

Charity Registration No. 1112813

Company Registration No. 05514908 (England and Wales)

THE POTANIN FOUNDATION

TRUSTEES' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008



TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

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TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

LEGAL AND ADMINISTRATIVE INFORMATION

Trustees	CAF Global Trustees Russell Prior (appointed 7 July 2008)
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
Auditors	Deloitte LLP 2 New Street Square London EC4A 3BZ

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The Trustees present their report together with the financial statements of the charity for the year ended 31 December 2008.

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 objectives of the charity are to develop education and culture in Russia by supporting talent, initiative and innovation among students, young tutors and arts professionals. When reviewing the charity's aims and objectives and in planning future activities and setting the grantmaking policy, the Trustees refer to the guidance contained in the Charity Commission's general guidance on public benefit.

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 and has just celebrated its tenth anniversary. Further information about the VPF and its activities can be found on its website: <http://eng.fund.potanin.ru/>

Achievements and performance

During the year the Trustees awarded grants of \$210,000 to support the VPF's Young Tutors of State Universities programme for the 2008/09 academic year. The goal of the programme is to create an incentive for young scientists to remain in education in Russia. It supports the most promising state university tutors under the age of 35 who successfully combine tutoring and scientific research. Applicants' academic achievements and lectures, as well as the views of their students, are taken into consideration when making awards.

Aims for next year

Given the diminution in the value of the charity's investment assets as a result of the fall in world stock markets, the Trustees do not expect to award any grants in the coming year.

The Trustees expect to resume grantmaking when the value of funds returns to the level of donations received since inception (\$80m to 31 December 2008) as adjusted for the effects of the US Consumer Prices Index (CPI).

Grants will then be awarded out of the total return on investments at a level which ensures that funds retain their real value when compared with 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. The Advisory board meets twice a year.

Financial review

During the financial year the charity received donations totalling \$20m (2007: \$20m). Investment income of \$1.43m (2007: \$0.79m) was generated in the year and an unrealised loss of \$6.72m (2007: \$1.38m unrealised gain) arose.

Grants for the year totalled \$0.21m (2007: \$1.45m). Governance costs of \$0.13m (2007: \$0.12m) and a foreign exchange loss of \$1.06m (2007: \$0.30m gain) arose.

During the year the charity's net assets increased by \$13.3m to \$76.0m (2007: \$20.9m to \$62.7m).

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

Reserves policy

The charity's policy is to maintain an adequate level of resources to support its future activities. Funds of \$76m (2007: \$62.7m) 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 the United States Consumer Price Index 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.

Investment policy and performance

Funds are invested in a target return fund and in short term money market deposits with high quality institutions. 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.

As a result of the decline in world stock markets the investment performance for the year has not achieved the charity's investments objectives and as a result the Trustees do not intend to award any grants in the coming year.

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.

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.

None of the Trustees has any beneficial interest in the company. All of the Trustees are members of the company and guarantee to contribute £1 in the event of a winding up.

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.

Risk management and internal control

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 manager. The performance of the investment manager is regularly reviewed by the Trustees.

The Trustees have overall responsibility for ensuring that the charity has an appropriate system of controls, financial or otherwise. They are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charity and which enable them to ascertain its financial position and to ensure that the financial statements comply with the Companies Act 1985 and the Charities Act 1993. 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.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

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.

Statement of trustees' responsibilities

The Trustees are responsible for preparing the annual report and the financial statements. The Trustees have chosen to prepare accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the Trustees to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 company will continue in business.

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 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 company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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 *16 October 2009* 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 AUDITORS' REPORT TO THE TRUSTEES OF THE POTANIN FOUNDATION

We have audited the financial statements of The Potanin Foundation for the year ended 31 December 2008 which comprise the statement of financial activities, balance sheet and cash flow statement and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 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 auditors

The responsibilities of the trustees for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Trustees' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31 December 2008 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the trustees' report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

