Reports) Regulations and Statement of Recommended Practice "Accounting and Reporting by Charities" issued in March 2005, the Companies Act 2006 and with applicable United Kingdom accounting standards.

b) **Group financial statements**

The financial statements did not consolidate the charity's wholly owned subsidiaries as these were acquired in lieu of enforcing of a security under loans, and the interest in the subsidiaries had not become part of the continuing activities of the group. It was the intention of dispose of the subsidiaries as soon as practical once steps have been taken to try and realise any residual value. In accordance with the accounting standard FRS 2 such investments did not require consolidation.

The subsidiary companies not consolidated were Anja Property Holding Limited and Beate Property Holding Limited, both registered in Isle of Man. The value in the accounts of these investments was nil as the underlying loans in those companies are in default and the value of the net assets is immaterial. During 2014 these companies were dissolved as there was no prospect of recovering any monies.

c) **Fund accounting**

Unrestricted funds are available for use at the discretion of the trustees in furtherance of the objects of the charity and which have not been designated for other purposes.

Expendable endowment funds represent assets where the intention is for the assets to be held long term for the benefit of the charity. However, as it is an expendable endowment, assets can be utilised to cover resources expended that exceed the balance on unrestricted funds.

Income arising on the endowment fund can be used in accordance with the objects of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. Investment management costs are charged against the fund.

d) **Incoming resources**

Voluntary and investment income are included in the Statement of Financial Activities when they are received.

e) **Grants payable**

Grants are included in resources expended when they are approved by the Trustees and the commitment has been communicated to the beneficiaries. Any such grants not paid by the year end are included in creditors.

KHODORKOVSKY FOUNDATION

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

1 ACCOUNTING POLICIES (continued)**f) Resources expended**

All expenditure is accounted for on an accruals basis under the appropriate expense category. Expenditure includes irrecoverable VAT where appropriate. Any support costs specific to one of the activities is allocated wholly to the activity. The remaining support costs are allocated to that activity in proportion to the combined costs of activities undertaken directly and grants. All costs are classified as charitable activities apart from those attributable to generating funds (investment management costs) and those attributable to the governance of the charity which are shown separately.

g) Foreign currencies

Transaction in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Statement of Financial Activities.

h) Investments

Investments are stated at market value at the balance sheet date. Market value includes accrued interest where applicable. If an investment does not have a readily available market price it is valued by the relevant Investment Manager. The Statement of Financial Activities includes net gains and losses arising on revaluations and disposals throughout the year. Due to the number of investment transactions in the year it is not possible, easily and accurately to split the investment gains between realised and unrealised and hence this split has not been shown on the face of the Statement of Financial Activities.

2 INVESTMENT INCOME

	2014 \$000	2013 \$000
Interest receivable	7	5
Other investment income	<u>5,053</u>	<u>5,127</u>
	<u>5,060</u>	<u>5,132</u>

3 INVESTMENT MANAGEMENT COSTS

	2014 \$000	2013 \$000
Investment management fees	1,022	1,379
Professional fees	<u>20</u>	<u>48</u>
	<u>1,042</u>	<u>1,427</u>

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

4 CHARITABLE ACTIVITIES

	Grant Funding of Activities \$000	Support Costs (Note 5) \$000	Total 2014 \$000	Total 2013 \$000
Advancement of Education in Russia:				
- Oxford Russia Fund	4,835	51	4,886	4,547
- Cross Industrial Institute of Technology Podmoskovny Lyceum	6,785	135	6,920	8,391
- Other specific projects and grants	<u>320</u>	<u>3</u>	<u>323</u>	<u>173</u>
	<u>11,940</u>	<u>189</u>	<u>12,129</u>	<u>13,111</u>

5 SUPPORT COSTS

	2014 \$000	2013 \$000
Charity administration and monitoring of activities	179	117
Other expenses, including exchange differences	<u>10</u>	<u>8</u>
	<u>189</u>	<u>125</u>

6 GOVERNANCE COSTS

	2014 \$000	2013 \$000
Auditors' remuneration - audit and accountancy	15	16
- other services	1	1
Professional services	<u>65</u>	<u>69</u>
	<u>81</u>	<u>86</u>

No Trustee received direct reimbursement of travel expenses of in the year (2013: one Trustee received reimbursement of \$609). No other Trustee received any remuneration or reimbursement of expenses in the year other than disclosed in note 10.

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

7 INVESTMENTS (AT VALUATION)

	2014	2013
	\$000	\$000
Fixed income	85,205	96,863
Equities	287,215	295,840
Alternative investments	92,223	79,707
Commodity and property funds	<u>2,597</u>	<u>13,779</u>
	467,240	486,189
Cash within investment portfolio	<u>31,727</u>	<u>25,462</u>
	<u>498,967</u>	<u>511,651</u>
Investment assets in UK	16,007	34,504
Investment assets outside UK	<u>482,960</u>	<u>477,147</u>
	<u>498,967</u>	<u>511,651</u>
	2014	2013
	\$000	\$000
Analysis of movement in investments (excluding cash)		
Value at 1 January 2014	486,189	391,335
Additions at cost	352,660	511,213
Sale proceeds	(368,877)	(482,387)
Net (loss)/gain on revaluation	<u>(2,732)</u>	<u>66,028</u>
	<u>467,240</u>	<u>486,189</u>
Holdings of over 5% of the total market value of investments were:		
BlackRock Global Funds Fixed Income Global Opportunities	27,287	-
BlackRock ICS US Treasury Agency Inc	<u>46,026</u>	<u>-</u>

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014	2013
	\$000	\$000
Accruals	513	558
Grants payable	<u>1,779</u>	<u>2,416</u>
	<u><u>2,292</u></u>	<u><u>2,974</u></u>

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014	2013
	\$000	\$000
Grants payable	<u>-</u>	<u>31</u>

10 RELATED PARTIES

A solicitor's practice of which A Tulloch (a Trustee) is the principal provided professional services in connection with the charity's administration. For this work Tulloch & Co charged the charity a VAT inclusive amount of \$160,692 (£103,458) (2013: \$165,633 (£100,457)), of which disbursements and VAT amounted to £33,458 (2013: £30,457). Some of the disbursements are travel expenses for Trustees.

The charity is related to Oxford Russia Fund by virtue of Trustees being common to both charities. Grants of \$4,834,953 (2013: \$4,506,725) were payable to Oxford Russia Fund in the year, \$145,963 of this was included in creditors at the year end (2013: \$12,436).

11 ENDOWMENT FUNDS (EXPENDABLE)

The fund balance represents the original donation of \$500,000,000, which the donor specified was to be treated as an expendable endowment, together with movements on the funds since that date.

12 ANALYSIS OF NET ASSETS BY FUND

	Unrestricted Funds	Endowment Fund	Total
	\$000	\$000	\$000
Investments	816	498,151	498,967
Net current liabilities	<u>(816)</u>	<u>-</u>	<u>(479)</u>
	<u><u>-</u></u>	<u><u>498,488</u></u>	<u><u>498,488</u></u>