

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 2017



TRUSTEES' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS

	Page
Charity information, Trustees and advisors	1
Trustees' report including the Directors' report	2
Independent auditor's report	7
Statement of financial activities	10
Balance sheet	11
Cash flow statement	12
Notes to the financial statements	13

CHARITY INFORMATION, TRUSTEES AND ADVISORS

Trustees	CAF Global Trustees (the corporate Trustee) Sir John Low CBE
Charity number	1112813
Company number	05514908
Directors of the Corporate Trustee	Sir 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 Statutory Auditor 2 New Street Square London EC4A 3BZ

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017
(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 2017.

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). The VPF is a well-established charity in Russia and began its operations in 1999 with the purpose of furthering education and art and culture and developing charities and philanthropy more generally. 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.

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

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

As a result of the volatility of world stock markets in recent years, coupled with the slow global recovery, the Trustees have adopted a cautious approach to grantmaking during this period. During the year the Trustees have continued to explore, in conjunction with the VPF, options for the charity to best fulfil its charitable objects. The expected future developments arising from this process are described in more detail later in this report.

Given the review of the charity's strategy for the future, the Trustees did not award any material grants during the year. A grant proposal received from the VPF in December 2017, which is further described later in this report, remains under consideration by the Trustees.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Achievements and performance

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

At the balance sheet date the charity's funds were valued at \$133.3m against a target value of \$116.5m (2016: \$118.6m against target \$114.1m) reflecting the impact of the improvement in world stock markets during 2017 and the fact that no grant requests were received until December 2017 and no grants have been approved during the year.

Aims for next year

Throughout the year under review the Trustees continued to explore, in conjunction with the VPF, options for this charity's future strategy for fulfilling its charitable objects. As described in last year's report, the Trustees have considered options for this charity's funds to be transferred as an endowment to a Russian foundation with equivalent charitable status and objects. In order to support their consideration of this matter, the Trustees have taken legal advice from both UK and Russian lawyers and have also consulted with the Charity Commission.

Having considered the matter further the Trustees have decided not to transfer the charity's funds to a Russian foundation but instead to consider increasing grantmaking to the VPF. In December 2017, following an independent strategic review of the VPF's operations, the Trustees received a detailed grant proposal from the VPF.

The VPF is seeking grant funding from this charity of \$50.5m over a period of three years, which will enable it to build on its existing work and to develop new projects. In particular, it is proposed the grant will fund a programme of activities in four categories which will:

- provide educational and research grants;
- develop museums in Russia and bring them to a wider audience;
- strengthen the efficiency and effectiveness of charities in Russia and to promote the voluntary sector and philanthropy; and
- fund development of amateur sports projects which contribute to the well-being of local communities.

The Trustees are currently considering the award of an initial grant of \$13.5m, plus independent auditing and monitoring expenses, for the first year of the VPF's programme. If awarded, the Trustees will monitor this grant and review it formally, following receipt of a report for the period of the grant. If the Trustees are satisfied with the use of funds and outcomes of this initial grant, they will proceed to make a grant for year two of the programme and, upon completion of the same review process, for year three.

If the Trustees do award the grant for the first year of this programme, the Trustees will review the reserves policy and the investment strategy in conjunction with the investment managers and the founder

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Financial review

Investment income of \$1.0m (2016: \$0.9m) was generated in the year. Investments performed well with unrealised gains on fixed asset investments of \$11.2m (2016: \$5.9m), as well as realised gains of \$3.4m (2016: loss of \$0.9m) thereon.

Investment management fees paid to the charity's investment managers for management of the charity's investments on a discretionary basis amounted to \$0.7m (2016: \$0.6m).

As described earlier in this report, no grants were awarded during the year (2016: none).

During the year the charity's net assets increased by \$14.7m to \$133.3m (2016: increased by \$5.3m to \$118.6m) which was principally attributable to movements in investment markets.

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.

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 (2016: 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

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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 original wish for the charity to continue to support the programmes of the VPF on an enduring basis, the Trustees adopted an approach to managing the charity's funds and grantmaking on a basis which is similar to that of an endowed foundation.

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 have taken a prudent approach to hold reserves in excess of the target value indicated by historical US CPI.

At 31 December 2017, the value of the charity's funds (reserves) stood at \$133.3m against a target value of \$116.5m based upon US CPI (2016: \$118.6m against target \$114.2m).

Going concern

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

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

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

Investment policy and performance

The Trustees appoint investment managers to manage the charity's investments on a discretionary basis. Goldman Sachs International and J P Morgan International Bank Limited each manage a portfolio of investments. The investments 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 \$116.5m based upon US CPI (2016: \$118.6m against target \$114.2m).

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.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Post balance sheet events

There have been 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 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 and signed on their behalf on 20 September 2018.



Sir John Low CBE
Chairman of Trustees

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Potanin Foundation (the 'charitable company'):

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2017 and of 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of financial activities;
- the balance sheets;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 2 to 10.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the trustees' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement, the trustees (who are also the directors of the charitable company for the purpose of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters 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, which includes the directors' report prepared for the purposes of company law for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report included within the trustees' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report included within the trustees' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate and proper 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; or
- 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.

