

Charity Registration No. 1112813

Company Registration No. 05514908 (England and Wales)

THE POTANIN FOUNDATION

TRUSTEES' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2010



The Potanin Foundation

TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

	Page
Legal and administrative information	1
Trustees' report	2
Independent auditor's report	6
Statement of financial activities	8
Balance sheet	9
Cash flow statement	10
Notes to the accounts	11

The Potanin Foundation

TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

LEGAL AND ADMINISTRATIVE INFORMATION

Trustees	CAF Global Trustees Russell Prior (resigned 3 July 2011) Jo Ensor (appointed 15 September 2011)
Charity number	1112813
Company number	05514908
Registered office	25 Kings Hill Avenue Kings Hill West Malling Kent ME19 4TA
Bankers	National Westminster Bank Plc City of London Office 1 Princes Street London EC2R 8PA
Investment advisers	BlackRock Investment Management (UK) Limited 33 King William Street London EC4R 9AS J P Morgan International Bank Limited 125 London Wall London EC2Y 5AJ
Auditor	Deloitte LLP (Chartered Accountants and Statutory Auditor) 2 New Street Square London EC4A 3BZ United Kingdom

The Potanin Foundation

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The Trustees present their report together with the financial statements of the charity for the year ended 31 December 2010

The Trustees' report and accounts are presented in the charity's operating currency US dollars (\$)

Constitution

The Potanin Foundation is a registered charity (No 1112813) and a company limited by guarantee. The directors of the charity are collectively referred to as the Trustees in this report. The names of Trustees who served during the year are noted on the preceding page.

Objectives and activities for the public benefit

The objective of the charity is to develop education and culture, particularly through the support of students, young tutors and arts professionals.

The charity carries out its objectives by awarding grants to support the programmes of the Vladimir Potanin Foundation (VPF), its sister charity in Russia. The VPF was the first private foundation established in Russia. Further information about the VPF and its activities can be found on its website <http://eng.fund.legein.ru/about>.

There are no plans to alter the charity's operations in the foreseeable future.

Public benefit

The Trustees confirm that they have referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing the charity's aims and objectives and in planning for the charity's future.

Achievements and performance

It is the Trustees' objective to preserve the value, in real terms, of the charity's funds. As a result of the fall in world stock markets in recent years, the value of the charity's funds fell behind this target. Therefore, grantmaking was suspended by the Trustees. However, towards the end of the last financial year a recovery in the value of funds was observed and they slightly exceeded the value of total donations received since inception as adjusted for the effects of United States Consumer Price Index (US CPI).

That recovery continued through the year now under review and as a result the Trustees were able to award grants of \$1.6m to the Young Tutors and the Changing Museum in a Changing World programme of the Vladimir Potanin Foundation.

During the year under review and after deduction of the above grants, funds increased by \$4.4m from \$84.7m to \$89.1m. This represents an excess of \$3.9m over the value of total donations received from inception, as adjusted for US CPI.

Aims for next year

The Trustees expect to maintain grantmaking for the coming year at least at the level for the year under review. Any further grantmaking in the future will be made out of the total return on investments at a level which aims to ensure that funds retain their real value when compared with the movements in US CPI.

Grantmaking policy

Grants are awarded to support the programmes of the VPF, while having regard for the charity's objects. The Advisory Board advises the Trustees on grantmaking priorities and strategy. Its members are nominated by the Founder and by the Charities Aid Foundation (CAF), registered charity number 268369.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Financial review

During the financial year the charity received no donations (2009 nil) Investment income of \$0.7m (2009 \$0.7m) was generated in the year and a realised gain on fixed asset investments of \$6.3m (2009 nil) arose

Grants of \$1.6m were awarded during the year (2009 nil) Governance costs of \$0.11m (2009 \$0.11m) and a foreign exchange loss of \$1.0m (2009 \$0.7m gain) arose

During the year the charity's net assets increased by \$4.4m to \$89.1m (2009 \$8.7m to \$84.7m)

Reserves policy

The charity's policy is to maintain an adequate level of resources to support its future activities. Funds of \$89.1m (2009 \$84.7m) held, represent general unrestricted funds which are expendable at the discretion of the Trustees in the furtherance of the charity's objectives. Such funds are held in order to finance operations, grantmaking and capital investment.

The Trustees use US CPI to assess whether the reserves have maintained their real value. Where the reserves have not maintained their real value, an assessment is made as to whether grants should be maintained at their existing levels.

Going concern

The charity's activities, together with its financial position and plans for its future development and performance have been described in this report.

