

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 2021

**TRUSTEES' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2021**

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CHARITY INFORMATION, TRUSTEES AND ADVISORS

Trustees	Sir John Low CBE Michael Fullerlove (appointed 13 October 2021) David Greene (appointed 13 October 2021) Demetris Pisiaras (appointed 13 October 2021) CAF Global Trustees (the corporate Trustee) resigned 31 December 2021
Charity number	1112813
Company number	05514908
Interim Manager	Guy Hollander (appointed by Charity Commission 12 July 2022)
Registered office	C/O Mazars LLP 30 Old Bailey London EC4M 7AU
Bankers	Goldman Sachs International River Court 120 Fleet Street London EC4A 2BE
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	Cansdales Audit LLP St Mary's Court The Broadway Old Amersham Bucks, England HP7 0UT

**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021
(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 2021.

The Trustees' report and financial statements are presented in US dollars (\$), which is the Charity's operating currency.

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. The financial statements are prepared in accordance with the small companies' regime.

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) or to beneficiaries with similar charitable objectives as the 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.

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.

In March 2019, the Trustees signed a strategic grant agreement with the VPF providing funding of up to \$50.6m payable over three years. By 31 December 2020, the Charity had provided funding to VPF of \$27.7m, with further funding of \$22.9m to be made in 2021. However, in August 2021, the Trustees and the VPF agreed to terminate the Grant Agreement. No payments were made in 2021, nor will any further payments be made under this agreement. Consequently, the Grants Payable of \$22.9m have been written back in 2021.

It had been the intention of the Trustees to recommence general grant making within the objectives of the Charity as soon as circumstances permit. However, it will not be possible to award grants to VPF or any charitable activity in Russia for the foreseeable future and funds will be directed to relevant charitable activities in the UK and other permissible jurisdictions. The intentions of the Trustees have been further hampered following a significant post balance sheet event (see below).

Financial review

During the year the Charity's funds and net assets increased by \$35.7m to \$134m (2020: increased by \$9.3m to \$98.2m). This is principally the result of investment gains of \$12.9m (2020: \$9.8m) and reversal of Grants Payable of \$22.9m (2020 \$nil) as referenced above.

The investment position on 31 December 2021 reflects the recovery in world stock markets, following the initial impact of the Covid-19 pandemic.

No grants were awarded in the current year (2020: \$nil).

The net impact of investment gains and other income and expenditure, together with grant funding released during the year, saw fixed asset investments increase to \$134.2m on 31 December 2021 (2020: increase to \$121.3m).

Investment management fees paid to investment managers for management of the Charity's investments on a discretionary basis amounted to \$0.8m (2020: \$0.6m).

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (Continuing)

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 and credit risk, Covid-19 and Geopolitical risks

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 compared with US CPI, 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 Charity'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.

Covid-19 pandemic

The Charity continues to monitor the developments surrounding the global pandemic. Although vaccination programmes are beginning to have some impact, uncertainties remain regarding the outcome which may impact the future objectives; the market value of investments; and investment income. The Trustees have considered the principal areas of uncertainty and potential mitigating actions for counteracting a worst case scenario such as reducing the level of controllable costs and grant payments.

Geopolitical

Increasing geopolitical tension was evident during 2021, which had the potential to interfere with cross border grant making and the delivery of Charitable activities aligned to the Charity's objectives. The biggest risk was to grant funding held by beneficiaries pending use or distribution. This was actively managed with flexibility given to accelerate delivery of appropriate Charitable activities rather than allowing funds to be held for excessive periods. Also phased funding based on schedules minimised the risk.

The potential impact of geopolitical risk on the assets is detailed above and largely mitigated by holding the investments in established western markets and in US dollars.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (Continuing)

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 on four occasions during the year (2020: four). The day-to-day management of the Charity during the year was 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 1111039); 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 (until 31.12.2021) and Sir John Low. 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.

