

Charity Registration No. 1112813

Company Registration No. 05514908 (England and Wales)

THE POTANIN FOUNDATION

TRUSTEES' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

MONDAY



A67YMQG9

A07

05/06/2017

#62

COMPANIES HOUSE

**TRUSTEES' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2016**

CONTENTS

	Page
Charity information, Trustees and advisors	1
Trustees' report including the Directors' report	2
Independent auditor's report	7
Statement of financial activities	9
Balance sheet	10
Cash flow statement	11
Notes to the financial statements	12

CHARITY INFORMATION, TRUSTEES AND ADVISORS

Trustees CAF Global Trustees (the corporate Trustee)
Dr John Low CBE

Charity number 1112813

Company number 05514908

**Directors of the
Corporate Trustee** Dr John Low CBE
Mike Dixon
David Stead

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 Goldman Sachs International
River Court
120 Fleet Street
London
EC4A 2BE

J P Morgan International Bank Limited
125 London Wall
London
EC2Y 5AJ

Auditor Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (incorporating the Directors' Report)

The Trustees present their Trustees' report together with the audited financial statements of the charity for the year ended 31 December 2016.

The Trustees' report and financial statements are presented in the charity's operating currency: US dollars (\$).

The Trustees' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions, and accordingly exemption has been taken from the requirement to prepare the Strategic Report.

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 and at the year end 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). Established in Russia 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: <http://english.fondpotanin.ru/>.

Since inception the charity has received donations of \$100m from its founder, which had no restrictions placed thereon and consequently constitute unrestricted funds.

Having regard for the founder's wish for the charity to continue to support the programmes of the VPF on an enduring basis, the Trustees have adopted an approach to managing the charity's funds and grantmaking which is on a similar basis to that of an endowed foundation. Consequently, the Trustees aim to ensure that the level of grantmaking and other expenditure preserves the value of the charity's funds in real terms. The Trustees use the United States Consumer Price Index (US CPI) to measure the real value of the charity's funds and aim to ensure that they are maintained at a level which is at least equal to the value of total donations received since inception, as adjusted for the effects of the US CPI.

The Trustees do not anticipate the receipt of any further donations from the founder or from any other donors.

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 and there have been occasions upon which the value of funds has swung significantly from a favourable position to a larger adverse position in a very short period of time. Therefore, the Trustees have adopted a cautious approach to grantmaking during this period of volatility coupled with the slow global economic recovery, whilst having regard for fulfilling their charitable objectives. This approach has continued during the year under review. A year, which has also seen the Trustees further explore, in conjunction with the VPF, 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. This possible future development is described in more detail later in this report.

Given the combination of the above historical and potential future events, the Trustees did not anticipate awarding any material grants during the year. In fact, no requests for grant-funding of their programmes were received from the VPF during the year.

Achievements and performance

As set out above no funding requests were received from the VPF during the year and consequently, no grants were awarded by the Trustees. However, the Trustees continued to monitor the value of the charity's funds in real terms (compared with US CPI).

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

At the balance sheet date the charity's funds were valued at \$118.6m against a target value of \$114.1m (2015: \$113.2m against target \$111.8m). 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, whilst providing scope for awarding grants up to a value of \$4.5m (as at the balance sheet date), subject to future market developments and the receipt of programme funding request from the VPF. No funding requests have been received as at the date of this report.

Financial review

During the financial year the charity received no donations (2015: none). Investment income of \$0.9m (2015: \$0.9m) was generated in the year, but the positive effect by the recognition of unrealised gains on fixed asset investments of \$5.9m (2015: loss \$4.6m), was off-set by realised losses of \$0.9m (2015: gain \$2.4m) 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 \$0.6m (2015: \$0.7m).

No grants were awarded during the year (2015: one awarded and one withdrawn, each for \$1.0m).

During the year the charity's net assets increased by \$5.3m to \$118.6m (2015: decreased \$2.0m to \$113.3m) which was principally attributable to movements in investment markets.

Aims for next year

As described in last year's report and referred to earlier in this report the Trustees are exploring, in conjunction with the VPF, 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. 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.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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.

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 three times in the year (2015: three times). The day-to-day management of the charity is undertaken by Charities Aid Foundation (CAF, registered charity number 268369) under the terms of a tripartite agreement between the charity; its Corporate Trustee (CAF Global Trustees (CAF GT), registered charity number 111039); and CAF.