The charity's aims and objectives, taking into account a number of potential changes in performance and funding, show that the charity should be able to operate at adequate levels of both liquidity and reserves for the foreseeable future.

Consequently, the Trustees are satisfied that the charity should have sufficient resources to continue its operations for the foreseeable future and have, therefore, continued to adopt the going concern basis in preparing the financial statements.

Investment policy and performance

Funds are invested in target return funds, equities and cash instruments with high quality institutions, with derivative instruments being used to mitigate risk. The investment aim is to generate income and capital growth to fund grantmaking to the VPF, while preserving the capital value, in real terms, of the charity's funds.

The market value of the fixed asset and current asset investments increased by \$6.4m (7.7%) from \$82.7m to \$89.1m (2009 increased by \$18.3m from \$64.4m to \$82.7m). As described in the preceding section on achievements and performance this represents a considerable recovery of the value of the charity's investments as adjusted for the effects of US CPI.

Structure, governance and management

The Trustees ensure efficient and transparent operation of the charity and are responsible for the investment of its assets. The charity's Trustees met four times in the year.

None of the Trustees has any beneficial interest in the company.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Appointment of trustees

The charity is required to have at least three Trustees, unless CAF GT is acting as corporate trustee, then only two Trustees are required. Accordingly, the Trustees are currently CAF GT and Russell Prior, an executive director of CAF. Additional Trustees may be appointed by written resolution of the Founder. If the Founder shall fail to exercise this right within reasonable time following the date when such appointment is required or be unable to do so within such time, the power to appoint new Trustees passes to the existing Trustees.

Related parties

CAF Global Trustees (CAF GT), registered charity number 1111039 has acted as corporate trustee of the charity throughout the year. CAF GT is controlled by CAF, which provides the charity with administrative and managerial services.

Risk management

The Trustees have a risk management strategy which comprises

- an annual review of the risks the charity may face,
- the establishment of systems and procedures to mitigate those risks identified in the plan, and
- the implementation of procedures designed to minimise any potential impact on the charity should those risks materialise.

The main risks identified are market (price) risk, credit risk and foreign exchange risk. These risks are managed for the charity by its investment managers. The performance of the investment managers is regularly reviewed by the Trustees.

Statement of trustees' responsibilities

The trustees (who are also directors of The Potanin Foundation for the purposes of company law) are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the trustees are required to

- select suitable accounting policies and then apply them consistently,
- observe the methods and principles in the Charities SORP,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

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

In so far as the trustees are aware

- there is no relevant audit information of which the charitable company's auditor is unaware, and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Potanin Foundation

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Auditors

Each of the persons who is a Trustee at the date of approval of this report confirms that

- so far as the Trustees are aware, there is no relevant audit information of which the charitable company's auditors are unaware, and
- the Trustees have taken all the steps that he/she ought to have taken as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the charitable company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

A resolution reappointing Deloitte LLP as auditors of the charity and authorising the board to fix their remuneration will be submitted to the forthcoming Annual General Meeting

Approved by the Trustees on 23 September 2011 and signed on their behalf



Dr John Low CBE
Chairman of CAF Global Trustees

25 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4TA

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE POTANIN FOUNDATION

We have audited the financial statements of The Potanin Foundation for the year ended 31 December 2010 which comprise the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and the related notes 1 to 15. 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 charitable 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 charitable 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 company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

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

Our responsibility is to audit and express an opinion on the financial statements 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2010 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

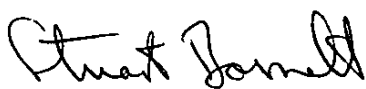
In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE POTANIN 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 financial statements 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



Stuart Barnett FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom

23 September 2011

The Potanin Foundation

STATEMENT OF FINANCIAL ACTIVITIES
(incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2010

		Unrestricted funds	
		2010	2009
	Notes	\$000	\$000
Incoming resources from generated funds			
Investment income	2	617	695
Net gain on foreign exchange movements	3	-	704
Total incoming resources		617	1,399
Resources expended			
Costs of generating funds			
Investment management costs		275	57
Charitable activities	4	1,632	-
Governance costs	5	111	108
Net loss on foreign exchange movements	3	1,050	-
Total resources expended		3,068	165
Net (resources expended)/incoming resources before other recognised gains and losses		(2,451)	1,234
Realised gains on investment assets	8	6,309	-
Net income for the year		3,858	1,234
Unrealised gains on investment assets	8	561	7,438
Net movement in funds		4,419	8,672
Fund balances at 1 January		84,680	76,008
Fund balances at 31 December		89,099	84,680

