

Charity Registration No. 1112813

Company Registration No. 05514908 (England and Wales)

**THE POTANIN FOUNDATION**  
**TRUSTEES' REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**TRUSTEES' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015**

**CONTENTS**

	<b>Page</b>
Charity information, Trustees and advisors	<b>1</b>
Trustees' report including the strategic report	<b>2</b>
Independent auditor's report	<b>7</b>
Statement of financial activities	<b>8</b>
Balance sheet	<b>9</b>
Cash flow statement	<b>10</b>
Notes to the accounts	<b>11</b>



**CHARITY INFORMATION, TRUSTEES AND ADVISORS**

<b>Trustees</b>	CAF Global Trustees (the corporate Trustee) Dr John Low CBE
<b>Charity number</b>	1112813
<b>Company number</b>	05514908
<b>Directors of the Corporate Trustee</b>	Dr John Low CBE Mike Dixon David Stead
<b>Registered office</b>	25 Kings Hill Avenue Kings Hill West Malling Kent ME19 4TA
<b>Bankers</b>	National Westminster Bank Plc City of London Office 1 Princes Street London EC2R 8PA
<b>Investment advisers</b>	Goldman Sachs International River Court 120 Fleet Street London EC4A 2BE  J P Morgan International Bank Limited 125 London Wall London EC2Y 5AJ
<b>Auditor</b>	KPMG LLP Chartered Accountants and Statutory Auditor 15 Canada Square London E14 5GL



## **TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

The Trustees present their strategic and Trustees' report together with the audited financial statements of the charity for the year ended 31 December 2015.

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**

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 principally 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 charitable foundation in Russia. More information on the VPF and its activities can be found at: [www.fondpotanin.ru](http://www.fondpotanin.ru).

### **STRATEGIC REPORT**

#### **Achievements and performance**

It is the Trustees' objective to preserve the value, in real terms, of the charity's funds. The Trustees 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.

At the balance sheet date the charity's funds were valued at \$113.3m against a target value of \$111.8m based upon US CPI (2014: \$115.3m against target \$111.0m). The Trustees considered this to be a prudent level at which to maintain the charity's funds given the slow global economic recovery and the potential for future volatility of financial markets and US CPI.

During the year one grant was awarded and another was partially withdrawn by the Trustees, the award and withdrawal each being for \$1m. During the preceding financial year a grant of \$2.0m was awarded to the VPF, which subsequently informed the Trustees that it wished to draw only \$1m of that award and requested that the Trustees consider awarding a grant of \$1.0m to The Hermitage Foundation UK. The Trustees, therefore, awarded and paid a grant of \$1.0m to The Hermitage Foundation UK, having established that it was an appropriate grantee given that its work to support Russian culture and to provide assistance and support to The State Hermitage Museum of St Petersburg in respect of its artistic, scientific, cultural and educational activities. The Trustees also noted that the VPF has regularly run programmes in partnership with The State Hermitage Museum of St Petersburg.

#### **Financial review**

During the financial year the charity received no donations (2014: \$20m). Investment income of \$0.9m (2014: \$0.9m) was generated in the year, but the positive effect of realised gains on fixed asset investments of \$2.4m (2014: \$8.1m), was off-set by the recognition of unrealised losses of \$4.6m (2014: \$3.9m) thereon.

Investment management fees paid to the charity's two investment managers for management of the charity's investments on a discretionary basis amounted to \$0.7m (2014: \$0.6m), with the year-on-year increase principally attributable to the management of an additional \$20m of funds which were introduced in October 2014.

A single grant of \$1.0m was awarded during the year (2014: one grant of \$2.0m) was equal in value to the partial withdrawal of a grant.

During the year the charity's net assets decreased by \$2.0m to \$113.3m (2014: increased \$22.4m to \$115.3m) which was principally attributable to movements in investment markets.



**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**Aims for next year**

When The Potanin Foundation was established in 2005, legislation did not exist in Russia which was conducive to the establishment of a tax-effective charitable endowment, consequently the Founder established this UK charity. Subsequent, regulatory changes in Russia mean that it is now possible to establish effective charitable endowments in Russia, which is the country in which this charity's ultimate beneficiaries reside. Although this charity has been able to provide effective support through grantmaking to its beneficiaries over the years it has become evident that this charity's objects could be achieved even more effectively if its funds resided as an endowment in Russia along with its beneficiaries.

