

Charity Registration No 1112813

Company Registration No 05514908 (England and Wales)

THE POTANIN FOUNDATION

TRUSTEES' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012

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CHARITY INFORMATION, TRUSTEES AND ADVISORS

Trustees	CAF Global Trustees Jo Ensor
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	KPMG LLP Chartered Accountants and Statutory Auditor 15 Canada Square London E14 5GL

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The Trustees present their report together with the financial statements of the charity for the year ended 31 December 2012

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 (No 05514908). 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. Established in 1999 to implement socially-significant long-term projects in the fields of Russian education and culture, the VPF was the first private foundation in Russia. More information on the VPF and its activities can be found at www.fondpotanin.ru/english-c73.

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. The Trustees receive regular reporting on the use of the grants it has made and monitoring is carried out on their behalf to ensure that the grantmaking programme meets the above guidance.

Achievements and performance

It is the Trustees' objective to preserve the value, in real terms, of the charity's funds. The Trustees, therefore, seek to maintain the charity's funds at a level which is at least equal to the value of total donations received since inception, as adjusted for the effects of United States Consumer Price Index (US CPI).

As a result of the volatility of world stock markets in recent years, the value of the charity's funds have at times fallen behind this target. Therefore, the Trustees have adopted a cautious approach to grantmaking, whilst having regard for fulfilling their charitable objectives.

In the latter part of 2011 a fall in financial markets resulted in the value of the charity's funds of \$85.1m being \$2.6m below target. Although there was a partial recovery in this position during the early part of 2012, another fall in world stock markets towards the middle of the year resulted in the value of the charity's funds returning to their opening position, despite a steady decline in US CPI over the same period. As a result of this volatility and having regard for the objective to preserve the value of the charity's funds, the Trustees did not consider it prudent to award any grants during 2012.

However, the second half of 2012 saw a recovery in financial markets and by the end of December 2012 the value of the charity's investment portfolios had recovered sufficiently for the charity's funds to reach \$91m, which was 2% above the target value.

Aims for next year

Growth in the financial markets continued into 2013 and at the end of February 2013 the Trustees were able to award a grant of \$1.5m to the VPF and maintain funds at their target level.

The Trustees will continue with their cautious approach to grantmaking and will regularly monitor the value of the charity's funds, with grants being awarded 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 over the short to medium term.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Grantmaking policy

Grants are awarded to support the programmes of the VPF, while having regard for the charity's objectives. The Trustees receive regular updates from VPF about the programmes funded and monitoring is carried out by the Russian office of Charities Aid Foundation (CAF Russia) on behalf of the Trustees.

Financial review

During the financial year the charity received no donations (2011: nil). Investment income of \$0.8m (2011: \$0.5m) was generated in the year and realised gains on fixed asset investments of \$0.5m (2011: \$0.9m) arose.

No grants were awarded during the year (2011: \$1.7m). Governance costs of \$0.1m (2011: \$0.1m) arose.

During the year the charity's net assets increased by \$5.9m to \$91.0m (2011: decreased by \$4.0m to \$85.1m).

Reserves policy

The charity's policy is to maintain an adequate level of resources to support its future activities. Funds held of \$91.0m (2011: \$85.1m), 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 the level at which grantmaking may be maintained.

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

The charity's investments are managed on a discretionary basis by two investment managers. 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 investments increased by \$5.6m (6.6%) from \$85.5m to \$91.2m (2011: decreased by \$3.6m from \$89.1m to \$85.5m).

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 twice in the year (2011: three times).

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

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (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 Jo Ensor, an executive director of Charities Aid Foundation (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 that law they have are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (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 KPMG 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 7 June 2013 and signed on their behalf

A handwritten signature in black ink, appearing to read 'John Low', is written over a horizontal line.

Dr John Low CBE
Chairman of CAF Global Trustees

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 2012 set out on pages 7 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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 auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 4, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2012 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 UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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:

- the charitable company has not kept adequate accounting records 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.

Mike Peck

11 June 2013

Mike Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

STATEMENT OF FINANCIAL ACTIVITIES
(incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2012

		Unrestricted funds	
	Notes	2012	2011
		\$000	\$000
Incoming resources from generated funds			
Investment income	2	807	456
Total incoming resources		807	456
Resources expended			
Costs of generating funds			
Investment management costs		545	618
Charitable activities	3	-	1,673
Governance costs	4	118	114
Total resources expended		663	2,405
Net incoming resources/(resources expended)			
before other recognised gains and losses		144	(1,949)
Realised gains on investment assets	7	493	872
Net income/(expenditure) for the year		637	(1,077)
Unrealised gains/(losses) on investment assets	7	5,278	(2,916)
Net movement in funds		5,915	(3,993)
Fund balances at 1 January		85,106	89,099
Fund balances at 31 December		91,021	85,106

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 \$637,000 comprise the surplus for the year (2011 \$1,077,000 deficit for the year)

The Potanin Foundation

BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012		2011	
		\$000	\$000	\$000	\$000
Fixed assets					
Investments	7		91,156		85,518
Current assets					
Cash at bank			1		3
			<u>1</u>		<u>3</u>
Creditors: amounts falling due within one year	8		(136)		(415)
Net current liabilities			(135)		(412)
Total assets less current liabilities			<u>91,021</u>		<u>85,106</u>
Funds					
Unrestricted funds			<u>91,021</u>		<u>85,106</u>