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND THE TRUSTEES OF THE
POTANIN FOUNDATION**

Use of our report

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

J Hodges

Jessica Hodges ACA
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

20 September 2018

STATEMENT OF FINANCIAL ACTIVITIES
(Incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2017

		Unrestricted funds	
		2017	2016
	Notes	\$000	\$000
Income from:			
Investment income	2	1,018	944
Total income		1,018	944
Expenditure on:			
Raising funds:			
Investment management costs		666	567
Charitable activities:			
Costs of charitable activities	4	188	123
Total expenditure		854	690
Net income before net gains on investments		164	254
Net gains on investment assets	7	14,577	5,067
Net income		14,741	5,321
Total funds brought forward		118,593	113,272
Total funds carried forward		133,334	118,593

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 13 to 19 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2017

		2017		2016	
	Notes	\$000	\$000	\$000	\$000
Fixed assets					
Investments	7		133,482		118,728
Current assets					
Cash at bank		30		17	
Creditors: amounts falling due within one year	8	(178)		(150)	
Net current liabilities			(148)		(133)
Total assets less current liabilities			<u>133,334</u>		<u>118,593</u>
Funds					
Unrestricted charitable funds			114,083		111,892
Revaluation reserve			19,251		6,701
Total funds			<u>133,334</u>		<u>118,593</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 13 to 19 form an integral part of these financial statements.

Approved by the Trustees and authorised for issue and signed on their behalf on 20 September 2018.



Sir 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 2017

		2017		2016	
	Notes	\$000	\$000	\$000	\$000
Cash flows from operating activities					
Net cash used in operating activities			(826)		(688)
Cash flow from investing activities					
Net increase in investment portfolio cash		839		569	
Net cash provided by investing activities	9		839		569
Change in cash and cash equivalents in the year			13		(119)
Cash and cash equivalents as at 1 January 2017			17		136
Cash and cash equivalents as at 31 December 2017			30		17

Reconciliation of net income to cash flows from operating activities		2017	2016
		\$000	\$000
Net income		14,741	5,321
Gains on financial investments		(14,577)	(5,067)
Investment income received into cash held by investment managers		(1,018)	(944)
Increase in creditors		28	2
Net cash used in operating activities		(826)	(688)

The notes on pages 13 to 19 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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 2017
(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 2017
(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.

1.12 Entity status

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

2. Investment income

	2017	2016
	\$000	\$000
Income from investments	402	329
Interest receivable	616	615
	<u>1,018</u>	<u>944</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(continued)

3. Donations to charities

No grants were awarded to charities in the year (2016: \$nil).

4. Cost of charitable activities

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

	2017 \$000	2016 \$000
Governance costs:		
Management charges paid to CAF (see note 5)	80	80
Legal fees	87	27
Audit fee: for the audit of the annual accounts (excluding irrecoverable VAT)	19	13
VAT thereon	3	3
	<u>188</u>	<u>123</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 (2016: \$80,000). As at 31 December 2017, an amount of \$20,062 was unpaid (2016: \$18,515).

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 (2016: 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 investment 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 2017
(continued)

7. Fixed asset investments (continued)

	2017	2016
	\$000	\$000
Market value at 1 January	118,726	113,284
Income received retained in portfolios	1,018	944
Cash withdrawn from portfolios	(839)	(569)
Net realised gains/(losses)	3,398	(870)
Net unrealised gains	11,179	5,937
Market value at 31 December	133,482	118,726
Historical cost:		
At 31 December	114,231	112,025
Represented by:	2017	2016
	\$000	\$000
Fixed income:		
US	28,775	24,970
Other	4,330	6,592
Equities:		
Rest of Europe	20,270	13,543
North America	29,482	30,953
Asia	11,878	8,010
International	9,490	8,255
Other	3,416	2,251
Other:		
Pooled Funds		
- International	11,309	11,073
Hedge funds	12,603	11,924
Short-term liquidity and settlements pending	1,929	1,155
	133,482	118,726

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

	2017	2016
	\$000	\$000
Vanguard S&P 500 ETF	18,634	16,165
GS Multi-Manager Alternative Strategies Portfolio	7,001	6,658
	25,635	22,823

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, or is derived from market data.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(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 2017 or 2016.

Accounting classifications and fair values:

	2017		
	Level 1 \$000	Level 2 \$000	Total \$000
Fixed income investments	33,104	-	33,104
Equities	74,537	-	74,537
Alternative investments	7,001	5,602	12,603
Other investments	5,478	5,831	11,309
Equity-based investments	87,016	11,433	98,449
Cash held pending investment	1,929	-	1,929
	122,049	11,433	133,482

	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(continued)

7. Fixed asset investments (continued)

Sensitivity to changes in markets:

	2017	2016
	\$000	\$000
Fixed income investments	33,104	31,562
Equity-based investments	<u>98,449</u>	<u>86,009</u>
Sensitivity to a 2% change in interest rates (assuming 5 year average term)	<u>3,310</u>	<u>3,156</u>
Sensitivity to a 10% change in equity markets	<u>9,845</u>	<u>8,601</u>

8. Creditors: amounts falling due within one year

	2017	2016
	\$000	\$000
Accruals	178	150
	<u>178</u>	<u>150</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

There have been no significant post balance sheet events.