Consequently, the Trustees are considering options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity. In order to support their consideration of this matter, the Trustees are taking legal advice from both UK and Russian lawyers and are also consulting with the Charity Commission.

While the Trustees consider the option described above, they 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.

**Risk management and internal control**

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 2006 and the Charities Act 2011. 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.

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 risk and credit.

**Market risk**

Market risk is the risk from adverse movements in external markets including changes in investment values and foreign currency rates that will reduce the value of assets.

The charity's investments are held to fund long-term philanthropic goals, and consequently the Trustees have an objective to preserve the value, in real terms, of the charity's funds. Grantmaking is therefore planned having regard for the potential changes in investment values over time and US CPI. Consequently, the value of investment determines the value of the funds available to make grants. In the event of a fall in investment values, the value of grants would be reduced. The performance of the discretionary investment managers is regularly reviewed by the Trustees.

**Credit risk**

Credit risk is the risk of loss as a result of a failure of a counterparty to meet obligations as they fall due. The company's principal financial assets are fixed asset investments.

The charity's investments are managed on a discretionary basis by two major global investment managers in accordance with investment guidelines approved by the Trustees. The investment guidelines are designed to mitigate exposure to credit risk.



**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015** (continued)

**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 (2014: three times).

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

**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 John Low, 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.

**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.

**Grantmaking policy**

Grants are awarded primarily to support the programmes of the VPF. 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. However, grants can be awarded to other programmes outside of VPF that match the charity's objectives.

**Reserves policy**

The charity's policy is to maintain an adequate level of resources to support its future activities. Funds 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 the level at which grantmaking may be maintained. During periods of volatility in the financial markets and US CPI, the Trustees may take a prudent approach to hold reserves in excess of the target value indicated by historical US CPI.

Given the volatility in financial markets over recent years and the long-term nature of the Trustees' grantmaking objective, the Trustees considered it prudent to maintain the value of the charity's funds at \$113.3m against a target value of \$111.8m based upon US CPI (2014: \$115.3m against target \$111.0m).

**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.



## TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

### Going concern (continued)

As described earlier in this report, the Trustees are considering options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity. No decision has yet been made on this matter and the Trustees consider it appropriate to adopt a going concern basis pending the conclusion of this exercise. Given that UK and Russian legal advice is being taken, in conjunction with seeking guidance from the Charity Commission, it is unclear when this will conclude.

### Investment policy and performance

The Trustees appoint investment managers to manage the charity's investments on a discretionary basis. Goldman Sachs International and JPMorgan International Bank Limited each manage a portfolio of investments. The investment aim 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 has remained unchanged. At the balance sheet date the charity's funds were valued at \$113.3m against a target value of \$111.8m based upon US CPI (2014: \$115.3m against target \$111.0m).

### 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.

### Post balance sheet events

Other than the ongoing matter referred to earlier in this report concerning the consideration of options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity, there are no significant post balance sheet events.

## 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 elected 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.



**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**AUDITOR**

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 to appoint 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 10 October 2016 and signed on their behalf



**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 2015 set out on pages 8 to 17. 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 5, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the 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**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **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 2015 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

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

Date: 11 October 2016



**STATEMENT OF FINANCIAL ACTIVITIES**  
**(incorporating an Income and Expenditure Account)**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>Unrestricted funds</b>	
		<b>2015</b>	<b>2014</b>
	<b>Notes</b>	<b>\$000</b>	<b>\$000</b>
<b>Income</b>			
Donations		-	20,000
Investment income	2	939	954
<b>Total income</b>		<b>939</b>	<b>20,954</b>
<b>Expenditure</b>			
Raising funds:			
Investment management costs		654	559
Charitable activities:			
Grants payable	3	-	2,000
Costs of charitable activities	4	136	115
<b>Total expenditure</b>		<b>790</b>	<b>2,674</b>
<b>Net income before net gains/(losses) on investments</b>		<b>149</b>	<b>18,280</b>
Net (losses)/gains on investment assets	7	(2,208)	4,133
<b>Net (expenditure)/income</b>		<b>(2,059)</b>	<b>22,413</b>
Total funds brought forward		115,331	92,918
<b>Total funds carried forward</b>		<b>113,272</b>	<b>115,331</b>

The notes on pages 11 to 17 form an integral part of these financial statements.