Date: 16 October 2009

STATEMENT OF FINANCIAL ACTIVITIES
(incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Unrestricted funds	
		31.12.2008 \$000	31.12.2007 \$000
Incoming resources from generated funds			
Voluntary income	2	20,000	20,000
Investment income	2	1,434	788
		<u>21,434</u>	<u>20,788</u>
Other incoming resources			
Net profit on foreign exchange movements	2	-	298
Total incoming resources		<u>21,434</u>	<u>21,086</u>
Resources expended			
Charitable activities	3	210	1,445
Governance costs	3	128	115
Net loss on foreign exchange movements	3	1,060	-
Total resources expended		<u>1,398</u>	<u>1,560</u>
Net incoming resources before other recognised gains and losses		20,036	19,526
Realised gains on investment assets	6	31	14
Net income for the year		20,067	19,540
Unrealised (losses)/gains on investment assets	6	(6,724)	1,380
Net movement in funds		13,343	20,920
Fund balances at 1 January		62,665	41,745
Fund balances at 31 December		<u>76,008</u>	<u>62,665</u>

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

The Potanin Foundation

BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008		2007	
		\$000	\$000	\$000	\$000
Fixed assets					
Investments	6		44,382		60,778
Current assets					
Debtors	7	2,779		2,374	
Cash at bank		9,122		348	
Investments		20,000		-	
		<u>31,901</u>		<u>2,722</u>	
Creditors: amounts falling due within one year	8	<u>(275)</u>		<u>(835)</u>	
Net current assets			<u>31,626</u>		<u>1,887</u>
Total assets less current liabilities			<u>76,008</u>		<u>62,665</u>
Funds					
Unrestricted funds			<u>76,008</u>		<u>62,665</u>

Approved by the Trustees on 16 October 2009 and signed on their behalf



Dr John Low CBE
Chairman of CAF Global Trustees

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

		31.12.2008		31.12.2007	
	Notes	\$000	\$000	\$000	\$000
Net cash inflow from operating activities	9		36,789		17,406
Capital expenditure and financial investment					
Payments to acquire investments		(8,811)		(18,750)	
Receipts from sales of investments		796		849	
Net cash outflow from capital expenditure and financial investment			(8,015)		(17,901)
Management of liquid resources					
(Increase)/decrease in current asset investments		(20,000)		741	
Net cash (inflow)/outflow from management of liquid resources			(20,000)		741
Increase in cash	10		<u>8,774</u>		<u>246</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 2005 issued under the Charities Act 1993 and the Companies Act 1985. The principal accounting policies adopted in the preparation of the financial statements are set out below.

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 sterling are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in sterling 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.

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (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 charity uses derivative financial instruments to reduce exposure to foreign exchange risk. The charity does not use derivative financial instruments for speculative purposes.

2 Incoming resources

	31.12.2008	31.12.2007
	\$000	\$000
Voluntary income:		
Donations received	20,000	20,000
Investment income:		
Income from investments	1,388	662
Interest receivable	46	126
	<u>1,434</u>	<u>788</u>
Net profit on foreign exchange movements:		
Unrealised profit in respect of fixed asset investments	-	506
Forward contracts and other profits/(losses)	-	(208)
	<u>-</u>	<u>298</u>
	<u>21,434</u>	<u>21,086</u>

3 Resources expended

	31.12.2008	31.12.2007
	\$000	\$000
Charitable activities:		
Grants payable to The Vladimir Potanin Foundation	210	1,445
Governance costs:		
Fees payable to the company's auditors for the audit of the annual accounts	20	28
Management charges paid to CAF (see note 4)	104	79
Other expenses	4	8
	<u>128</u>	<u>115</u>
Net loss on foreign exchange movements:		
Unrealised loss in respect of fixed asset investments	17,718	-
Forward contracts and other profits	(16,658)	-
	<u>1,060</u>	<u>-</u>
	<u>1,398</u>	<u>1,560</u>

The charity did not incur any support costs in the year.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

4 Trustees and related party transactions

None of the trustees received any remuneration in the current or previous financial year.

CAF Global Trustees, the corporate trustee, is a related party to the Charities Aid Foundation (CAF). CAF provided accounting and administration services to the charity amounting to \$104,000 (2007: \$79,000).

5 Employees

There were no employees during the year (2007: none).