Having secured Charity Commission approval, the Member amended the Articles of Association by Special Resolution on 13th October 2021 for appointment of additional trustees.

The Member appointed Michael Fullerlove, David Greene and Demetris Pisiaras as Trustees by Ordinary Resolution on 13th October 2021, in anticipation of CAF GT's resignation on 31st December 2021 as Corporate Trustee after serving for 16 years.

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 made and monitoring is carried out on their behalf to ensure that the grantmaking programme meets the above guidance.

Fundraising

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

Grantmaking policy

Grants had been awarded primarily to support the programmes of the VPF, in accordance with the Charity's objectives. However, as set out earlier in this report, the Grants Agreement with the VPF was terminated in August 2021. Grants can be awarded to other programmes outside of VPF that match the Charity's objectives but no grants were made in 2021.

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.

On 31 December 2021, the value of the Charity's funds (reserves) stood at \$134m (2020: \$121m). The Trustees consider this an adequate level of reserves for this purpose.

Going concern

In order to assess the appropriateness of the going concern assumption basis, the Trustees have considered the Charity's financial position, liquidity and unrestricted reserves taking into account the principal risks to which the Charity is exposed including the potential economic impacts following Covid-19 pandemic and geopolitical risks. Recognising the uncertainty associated with predicting the economic impact of both, the Trustees have considered the impact of a severe economic outcome on the Charity and the effectiveness of management actions that might be taken to mitigate the impact of this stress. Trustees have also considered the circumstances under which the operations of the Charity would be unable to continue. After taking into account the current level of the Charity's investments, reserves, grant commitments and the financial performance since 31 December 2021, the Trustees have concluded that the risk of this situation occurring is remote.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (Continuing)

Accordingly and after making appropriate enquiries, the Trustees have a reasonable expectation that the Charity will be able to continue in operation and meet its liabilities as they fall due for at least twelve months from the date of signing of this report. For this reason, they continue 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. At the balance sheet date the Charity's funds stood at \$134m (2020: \$121m).

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 2021 (Continuing)

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; 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.

This report was approved and signed by the Interim Manager.



23.12.2022

Guy Hollander
Interim Manager

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

Report on the audit of the financial statements

We have audited the financial statements of Potanin Foundation (the 'Charitable company') for the year ended 31st December 2021 which comprise the Statement of Financial activities, the statement of financial position, the statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. 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).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31.12.2021, 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.

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 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 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

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the charitable company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the trustees with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the trustees annual report, other than the financial statements and our auditor's report thereon. The trustees are responsible for the other information contained within the annual report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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

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 incorporating the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 directors' 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' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 7, 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, 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the entity.

We communicated identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the

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

audit. We examined and discussed with management any known or suspected instances of fraud or non-compliance with laws and regulations.

We assessed the risks of material misstatement in respect of fraud as follows:

The audit team discussed whether there were any areas that were susceptible to misstatement as part of their fraud discussion.

In addressing the risk of management override of controls, we tested the appropriateness of journal entries with a focus on large or unusual transactions based on criteria determined using our knowledge of the organization and industry. We also challenged assumptions and judgements made.

We incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures.

Based on the results of our risk assessment we designed our audit procedures to identify and to address material misstatements in relation to fraud, including bribery and non-compliance

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

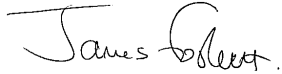
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the charitable company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the charitable company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the charitable company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (ie. gives a true and fair view).

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS 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 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.



James Foscett (Senior Statutory Auditor)
For and on behalf of
Cansdales Audit LLP

Date: 23 December 2022.