**BALANCE SHEET AS AT 31 DECEMBER 2015**

		2015		2014	
	Notes	\$000	\$000	\$000	\$000
<b>Fixed assets</b>					
Investments	7		113,284		117,508
<b>Current assets</b>					
Cash at bank			136		7
<b>Creditors: amounts falling due within one year</b>	8		(148)		(2,184)
<b>Net current liabilities</b>			(12)		(2,177)
<b>Total assets less current liabilities</b>			<u>113,272</u>		<u>115,331</u>
<b>Funds</b>					
Unrestricted charitable funds			112,386		108,104
Fair value reserve			886		7,227
<b>Total funds</b>			<u>113,272</u>		<u>115,331</u>

The notes on pages 11 to 17 form an integral part of these financial statements.

Approved by the Trustees on 10 October 2016 and signed on their behalf



**Dr John Low CBE**  
Chairman of CAF Global Trustees

Registered Charity No. 1112813  
Company Registration No. 05514908 (England and Wales)



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

		2015		2014	
	Notes	\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>					
Net cash (used in)/provided by operating activities			(2,826)		17,272
<b>Cash flow from investing activities</b>					
Net decrease/(increase) in investment portfolio cash		2,955		(17,266)	
<b>Net cash provided by/(used in) investing activities</b>	9		2,955		(17,266)
<b>Change in cash and cash equivalents in the year</b>			<u>129</u>		<u>6</u>
Cash and cash equivalents as at 1 January 2015			7		1
<b>Cash and cash equivalents as at 31 December 2015</b>			<u>136</u>		<u>7</u>

**Reconciliation of net (expenditure)/income to cash flows from operating activities**

	2015	2014
	\$000	\$000
Net (expenditure)/income	(2,059)	22,413
Losses/(gains) on financial investments	2,208	(4,133)
Investment income received into cash held by investment managers	(939)	(954)
Decrease in creditors	(2,036)	(54)
<b>Net cash (used in)/provided by operating activities</b>	<u>(2,826)</u>	<u>17,272</u>

The notes on pages 11 to 17 form an integral part of these financial statements.



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. Accounting policies

The principal accounting policies and judgements used in the preparation of the financial statements are:

#### 1.1 Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom law and UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 (as issued by the Financial Reporting Council), the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'), which replaces the former UK GAAP, and the Statement of Recommended Practice: Accounting and Reporting by Charities ('Charity SORP (FRS 102)') and the Companies Act 2006.

#### 1.2 Going concern

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.

As described earlier in the Trustees' Report, the Trustees are considering options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity. No decision has yet been made on this matter and the Trustees consider it appropriate to adopt a going concern basis pending the conclusion of this exercise. Given that UK and Russian legal advice is being taken, in conjunction with seeking guidance from the Charity Commission, it is unclear when this will conclude.

#### 1.3 Reconciliation with previous Generally Accepted Accounting Practice

No adjustments were required in order to prepare the financial statements on the basis set out in note 1.1.

#### 1.4 Fund accounting

The charity holds only unrestricted funds.

Unrestricted income funds comprise those funds which the Trustees are free to use for any purpose in furtherance of the charitable objects of the charity.

#### 1.5 Income recognition

Income is recognised once the charity has entitlement to the income, it is probable that the income will be received and the amount can be measured reliably.

##### 1.5 (a) Donations

Donations received are recognised once the charity has entitlement to the income, it is probable that the income will be received and the amount of income receivable can be measured reliably.

##### 1.5 (b) Investment income

Dividends are recognised once the dividend has been declared and notification has been received of the value of the dividend due.

#### 1.6 Expenditure recognition

Expenditure is recognised as soon as there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

Grants payable are payments where the beneficiary charity has been formally notified in writing of the award. This notification gives the recipient a reasonable expectation that they will receive the one-year or multi-year grant. In the case of an unconditional grant offer this is accrued once the recipient has been notified of the grant award.