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, in accordance with the charity's objectives set out earlier in this report. 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, such as grantmaking, capital investment and the financing of its operations. Funds held represent general unrestricted funds which are expendable at the discretion of the Trustees in the furtherance of the charity's objectives. However, as described earlier in this report and in light of the founder's wish for the charity to continue to support the programmes of the VPF on an enduring basis, the Trustees have adopted an approach to managing the charity's funds and grantmaking on a basis which is similar to that of an endowed foundation.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Consequently, the Trustees use US CPI to assess whether the reserves (general unrestricted funds) 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, together with potential future developments, the Trustees considered it prudent to maintain the value of the charity's funds at \$118.6m against a target value of \$114.2m based upon US CPI (2015: \$113.2m against target \$111.8m).

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.

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, accordingly, the Trustees continue to adopt the going concern basis of accounting in preparing the annual financial. 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. In the event that the legal advice confirms that the transfer of funds can take place and it is approved by the Charity Commission, the Trustees may determine to transfer the funds which would result in the charity ceasing its current operations. This represents a material uncertainty that may cast significant doubt over whether the charity will continue as a going concern for the foreseeable future.

The Trustees are satisfied that the charity has sufficient resources to meet its liabilities as they fall due.

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 \$118.6m against a target value of \$114.2m based upon US CPI (2015: \$113.2m against target \$111.8m).

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

There have been no significant post balance sheet events. The 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 is ongoing and it remains unclear when this will conclude.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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 UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102, "the Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

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 auditor is 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 auditor is 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 19 May 2017 and signed on their behalf



Dr John Low CBE
Chairman of 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 2016 which comprise the Statement of Financial Activities (incorporating the income and expenditure account), the Balance Sheet, the Cash Flow Statement and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, 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 Boards (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on 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 2016 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements which explains that there is a material uncertainty which may cast significant doubt over whether the charity will continue as a going concern for the foreseeable future. The financial statements do not reflect the adjustments that would result if the charity was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' Report has been prepared in accordance with applicable legal requirements

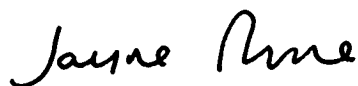
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE POTANIN FOUNDATION

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Trustees' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the Trustees were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in preparing the trustees' report and from preparing a Strategic Report.



Jayne Rowe FCCA
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 23/5/17

STATEMENT OF FINANCIAL ACTIVITIES
(incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2016

		Unrestricted funds	
		2016	2015
	Notes	\$000	\$000
Income from:			
Investment income	2	944	939
Total income		944	939
Expenditure on:			
Raising funds:			
Investment management costs		567	654
Charitable activities:			
Grants payable	3	-	-
Costs of charitable activities	4	123	136
Total expenditure		690	790
Net income before net gains/(losses) on investments		254	149
Net gains/(losses) on investment assets	7	5,067	(2,208)
Net income/(expenditure)		5,321	(2,059)
Total funds brought forward		113,272	115,331
Total funds carried forward		118,593	113,272

All items within the above Statement of Financial Activities relate to continuing operations.

There are no other gains or losses other than stated above.

The notes on pages 12 to 18 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2016

		2016		2015	
	Notes	\$000	\$000	\$000	\$000
Fixed assets					
Investments	7		118,726		113,284
Current assets					
Cash at bank		17		136	
Creditors: amounts falling due within one year	8	(150)		(148)	
Net current liabilities			(133)		(12)
Total assets less current liabilities			<u>118,593</u>		<u>113,272</u>
Funds					
Unrestricted charitable funds			111,892		112,386
Revaluation reserve			6,701		886
Total funds			<u>118,593</u>		<u>113,272</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The notes on pages 12 to 18 form an integral part of these financial statements.

Approved by the Trustees and authorised for issue on 19 May 2017 and signed on their behalf



Dr John Low CBE
Chairman of Trustees

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
	Notes	\$000	\$000	\$000	\$000
Cash flows from operating activities					
Net cash used in operating activities			(688)		(2,826)
Cash flow from investing activities					
Net increase in investment portfolio cash		569		2,955	
Net cash provided by investing activities	9		569		2,955
Change in cash and cash equivalents in the year			(119)		129
Cash and cash equivalents as at 1 January 2016			136		7
Cash and cash equivalents as at 31 December 2016			<u>17</u>		<u>136</u>

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

	2016	2015
	\$000	\$000
Net income/(expenditure)	5,321	(2,059)
(Gains)/losses on financial investments	(5,067)	2,208
Investment income received into cash held by investment managers	(944)	(939)
Increase/(decrease) in creditors	2	(2,036)
Net cash used in operating activities	<u>(688)</u>	<u>(2,826)</u>

The notes on pages 12 to 18 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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') 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, accordingly, the Trustees continue to adopt the going concern basis of accounting in preparing the annual financial statements. 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. In the event that the legal advice confirms that the transfer of funds can take place and it is approved by the Charity Commission, the Trustees may determine to transfer the funds which would result in the charity ceasing its current operations. This represents a material uncertainty that may cast significant doubt over whether the charity will continue as a going concern for the foreseeable future.