6 Fixed asset investments

	2008	2007
	\$000	\$000
Market value at 1 January	60,778	40,977
Additions at cost	8,811	18,750
Disposal proceeds	(796)	(849)
Realised gains	31	14
Unrealised (losses)/gains in respect of changes in:		
Market price	(6,724)	1,380
Foreign exchange rates (see note 3)	(17,718)	506
Market value at 31 December	<u>44,382</u>	<u>60,778</u>
Historical cost:		
At 31 December	<u>65,360</u>	<u>57,308</u>

Fixed asset investments, classified as financial assets held at FVTPL, are valued at the bid price as at the balance sheet date with any gain or loss taken to the Statement of Financial Activities.

As at 31 December 2008 the above investments were held in an open-ended unit trust established under the laws of Jersey.

7 Debtors

	2008	2007
	\$000	\$000
Derivative financial asset at FVTPL	2,511	2,220
Prepayments and accrued income	268	154
	<u>2,779</u>	<u>2,374</u>

Derivative financial assets at FVTPL, forward foreign exchange contracts, are recognised in the balance sheet on a trade date basis and are carried at fair value which is determined by reference to the daily spot forward foreign exchange rates at the balance sheet date.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)
8 Creditors: amounts falling due within one year

	2008	2007
	\$000	\$000
Grants payable	210	755
Accruals	65	80
	<u>275</u>	<u>835</u>

The fair values of grants payable, classified as other financial liabilities are considered not to be materially different to the carrying amounts in the balance sheet.

9 Reconciliation of net incoming resources to net cash inflow from operating activities

	2008	2007
	\$000	\$000
Net incoming resources	20,036	19,526
Unrealised losses/(profits) on fixed asset investments due to changes in foreign exchange rates	17,718	(506)
Increase in debtors	(405)	(2,199)
(Decrease)/increase in creditors	(560)	585
Net cash inflow from operating activities	<u>36,789</u>	<u>17,406</u>

10 Reconciliation of net cash flow to movement in net funds

	2008	2007
	\$000	\$000
Increase in cash	8,774	246
Movement in liquid resources	20,000	(740)
Movement in net funds	<u>28,774</u>	<u>(494)</u>
Net funds at 31 December 2007	348	842
Net funds at 31 December 2008	<u>29,122</u>	<u>348</u>

11 Analysis of net cash balances

	At 1.1.2008	Cash flow	At 31.12.2008
	\$000	\$000	\$000
Bank balances	348	8,774	9,122

12 Financial instruments
12.1 Capital management

The charity's unrestricted funds of \$76.0m (2007: \$62.7m) 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

12.2 Categories of financial instruments

	2008	2007
	\$000	\$000
Financial assets		
Cash at bank	9,122	348
Fair value through profit or loss:		
<i>Fixed asset investments</i>	44,382	60,778
<i>Derivative financial asset at FVTPL</i>	2,511	2,220
	46,893	62,998
Loans and receivables:		
<i>Current asset investments</i>	20,000	-
Total financial assets	76,015	63,346
Financial liabilities		
Other financial liabilities:		
<i>Grants payable</i>	210	755

12.3 Principal risks and uncertainties

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

12.3.1 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 holds an investment which is a portfolio of diversified instruments and as such 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 2008 the charity held fixed asset investments of \$44.4m (2007: \$60.8m) which fluctuate in value as a result of changes in market prices.

(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 and so is not exposed to these movements.

(c) Foreign currency 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 foreign currencies. As result, the charity is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The principal risk stems from the investment being held in sterling whereas the charity reports and transacts in US dollars. The principal risk is hedged by the investment manager by the use of forward foreign exchange contracts and therefore any movement on the value of the US dollar forward foreign exchange contract is matched by the movement on the value of the sterling investment.

The net fair value of such derivative instruments entered into by the charity at 31 December 2008 was \$2.5m (2007: \$2.2m).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**(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 2008 would have been \$888,000 higher (2007: \$284,000). 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.

12.3.2 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 manager.

	Notes	2008 \$000	2007 \$000
Derivative financial asset at FVTPL	7	2,511	2,220
Cash		9,122	348
Current asset investments		20,000	-
		31,633	2,568

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.

12.3.3 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	2008 \$000	2007 \$000
Falling due in less than three months:		
Grants payable	210	-
Accruals	65	80
	275	80
Falling due between three months and one year:		
Grants payable	-	755
Total creditors	275	835