**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**1. Accounting policies (continued)**

**1.6 Expenditure recognition (continued)**

Grants awards that are subject to the recipient fulfilling performance conditions are accrued when any remaining unfulfilled conditions attaching to that grant are outside of the control of the Trust.

The provision for a multi-year grant is recognised at its present value where settlement is due over more than one year from the date of the award, there are no unfulfilled performance conditions under the control of the Trust that would permit the Trust to avoid making the future payment(s), settlement is probable and the effect of discounting is material. The discount rate used is the average rate of investment yield in the year in which the grant award is made.

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees.

Irrecoverable VAT is charged as a cost.

**1.7 Allocation of support cost**

All expenses including support costs and governance costs are allocated or apportioned to the applicable expenditure headings.

**1.8 Foreign currency**

The reporting currency of the charity is US dollars.

Transactions in other currencies are translated to US dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies at the balance sheet date are retranslated to US dollars at the foreign exchange rate ruling at that date. Exchange differences arising are taken to the SOFA.

**1.9 Taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

**1.10 Basic financial instruments**

**Investments**

Investments are held to achieve capital appreciation and to generate income to fund future charitable donations. The value of the investments determines the funds available for donation at any point in time.

Basic financial instruments are, therefore, measured initially at fair value, which is normally the transaction price. Transaction costs are expensed in the SOFA (where material) if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition all types of investments, including debt securities, that can be measured reliably are measured at fair value with changes recognised in the SOFA. Where the fair value of such investments cannot be reliably measured because, for example they are not publicly traded, the investments are measured at cost less impairment.



**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**1. Accounting policies (continued)**

**1.10 Basic financial instruments (continued)**

**Cash at bank and in hand**

Cash at bank and in hand includes cash and short term highly liquid cash deposits with a short maturity of three months or less from the date of opening the deposit or similar account.

Where a portfolio of investment and cash assets is managed on a discretionary basis by an investment manager, cash and cash deposits which form part of that portfolio, are included with the investment balance to reflect that the funds do not form part of normal day-to-day operational cash flows and balances.

**Debtors and creditors**

Debtors are recognised at the settlement amount due after any discount offered. Prepayments are valued at the amount prepaid.

Creditors are recognised where there is a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any discounts due.

**1.11 Other financial instruments - financial instruments not considered to be 'Basic financial instruments'**

Other financial instruments not meeting the definition of 'Basic financial instruments' are recognised initially at fair value. Subsequent measurement is at fair value with changes recognised in the SOFA, except for equity instruments which are not publicly traded and whose value cannot be otherwise be measured reliably, which are measured at cost less impairment.

Forward currency exchange contracts (a form of derivative financial instrument) may be held within investment portfolios managed on a discretionary basis by an investment manager, but only in order to mitigate any currency risk to which the portfolio may be exposed.

**1.12 Significant estimates and judgements**

There have been no significant estimates or judgements necessary in the preparation of these accounts. The most significant area of any uncertainty relates to the carrying value and future performance of fixed asset investments, which have been included at the discretionary investment managers' valuations. Subsequent fluctuations in investment markets affecting investment return and performance will impact the levels of future grantmaking.

The Trustees are also in the process of considering options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity. Further details are set out in the Trustees' report and note 1.2.

**1.13 Entity status**

The Potanin Foundation meets the definition of a Public Benefit Entity under FRS102.

**2. Investment income**

	2015	2014
	\$000	\$000
Income from investments	384	551
Interest receivable	555	403
	<u>939</u>	<u>954</u>



**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**3. Donations to charities**

	2015 \$000	2014 \$000
Grants awarded:		
The Vladimir Potanin Foundation	-	2,000
The Hermitage Foundation UK	1,000	-
Grants withdrawn:		
The Vladimir Potanin Foundation	(1,000)	-
	<u>-</u>	<u>2,000</u>

**4. Cost of charitable activities**

Cost of charitable activities in respect of unrestricted general funds includes the following:

	2015 \$000	2014 \$000
Governance costs:		
Management charges paid to CAF (see note 5)	93	95
Legal fees	24	-
Audit fee (including VAT at 20%)	19	20
	<u>136</u>	<u>115</u>

**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 \$93,000 (2014: \$95,000). As at 31 December 2015 no amounts were unpaid (2014: \$46,738).

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 (2014: none).