St Mary's Court
The Broadway
Old Amersham
Bucks
HP7 0UT

STATEMENT OF FINANCIAL ACTIVITIES
(Incorporating an Income and Expenditure Account)
FOR THE YEAR ENDED 31 DECEMBER 2021

		Unrestricted funds	
	Notes	2021	2020
		\$000	\$000
Income from:			
Investment income	2	1,037	428
Total income		1,037	428
Expenditure on:			
Raising funds:			
Investment management costs		782	630
Charitable activities:			
Grants Payable	3	(22,928)	
Costs of charitable activities	4	298	319
Total expenditure		(21,848)	949
Net expenditure before net gains on investments		22,885	(521)
Net gains on investment assets		12,853	9,795
Net income/(expenditure)		35,738	9,274
Total funds brought forward		98,242	88,968
Total funds carried forward		133,980	98,242

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 2021

	Notes	2021 \$000	2020 \$000
Fixed assets			
Investments	7	134,159	121,336
Current assets			
Cash at bank		35	49
Creditors: amounts falling due within one year	8	<u>(214)</u>	<u>(23,143)</u>
Net current liabilities		<u>(179)</u>	<u>(23,094)</u>
Total assets less current liabilities being net current assets		133,980	98,242
Creditors: amounts falling due in greater than one year		-	-
Total assets less total liabilities being net assets		<u>133,980</u>	<u>98,242</u>
Funds			
Unrestricted charitable funds		<u>133,980</u>	<u>98,242</u>
Total funds		<u>133,980</u>	<u>98,242</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.



Guy Hollander
Interim manager

23 December 2022

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021		2020	
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Net cash used in operating activities			(1,081)		(9,419)
Cash flow from investing activities					
Cash withdrawn from investment portfolios		1,067		9,440	
Net cash provided by investing activities			1,067		9,440
Change in cash and cash equivalents in the year			(14)		21
Cash and cash equivalents as at 1 January 2021			49		28
Cash and cash equivalents as at 31 December 2021			35		49

Reconciliation of net income to cash flows from operating activities

	2021	2,020
	\$000	\$000
Net income/(expenditure)	35,738	9,274
Gains on financial investments	(12,853)	(9,795)
Investment income received into cash held by investment managers	(1,037)	(428)
(Decrease)/increase in creditors	(22,729)	(8,470)
Net cash used in operating activities	(1,081)	(9,419)

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 2021

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 updated 1 January 2019 ('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

In order to assess the appropriateness of the going concern assumption basis, the Trustees have considered the Charity's financial position, liquidity and unrestricted reserves taking into account the principal risks to which the Charity is exposed including the potential economic impacts following Covid-19 pandemic and geopolitical risks. Recognising the uncertainty associated with predicting the economic impact of both, the Trustees have considered the impact of a severe economic outcome on the Charity and the effectiveness of management actions that might be taken to mitigate the impact of this stress. Trustees have also considered the circumstances under which the operations of the Charity would be unable to continue. After taking into account the current level of the Charity's investments, reserves, grant commitments and the financial performance since 31 December 2021, the Trustees have concluded that the risk of this situation occurring is remote.

Accordingly and after making appropriate enquiries, the Trustees have a reasonable expectation that the Charity will be able to continue in operation and meet its liabilities as they fall due for at least twelve months from the date of signing of this report. For this reason, they continue 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.

1.4 (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.

1.4 (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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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 Charity.

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 Charity that would permit the Charity 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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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

	2021	2,020
	\$000	\$000
Interest and dividends receivable	<u>1,037</u>	<u>428</u>
	<u>1,037</u>	<u>428</u>

3. Grants Payable/(Withdrawn)

Grants awarded:

The Valadimir Potanin Foundation (Russia)	<u>(22,928)</u>	<u>-</u>
	<u>(22,928)</u>	<u>-</u>

In March 2019, the Trustees signed a strategic grant agreement with the Vladimir Potanin Foundation (VPF) providing funding of up to \$50.6m payable over three years. This amount had been charged to the Income and Expenditure account in full in 2019. By 31 December 2020, the Charity had provided funding to VPF of \$27.7m, with further funding of \$22.9m to be made in 2021. However, in August 2021, the Trustees and the VPF agreed to terminate the Grant Agreement. No payments were made in 2021, nor will any further payments be made under this agreement. Consequently, the Grants Payable of \$22.9m have been written back in 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