The results are derived from ongoing operations, and all gains or losses arising in the current and preceding year are included in the above Statement of Financial Activities

For Companies Act purposes, net incoming resources amounting to \$3,858,000 comprise the surplus for the year

The Potanin Foundation

BALANCE SHEET AS AT 31 DECEMBER 2010

		2010		2009	
	Notes	\$000	\$000	\$000	\$000
Fixed assets					
Investments	8		89,077		57,738
Current assets					
Debtors	9	146		1,691	
Cash at bank		1,846		314	
Investments	10	-		24,999	
		<u>1,992</u>		<u>27,004</u>	
Creditors amounts falling due within one year	11	<u>(1,970)</u>		<u>(62)</u>	
Net current assets			<u>22</u>		<u>26,942</u>
Total assets less current liabilities			<u>89,099</u>		<u>84,680</u>
Funds					
Unrestricted funds			<u>89,099</u>		<u>84,680</u>

Approved by the Trustees on 23 September 2011 and signed on their behalf



Dr John Low CBE
Chairman of CAF Global Trustees

Company Registration No 05514908 (England and Wales)

The Potanin Foundation

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

		2010		2009	
	Notes	\$000	\$000	\$000	\$000
Net cash inflow/(outflow) from operating activities	12		4,485		(3,809)
Capital expenditure and financial investment					
Payments to acquire investments		(65,223)		-	
Receipts from sales of investments		37,271		-	
Net cash outflow from capital expenditure and financial investment			(27,952)		-
Management of liquid resources					
Decrease/(increase) in current asset investments		24,999		(4,999)	
Net cash inflow/(ouflow) from management of liquid resources			24,999		(4,999)
Increase/(decrease) in cash	13		<u>1,532</u>		<u>(8,808)</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies

1.1 Basis of preparation

The accounts have been prepared under the historical cost convention modified to include the revaluation of fixed assets investments

The accounts have been prepared in accordance with the Charities Statement of Recommended Practice 2005, (Accounting and Reporting by Charities), issued in March 2005, applicable United Kingdom Accounting Standards and comply with the Charities (Accounts and Reports) Regulations 2008 issued under the Charities Act 1993 and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below

The going concern basis has been adopted in preparing these accounts. The grounds for this approach are set out in the Trustees' Report

1.2 Fund accounting

The funds held are general unrestricted funds that represent funds which are expendable at the discretion of the Trustees in the furtherance of the objects of the charity. Such funds may be held in order to finance both working and capital investment

1.3 Incoming resources

Voluntary income including donations, gifts and legacies and grants that provide core funding, or are of a general nature, are recognised where there is entitlement, certainty of receipt and the amount can be measured with sufficient reliability. Such income is only deferred when

- the donor specifies that the grant or donation must only be used in future accounting periods, or
- the donor has imposed conditions which must be met before the charity has unconditional entitlement

Investment income is recognised on an accruals basis

1.4 Resources expended

All expenditure is accounted for on an accruals basis. Expenditure includes any VAT which cannot be fully recovered, and is reported as part of the expenditure to which it relates

Expenditure has been classified under headings that aggregate all costs related to the category. Where costs cannot be attributed to particular headings they have been allocated to activities on a basis consistent with the use of the resources

Grants payable are included in the Statement of Financial Activities when approved by the Trustees

Charitable activities are those costs incurred directly in support of expenditure on the objects of the charity. Governance costs are those incurred in connection with administration of the charity and compliance with constitutional and statutory requirements

1.5 Foreign currency translation

These financial statements are presented in US dollars, being the currency in which the principal activities are conducted. Transactions denominated in other currencies are recorded at the prevailing rate at the date of the transaction

Monetary assets and liabilities denominated in other currencies are translated into US dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are taken to the Statement of Financial Activities

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

1.6 Taxation

No tax is provided in these financial statements as the company is a registered charity and is exempt from tax on its income and gains

1.7 Recognition and derecognition of financial assets and liabilities

Financial assets and financial liabilities are recognised in the charity's balance sheet when the charity becomes a party to the contractual provisions of the instrument

The charity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial liabilities are derecognised when, and only when, the charity's obligations are discharged, cancelled or they expire

1.8 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value

The charity's financial assets fall into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Current asset investments comprising funds pending investment are held on short-term fixed treasury deposits. These financial assets are classified as loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period

Income is recognised on an effective interest basis for loans and receivables

Financial assets at FVTPL

Fixed asset investments and derivative financial assets are classified as financial assets at FVTPL

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of financial activities. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in the 'Financial Instruments' note

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted upon

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

1.9 Financial liabilities

Financial liabilities and grant payments are classified as 'other financial liabilities'

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

1.10 Derivative financial instruments

Derivatives, such as forward foreign exchange contracts, are recognised in the balance sheet on a trade date basis and are carried at fair value. Fair value for the forward foreign exchange contracts is determined by reference to the daily spot forward foreign exchange rates at the balance sheet date. Derivatives are carried as assets when their fair value is positive and as liabilities when fair value is negative. Changes in fair value are recognised in the Statement of Financial Activities.

