

**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 2018**



**TRUSTEES' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2018**

**CONTENTS**

	<b>Page</b>
Charity information, Trustees and advisors	1
Trustees' report including the Directors' report	2
Independent auditor's report	8
Statement of financial activities	11
Balance sheet	12
Cash flow statement	13
Notes to the financial statements	14

**CHARITY INFORMATION, TRUSTEES AND ADVISORS**

<b>Trustees</b>	CAF Global Trustees (the corporate Trustee) Sir John Low CBE
<b>Charity number</b>	1112813
<b>Company number</b>	05514908
<b>Directors of the Corporate Trustee</b>	Sir 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>	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ

**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018  
(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 2018.

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.

Over the past two years the trustees have, in conjunction with the VPF, been exploring options for the charity to best fulfil its charitable objectives in the future.

As a result of the volatility of world stock markets in recent years, coupled with the mixed global economic recovery, the Trustees have adopted a cautious approach to grantmaking during this period. The developments arising from this process are described in more detail later in this report.

The Trustees did not award any grants during the current or prior year.

## **TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (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 \$124.6m against a target value of \$118.7m (2017: \$133.3m against target \$116.5m). The fall in the value of funds reflects the decline in world stock markets in 2018, following the exceptional gains of 2017.

### **Aims for next year**

Throughout the year under review the Trustees have continued to liaise with the VPF concerning a grant proposal submitted to the trustees in December 2017.

Following an independent strategic review of the VPF's operations in 2017, the VPF proposal requested grant funding of \$50.6m over a period of three years, to enable it to build on its existing work and to develop new projects. In particular, the proposal sought funding for a programme of activities in four categories to:

- 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.

In March 2019 the Trustees agreed the terms of the grant to the VPF and in total funding of \$50.6m has been agreed over a three year period covering the funding years from January 2019 to December 2021. During the first year \$15.3m is payable in four equal quarterly instalments.

The Trustees will monitor this grant throughout the first year and review it formally, following receipt of a report for the initial period of the grant. If the Trustees are satisfied with the use of funds and outcomes, they will proceed to make a grant for year two of the programme and, upon completion of the same review process, for year three.

Following their recent commitment to this three year programme the Trustees are reviewing the reserves policy and the investment strategy in conjunction with the investment managers and the founder.

### **Financial review**

Investment income of \$1.0m (2017: \$1.0m) was generated in the year. Investments suffered as a result of the fall in the world stock market with unrealised losses on fixed asset investments of \$12.2m (2017: unrealised gains of \$11.2m). The unrealised losses were, in part, mitigated by realised gains of \$3.4m (2017: gains of \$3.4m).

Since the year end market movements have resulted in an improvement in investment values.

Investment management fees paid to the charity's investment managers for management of the charity's investments on a discretionary basis amounted to \$0.8m (2017: \$0.7m).

As described earlier in this report, no grants were awarded during the year (2017: none).

During the year the charity's net assets decreased by \$8.7m to \$124.6m (2017: increased by \$14.7m to \$133.3m) which was principally attributable to movements in investment markets.

## **TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)**

### **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 have been held to fund long-term philanthropic goals, and consequently during the year Trustees had an objective to preserve the value, in real terms, of the charity's funds. Grantmaking was therefore planned having regard for the potential changes in investment values over time and US CPI. Consequently, the value of investment determined 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 (2017: 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 Sir 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.

## **TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)**

### **Fundraising**

There have been no fundraising activities undertaken in the current or preceding year.

### **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 and review regular updates from VPF about the programmes funded. 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 have used 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 2018, the value of the charity's funds (reserves) stood at \$124.6m against a target value of \$118.7m based upon US CPI (2017: \$133.3m against target \$116.5m). The Trustees consider this an adequate level of reserves to support the VPF three year grant award agreed after the year-end in March 2019.

### **Going concern**

The charity's activities, together with its financial position and plans for its future development and performance have been described earlier 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 investment aim has been 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. At the balance sheet date the charity's funds were valued at \$124.6m against a target value of \$118.7m based upon US CPI (2017: \$133.3m against target \$116.5m).

The Trustees are liaising with the investment managers and founder concerning the future investment strategy following the award in March 2019 of the three year grant of \$50.6m to the VPF.

### **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 2018 (continued)**

### **Post balance sheet events**

In January 2019, a grant of £3m was awarded and paid to St Edmund Hall (University of Oxford) to be held as a permanent endowment.

The Trustees consider this award to align with the charity's own charitable objectives, as well as those of the VPF.

As described earlier in this report, grant funding of \$50.6m to VPF over a period of three years was awarded by the Trustees in March 2019.

### **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.



**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (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 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 21 May 2019.



**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 2018 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 sheet;
- 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](http://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.



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

Date: 21 May 2019

**STATEMENT OF FINANCIAL ACTIVITIES**  
**(incorporating an Income and Expenditure Account)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

		<b>Unrestricted funds</b>	
	<b>Notes</b>	<b>2018</b>	<b>2017</b>
		<b>\$000</b>	<b>\$000</b>
<b>Income from:</b>			
Investment income	2	1,027	1,018
<b>Total income</b>		<b>1,027</b>	<b>1,018</b>
<b>Expenditure on:</b>			
Raising funds:			
Investment management costs		783	666
Charitable activities:			
Costs of charitable activities	4	129	188
<b>Total expenditure</b>		<b>912</b>	<b>854</b>
<b>Net income before net gains on investments</b>		<b>115</b>	<b>164</b>
Net (losses)/gains on investment assets	7	(8,800)	14,577
<b>Net (expenditure) / income</b>		<b>(8,685)</b>	<b>14,741</b>
Total funds brought forward		133,334	118,593
<b>Total funds carried forward</b>		<b>124,649</b>	<b>133,334</b>

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 14 to 20 form an integral part of these financial statements.