**7. Fixed asset investments**

Fixed asset investments are managed on a discretionary basis as segregated portfolios by the charity's 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 portfolios. Instead, the movement in the value of the portfolios is analysed to show new funds introduced to or funds withdrawn from the portfolios, together with revaluations reflecting changes in market values.

Forward currency exchange contracts may be entered into by the discretionary investment managers, but such contracts are only used to mitigate any currency risk to which the portfolio may be exposed.



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 7. Fixed asset investments (continued)

	2015 \$000	2014 \$000
Market value at 1 January	117,508	95,155
Income received retained in portfolios	939	954
Cash added to portfolios	-	20,000
Cash withdrawn from portfolios	(2,955)	(2,734)
Net realised gains	2,420	8,077
Net unrealised losses	(4,628)	(3,944)
<b>Market value at 31 December</b>	<b>113,284</b>	<b>117,508</b>
<b>Historical cost:</b>		
At 31 December	112,398	110,287
<b>Represented by:</b>	<b>2015 \$000</b>	<b>2014 \$000</b>
Fixed income:		
US	22,774	37,477
Other	7,008	7,169
Equities:		
Rest of Europe	14,823	11,483
North America	27,285	25,738
Asia	6,703	4,816
International	7,782	4,023
Other	3,137	1,716
Other:		
Pooled Funds		
- International	6,461	5,340
Hedge funds	15,759	15,264
Short-term liquidity and settlements pending	1,552	4,482
	<b>113,284</b>	<b>117,508</b>

The following investments comprise more than 5% of total fixed asset investments:

	2015 \$000	2014 \$000
Vanguard S&P 500 ETF	15,328	12,319
GS Multi-Manager Alternative Strategies Portfolio	6,185	6,207
	<b>21,513</b>	<b>18,526</b>

**Measurement of fair values:**

The company uses the following hierarchy to estimate the fair value of investments held:

Level 1: The quoted price for an identical asset in an active market.

Level 2: When quoted prices are unavailable, the fair value is taken as the price of a recent transaction for an identical asset.



**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**
**7. Fixed asset investments (continued)**

Level 3: If the market value for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, a valuation technique is used to estimate the fair value. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arms length exchange motivated by normal business considerations. If the range of reasonable fair value estimates significant and the probabilities of the various estimates cannot be reasonably assessed, the assets are valued at cost less impairment until a reliable measure of fair value becomes available.

Accounting classifications and fair values:

	<b>2015</b>		
	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Total \$000</b>
Fixed income investments	29,782	-	29,782
Equities	60,883	-	60,883
Alternative investments	6,185	9,574	15,759
Other investments	5,308	-	5,308
Equity-based investments	72,376	9,574	81,950
Cash held pending investment	1,552	-	1,552
	<b>103,710</b>	<b>9,574</b>	<b>113,284</b>

  

	<b>2014</b>		
	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Total \$000</b>
Fixed income investments	44,646	-	44,646
Equities	47,776	-	47,776
Alternative investments	6,207	9,057	15,264
Other investments	5,340	-	5,340
Equity-based investments	59,323	9,057	68,380
Cash held pending investment	4,482	-	4,482
	<b>108,451</b>	<b>9,057</b>	<b>117,508</b>

Sensitivity to changes in markets:

	<b>2015 \$000</b>	<b>2014 \$000</b>
Fixed income investments	29,782	44,646
Equity-based investments	81,950	68,380
<b>Sensitivity to a 2% change in interest rates (assuming 5 year average term)</b>	<b>2,978</b>	<b>4,465</b>
<b>Sensitivity to a 10% change in equity markets</b>	<b>8,195</b>	<b>6,838</b>



**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

**8. Creditors: amounts falling due within one year**

	2015	2014
	\$000	\$000
Grants payable	-	2,000
Accruals	148	184
	<u>148</u>	<u>2,184</u>

**9. Net cash flow from investing activities**

The cash flows in respect of investing activities represent cash withdrawn from or introduced to the charity's investment portfolios, which are managed on a discretionary basis by the charity's 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.

**10. Post balance sheet events**

Other than the ongoing matter referred to earlier in the Trustees' Report concerning the consideration of options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects to this UK charity, there have been no significant post balance sheet events.