The forward foreign exchange contracts are recognised on the Fair Value Hierarchy as Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities. There have been no transfers between Level 1 and Level 2 of the Fair Value Hierarchy.

	2010 \$000	2009 \$000
2. Investment income		
Income from investments	665	593
Net loss on derivative assets	(116)	-
Interest receivable	68	102
	617	695
	2010 \$000	2009 \$000
3. Net loss/(gain) on foreign exchange movements		
Loss/(gain) in respect of fixed asset investments	3,521	(5,918)
Forward contracts and other (profits)/losses	(2,471)	5,214
	1,050	(704)
	2010 \$000	2009 \$000
4. Charitable activities		
Grants payable to The Vladimir Potanin Foundation	1,632	-
	2010 \$000	2009 \$000
5. Governance costs		
Fees payable to the company's auditors for the audit of the annual accounts	17	17
Management charges paid to CAF (see note 6)	91	91
Other expenses	3	-
	111	108

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

6. Trustees and related party transactions

The charity's corporate trustee, CAF Global Trustees, is a related party of the Charities Aid Foundation (CAF). CAF provided services to the charity in respect of its administration of and compliance with constitutional and statutory requirements amounting to \$91,000 (2009: \$91,000).

Except for the above, none of the trustees was reimbursed for expenses or received any remuneration in the current or previous financial year.

7. Employees

There were no employees during the year (2009: none).

8. Fixed asset investments

	2010	2009
	\$000	\$000
Market value at 1 January	57,738	44,382
Additions at cost	65,223	-
Dividend re-investments	38	-
Disposal proceeds	(37,271)	-
Realised gains/(losses) in respect of changes in		
Market price	6,309	-
Foreign exchange rates	(3,688)	-
Unrealised gains in respect of changes in		
Market price	561	7,438
Foreign exchange rates	167	5,918
Market value at 31 December	<u>89,077</u>	<u>57,738</u>
Historical cost:		
At 31 December	<u>84,644</u>	<u>65,360</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

8. Fixed asset investments (continued)

Represented by:	2010	2009
	\$000	\$000
Fixed Income		
UK	-	-
Rest of Europe		
- Fixed Income	2,548	-
- Pooled Funds	14,893	-
US	16,255	-
Other	2,200	-
International pooled funds	5,597	-
Equities		
Rest of Europe	300	-
North America	7,899	-
International	19,975	-
Other	926	-
Other		
Pooled Funds		
UK	68	-
US	2,993	57,738
International	3,915	-
Other	3,916	-
Investment portfolio cash and settlements pending	7,592	-
	<u>89,077</u>	<u>57,738</u>

9. Debtors

	2010	2009
	\$000	\$000
Derivative financial asset at FVTPL	12	1,421
Prepayments and accrued income	134	270
	<u>146</u>	<u>1,691</u>

10. Current asset investments

No current asset investments were held at the balance sheet date. Those held at 31 December 2009 consisted of short-term money market deposits with high quality institutions.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

11. Creditors: amounts falling due within one year

	2010	2009
	\$000	\$000
Derivative financial liability at FVTPL	78	-
Grants payable	1,632	-
Accruals	260	62
	<u>1,970</u>	<u>62</u>

12. Reconciliation of net (resources expended)/incoming resources to net cash inflow/(outflow) from operating activities

	2010	2009
	\$000	\$000
Net (resources expended)/incoming resources	(2,451)	1,234
Loss/(gain) on fixed asset investments due to changes in foreign exchange rates	3,521	(5,918)
Dividend re-investments	(38)	-
Decrease in debtors	1,545	1,088
Increase/(decrease) in creditors	1,908	(213)
Net cash inflow/(outflow) from operating activities	<u>4,485</u>	<u>(3,809)</u>