**BALANCE SHEET AS AT 31 DECEMBER 2018**

		2018		2017	
	Notes	\$000	\$000	\$000	\$000
<b>Fixed assets</b>					
Investments	7		124,767		133,482
<b>Current assets</b>					
Cash at bank		60		30	
<b>Creditors: amounts falling due</b>					
within one year	8	(178)		(178)	
<b>Net current liabilities</b>			(118)		(148)
<b>Total assets less current liabilities being net assets</b>			<u>124,649</u>		<u>133,334</u>
<b>Funds</b>					
Unrestricted charitable funds			114,469		114,083
Revaluation reserve			10,180		19,251
<b>Total funds</b>			<u>124,649</u>		<u>133,334</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 14 to 20 form an integral part of these financial statements.

Approved by the Trustees and authorised for issue and signed on their behalf on 21 May 2019.



**Sir John Low CBE**  
Chairman of Trustees

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018		2017	
	Notes	\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>					
Net cash used in operating activities			(912)		(826)
<b>Cash flow from investing activities</b>					
Cash withdrawn from investment portfolios		942		839	
<b>Net cash provided by investing activities</b>	9		942		839
<b>Change in cash and cash equivalents in the year</b>			<b>30</b>		<b>13</b>
Cash and cash equivalents as at 1 January 2018			30		17
<b>Cash and cash equivalents as at 31 December 2018</b>			<b>60</b>		<b>30</b>
<b>Reconciliation of net income to cash flows from operating activities</b>					
			<b>2018</b>		<b>2017</b>
			<b>\$000</b>		<b>\$000</b>
Net (expenditure) / income			(8,685)		14,741
Losses / (gains) on financial investments			8,800		(14,577)
Investment income received into cash held by investment managers			(1,027)		(1,018)
Increase in creditors			-		28
<b>Net cash used in operating activities</b>			<b>(912)</b>		<b>(826)</b>

The notes on pages 14 to 20 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

The Potanin Foundation is a UK charitable company incorporated in the UK (company number 05514908) and registered with the Charity Commission for England and Wales.

#### 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.

#### 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 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(continued)

**1. Accounting policies (continued)**

**1.5 Expenditure recognition (continued)**

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 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(continued)

**1. Accounting policies (continued)**

**1.9 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.

**1.10 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**

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Income from investments	269	402
Interest receivable	758	616
	<b>1,027</b>	<b>1,018</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(continued)

**3. Donations to charities**

No grants were awarded to charities in the year (2017: none).

**4. Cost of charitable activities**

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

	2018 \$000	2017 \$000
Governance costs:		
Management charges paid to CAF (see note 5)	83	80
Legal fees	29	87
Audit fee for the audit of the annual accounts:		
Fee excluding irrecoverable VAT	14	19
VAT thereon	3	3
	<u>129</u>	<u>188</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 \$83,000 (2017: \$80,000). As at 31 December 2018, an amount of \$19,570 was unpaid (2017: \$20,062).

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 (2017: none).

**6. Employees**

There were no employees during the year (2017: 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 2018**  
(continued)

**7. Fixed asset investments (continued)**

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Market value at 1 January	133,482	118,726
Income received and retained in portfolios	1,027	1,018
Cash withdrawn from portfolios	(942)	(839)
Net realised gains	3,429	3,398
Net unrealised (losses)/gains	(12,229)	11,179
<b>Market value at 31 December</b>	<b>124,767</b>	<b>133,482</b>
<b>Historical cost:</b>		
At 31 December	<b>114,587</b>	<b>114,231</b>
<b>Represented by:</b>	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Fixed income:		
US	28,350	28,775
Other	5,040	4,330
Equities:		
Rest of Europe	30,439	20,270
North America	18,316	29,482
Asia	7,610	11,878
International	5,892	9,490
Other	2,790	3,416
Other:		
Pooled Funds:		
International	10,267	11,309
Hedge funds	12,493	12,603
Short-term liquidity and settlements pending	3,570	1,929
	<b>124,767</b>	<b>133,482</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(continued)

**7. Fixed asset investments (continued)**

**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.
- 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 2018 or 2017.

Accounting classifications and fair values:

	2018		
	Level 1 \$000	Level 2 \$000	Total \$000
Fixed income investments	33,389	-	33,389
Equities	65,048	-	65,048
Alternative investments	6,699	5,794	12,493
Other investments	5,791	4,476	10,267
Equity-based investments	77,538	10,270	87,808
Cash held pending investment	3,570	-	3,570
	<b>114,497</b>	<b>10,270</b>	<b>124,767</b>
	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
	<b>122,049</b>	<b>11,433</b>	<b>133,482</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(continued)

**7. Fixed asset investments (continued)**

Sensitivity to changes in markets:

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Fixed income investments	33,389	33,104
Equity-based investments	87,808	98,449
<b>Sensitivity to a 2% change in interest rates</b> (assuming 5 year average term)	3,339	3,310
<b>Sensitivity to a 10% change in equity markets</b>	8,781	9,845

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

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Accruals	178	178
	<b>178</b>	<b>178</b>

**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**

In January 2019, a grant of £3m was awarded and paid to St Edmund Hall (University of Oxford) to be held as a permanent endowment.

The Trustees consider this award to align with the charity's own charitable objectives, as well as those of the VPF.

As described earlier in this report, grant funding of \$50.6m to VPF over a period of three years was awarded by the Trustees in March 2019.