Approved by the Trustees on 7 June 2013 and signed on their behalf



Dr John Low CBE
Chairman of CAF Global Trustees

Company Registration No 05514908 (England and Wales)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

		2012		2011	
	Notes	\$000	\$000	\$000	\$000
Net cash outflow from operating activities	9		(942)		(3,882)
Capital expenditure and financial investment					
Withdrawals from investment portfolio		940		2,039	
Net cash inflow from capital expenditure and financial investment	10		940		2,039
Decrease in cash	11/12		<u>(2)</u>		<u>(1,843)</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012

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), applicable United Kingdom Accounting Standards and comply with the Charities (Accounts and Reports) Regulations 2008 issued under the Charities Act 2011 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 capital 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 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 recognised when there is a constructive obligation to make payment

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 the management of the charity to ensure compliance with constitutional and statutory requirements

1.5 Investment assets

Investments are stated at market value at the balance sheet date. The Statement of Financial Activities includes net gains and losses arising on revaluations and disposals in the period

1.6 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 2012 (continued)
1.7 Taxation

The Potanin Foundation is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes

	2012 \$000	2011 \$000
2 Investment income		
Income from investments	551	441
Interest receivable	256	15
	807	456

	2012 \$000	2011 \$000
3 Charitable activities		
Grants payable to the Vladimir Potanin Foundation	-	1,673

	2012 \$000	2011 \$000
4. Governance costs		
Audit fee	19	18
Management charges paid to CAF (see note 5)	99	96
	118	114

5. 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 the management of the charity's compliance with constitutional and statutory requirements amounting to \$99,000 (2011 \$96,000)

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

6. Employees

There were no employees during the year (2011 none)

	2012 \$000	2011 \$000
7. Fixed asset investments		
Market value at 1 January	85,518	89,077
Income received retained in portfolios	807	456
Cash withdrawn from portfolios	(940)	(1,971)
Realised gains	493	872
Unrealised gains/(losses)	5,278	(2,916)
	91,156	85,518
Historical cost.		
At 31 December	84,390	83,291

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

7 Fixed asset investments (continued)

Represented by:	2012	2011
	\$000	\$000
Fixed Income		
UK	1,238	-
Europe (other than UK)		
- Fixed Income	1,242	1,728
- Pooled Funds	11,132	16,667
US	28,347	16,116
Other	877	-
International pooled funds	303	1,836
Equities		
UK	178	244
Rest of Europe	2,642	700
North America	7,768	5,454
Asia	2,773	2,065
International	11,020	16,636
Other		
Pooled Funds		
UK	-	63
US	-	3,066
International	3,548	4,193
Hedge funds and derivatives	7,689	4,575
Short-term liquidity and settlements pending	12,399	12,175
	91,156	85,518

Fixed asset investments are managed on a discretionary basis as segregated portfolios by the charity's two investment managers

The investment assets (including cash held for investment purposes) are held with the overall intention of retaining them for the long-term (namely, as fixed assets) for the continuing benefit of the charity in the form of income and capital appreciation. Cash held for investment purposes generally arises as a result of the application of each investment manager's strategy or through the realisation of assets for subsequent reinvestment of the disposal proceeds.

Consequently, this note does not show the movement of individual investment transactions executed by the investments managers within the two portfolios. Instead, the movement in the value of the two portfolios is analysed to show new funds introduced to or funds withdrawn from the portfolios, together with revaluations reflecting changes in market values.

To mitigate investment risk, such as currency and price fluctuations, the investment managers use derivative instruments such as foreign exchange derivatives and equity derivatives.

8 Creditors. amounts falling due within one year

	2012	2011
	\$000	\$000
Accruals	136	415
	136	415

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

9. Reconciliation of net resources expended to net cash outflow from operating activities

	2012	2011
	\$000	\$000
Net incoming resources/(resources expended)	144	(1,949)
Investment income capitalised (non-cash)	-	(207)
Investment income received into cash held by investment managers	(807)	(249)
Decrease in creditors (non-investment related)	(279)	(1,477)
Net cash outflow from operating activities	(942)	(3,882)

10 Net cash flow from capital expenditure and financial investment

The cash flows in respect of financial investment represent cash introduced to and withdrawn from the charity's two investment portfolios, which are managed on a discretionary basis by the charity's two investment managers. As described in note 7, cash within the investment portfolios is held for investment purposes and is treated as fixed asset investments. Thus, cash movements in respect of investment additions and disposals within the investment portfolios do not generate a cash flow in respect of the charity's overall level of financial investment.

There was no capital expenditure during the year (2011: none)

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

	2012	2011
	\$000	\$000
Decrease in cash	(2)	(1,843)
Movement in net funds	(2)	(1,843)
Net funds at 1 January	3	1,846
Net funds at 31 December	1	3

12. Analysis of net cash balances

	At		At
	1.1.2012	Cash flow	31.12.2012
	\$000	\$000	\$000
Bank balances	3	(2)	1