13. Reconciliation of net cash flow to movement in net funds

	2010	2009
	\$000	\$000
Increase/(decrease) in cash	1,532	(8,808)
Movement in liquid resources	(24,999)	4,999
Movement in net funds	<u>(23,467)</u>	<u>(3,809)</u>
Net funds at 31 December 2009	25,313	29,122
Net funds at 31 December 2010	<u>1,846</u>	<u>25,313</u>

14. Analysis of net cash balances

	At 1 1 2010	Cash flow \$000	At 31 12 2010 \$000
Bank balances	314	1,532	1,846

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

15. Financial instruments

15.1 Capital management

The charity's unrestricted funds of \$89.1m (2009: \$84.7m) form its capital. The charity's objectives when managing these funds are:

- to safeguard the charity's ability to continue as a going concern, so that it can continue to fund its grant programme and
- to generate levels of income and capital growth to maximise grantmaking, whilst monitoring the levels of risk to which the charity is exposed

15.2 Categories of financial instruments

	2010	2009
	\$000	\$000
Financial assets		
Cash at bank	1,846	314
Fair value through profit or loss		
<i>Fixed asset investments</i>	89,077	57,738
<i>Derivative financial asset at FVTPL</i>	12	1,421
	<u>89,089</u>	<u>59,159</u>
Loans and receivables		
<i>Current asset investments</i>	-	24,999
Total financial assets	<u>90,935</u>	<u>84,472</u>
Financial liabilities		
Other financial liabilities		
<i>Derivative financial liability at FVTPL</i>	78	-
<i>Grants payable</i>	1,632	-
	<u>1,710</u>	<u>-</u>

15.3 Principal risks and uncertainties

The charity is exposed to and manages its principal financial risks as follows:

15.3.1 Market risk

Market risk is the risk of an adverse change in the net assets or income arising from movements in prices, interest rates and foreign exchange rates. The charity's two investment managers each manages a portfolio of diversified instruments and therefore the charity is exposed to market risk.

(a) Price risk

From time to time the charity may acquire instruments which fluctuate in value as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market.

At 31 December 2010 the charity held fixed asset investments of \$89.1m (2009: \$57.7m) which fluctuate in value as a result of changes in market prices.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

15.3.1 Market risk (continued)

(b) Interest rate risk

Interest rate risk represents the sensitivity of the charity to changes in interest rates. The charity does not hold any long-term borrowings or deposits. Although it has no short-term borrowings, the charity does from time-to-time hold short-term money market deposits. Interest rate changes in respect of the short-term deposits affect the charity's level of incoming resources and possibly its ability to make grants.

(c) Foreign exchange risk

Foreign exchange risk represents the sensitivity of the charity to changes in foreign exchange rates. In the normal course of business, the charity enters into transactions denominated in currencies other than US dollars. As a result, the charity is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. Risk also stems from investments that are not US dollar denominated because the charity reports and transacts in US dollars. This risk is hedged by the investment managers by the use of forward foreign exchange contracts, and therefore any movement on the value of the investments that are not US dollar denominated is matched by the movement of the forward foreign exchange contracts.

The net fair value of such derivative instruments entered into by the charity at 31 December 2010 was \$0.1m (2009: \$1.4m).

(d) Sensitivity analysis

The sensitivity analysis below has been determined based on the charity's assets and liabilities present in the balance sheet as at the balance sheet date.

If the US dollar had been 5% weaker against the charity's open currency positions at the balance sheet date, the net movement in funds for the year ended 31 December 2010 would have been \$2,000 lower (2009: \$706,000 higher). This would have resulted in higher foreign exchange gains on investment assets. The inverse is equally true if the US dollar had been 5% stronger against the charity's open currency positions.

15.3.2 Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the charity. The charity does not have any significant credit risk exposure to a single counterparty or group of counterparties with similar characteristics. Credit risk is mitigated through the investment managers' use of only approved brokers (which are monitored on an ongoing basis) to determine that they remain acceptable counterparties. In addition, the custodial arrangements in place mitigate the risk of investments being held by a single counterparty, namely, its investment managers.

There are no financial assets which are past due or impaired at the balance sheet date.

The carrying amount of financial assets recorded in the financial statements represents the charity's maximum exposure to credit risk.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

15.3.3 Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch. Liquidity risk is mitigated by the routine monitoring of the charity's grant programme and liaison with its investment managers. The table below details the expected maturity of the charity's material liabilities as at the balance sheet date.

Creditors: amounts falling due within one year	2010	2009
	\$000	\$000
Falling due in less than three months		
Grants payable	1,158	-
Accruals	260	62
Falling due in less than nine months		
Grants payable	474	-
Total creditors	1,892	62