The Trustees are satisfied that the charity has sufficient resources to meet its liabilities as they fall due.

1.3 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.

1.4 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.

1.5 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(continued)

1. Accounting policies (continued)

1.5 Expenditure recognition (continued)

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.

Grant 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.

1.6 Allocation of support costs

All expenses including support costs are allocated or apportioned to the applicable expenditure headings. Governance costs are allocated as part of support costs in accordance with Charity SORP (FRS102).

1.7 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.

1.8 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.

1.9 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, which can be measured reliably are measured at fair value with changes recognised in the SOFA. Where the fair

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(continued)

1. Accounting policies (continued)

1.9 Basic financial instruments (continued)

value of such investments cannot be reliably measured because, for example they are not publicly traded, the investments are measured at cost less impairment.

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.

1.10 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.

1.11 Significant estimates and judgements

There have been no significant estimates or judgements necessary in the preparation of these financial statements.

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.

1.12 Entity status

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

2. Investment income

	2016	2015
	\$000	\$000
Income from investments	329	384
Interest receivable	615	555
	944	939

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(continued)

3. Donations to charities

	2016 \$000	2015 \$000
Grants awarded:		
The Hermitage Foundation UK	-	1,000
Grants withdrawn:		
The Vladimir Potanin Foundation	-	(1,000)
	<u>-</u>	<u>-</u>

4. Cost of charitable activities

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

	2016 \$000	2015 \$000
Governance costs:		
Management charges paid to CAF (see note 5)	80	93
Legal fees	27	24
Audit fee (including VAT at 20%)	16	19
	<u>123</u>	<u>136</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, registered charity number 268369). CAF provided services to the charity in respect of the management of the charity's compliance with constitutional and statutory requirements amounting to \$80,000 (2015: \$93,000). As at 31 December 2016, an amount of \$18,515 was unpaid (2015: \$nil).

Except for the above, none of the Trustees was reimbursed for expenses or received any remuneration in the current or previous financial year, nor were any expenses paid on their behalf.

6. Employees

There were no employees during the year (2015: 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(continued)

7. Fixed asset investments (continued)

	2016 \$000	2015 \$000
Market value at 1 January	113,284	117,508
Income received retained in portfolios	944	939
Cash withdrawn from portfolios	(569)	(2,955)
Net realised (losses)/gains	(870)	2,420
Net unrealised gains/(losses)	5,937	(4,628)
Market value at 31 December	118,726	113,284
Historical cost:		
At 31 December	112,025	112,398

Represented by:	2016 \$000	2015 \$000
Fixed income:		
US	24,970	22,774
Other	6,592	7,008
Equities:		
Rest of Europe	13,543	14,823
North America	30,953	27,285
Asia	8,010	6,703
International	8,255	7,782
Other	2,251	3,137
Other:		
Pooled Funds		
- International	11,073	6,461
Hedge funds	11,924	15,759
Short-term liquidity and settlements pending	1,155	1,552
	118,726	113,284

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

	2016 \$000	2015 \$000
Vanguard S&P 500 ETF	16,165	15,328
GS Multi-Manager Alternative Strategies Portfolio	6,658	6,185
	22,823	21,513

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
 (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 arm's 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.

No level 3 investments were held by the charity at 31 December 2016 or 2015.

Accounting classifications and fair values:

	2016		
	Level 1 \$000	Level 2 \$000	Total \$000
Fixed income investments	31,562	-	31,562
Equities	63,013	-	63,013
Alternative investments	6,658	10,528	17,186
Other investments	5,810	-	5,810
Equity-based investments	75,481	10,528	86,009
Cash held pending investment	1,155	-	1,155
	108,198	10,528	118,726

	2015		
	Level 1 \$000	Level 2 \$000	Total \$000
Fixed income investments	29,782	-	29,782
Equities	60,883	-	60,883
Alternative investments	6,702	9,057	15,759
Other investments	5,308	-	5,308
Equity-based investments	72,893	9,057	81,950
Cash held pending investment	1,552	-	1,552
	104,227	9,057	113,284

Sensitivity to changes in markets:

	2016 \$000	2015 \$000
Fixed income investments	31,562	29,782
Equity-based investments	86,009	81,950
Sensitivity to a 2% change in interest rates (assuming 5 year average term)	3,156	2,978
Sensitivity to a 10% change in equity markets	8,601	8,195

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(continued)

8. Creditors: amounts falling due within one year

	2016	2015
	\$000	\$000
Accruals	150	148
	150	148

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.