4. Cost of charitable activities

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

	2021	2,020
	\$000	\$000
Costs of charitable activities:		
Advisory services	37	60
Programme management	<u>103</u>	<u>93</u>
VPF programme costs	140	153
Professional fees	<u>41</u>	<u>35</u>
	181	188
Governance costs:		
Management charges	82	74
Legal fees	4	27
Audit fee for the audit of the annual accounts:		
Fee excluding irrecoverable VAT	26	25
VAT thereon	<u>5</u>	<u>5</u>
	<u>117</u>	<u>131</u>
	<u>298</u>	<u>319</u>
Amounts payable to CAF included above and inclusive of VAT (see note 5):		
VPF programme costs	140	153
Management charges	<u>82</u>	<u>74</u>
	<u>222</u>	<u>227</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 \$82,000 (2020: \$74,000). CAF also provided services to the Charity for the grant programme, including \$37,000 (2020: \$60,000) for advisory services, \$103,000 (2020: \$93,000) of programme management costs.

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 (2020: none).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**6. Employees**

There were no employees during the year (2020: none).

During the year there was one member of staff employed by CAF (2020: one) whose responsibilities were largely in respect of The Potanin Foundation. Total employment costs are recharged where activities have been undertaken for The Potanin Foundation. Staff costs are included in programme management costs in note 4.

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.

	2021	2020
	\$000	\$000
Market value at 1 January	121,336	120,553
Income received and retained in portfolios	1,037	428
Cash withdrawn from portfolios	(1,068)	(9,440)
Net realised gains	9,345	3,868
Net unrealised gains	<u>3,509</u>	<u>5,927</u>
Market value at 31 December	<u>134,159</u>	<u>121,336</u>
Historical cost:		
At 31 December	<u>103,342</u>	<u>94,483</u>

Represented by:	2021	2020
	\$000	\$000
Fixed income:		
US	31,508	29,331
Other	4,623	4,259
Equities:		
UK	2,330	13,223
Rest of Europe	36,596	25,103
North America	28,180	21,941
Asia	3,225	3,173

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**7. Fixed asset investments (continued)**

International	2,069	1,783
Other	1,268	1,271
Other:		
Pooled Funds:		
International	17,000	9,421
Hedge funds	6,741	11,454
Short-term liquidity and settlements pending	619	377
	134,159	121,336

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 2021.

Accounting classifications and fair values:

	2021		
	Level 1	Level 2	Total
	\$000	\$000	\$000
Fixed income investments	36,127	-	36,127
Equities	73,669	-	73,669
Alternative investments	6,425	319	6,744
Other investments	5,428	11,572	17,000
Equity-based investments	85,522	11,891	97,413
Cash held pending investment	619	-	619
	122,268	11,891	134,159
	2020		
	Level 1	Level 2	Total
	\$000	\$000	\$000
Fixed income investments	33,590	-	33,590
Equities	66,494	-	66,494
Other investments	4,710	4,711	9,421
Equity-based investments	77,004	10,365	87,369
Cash held pending investment	377	-	377
	110,971	10,365	121,336

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

8. Creditors: amounts falling due within one year

	2021	2020
	\$000	\$000
Grants payable	-	22,928
Accruals	<u>214</u>	<u>215</u>
	<u>214</u>	<u>23,143</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

Since February 2022, Trustees have closely monitored developments in Ukraine and the global response to Russia's actions, and considered the potential impact on the Charity. Trustees submitted a Serious Incident Report to the Charity Commission on 21 April 2022 after the withdrawal of some professional service providers and following Mr Potanin's designation by the Canadian and Australian governments.

On 29 June 2022, the Charity Commission opened a statutory inquiry into the Potanin Foundation, after the Foreign, Commonwealth and Development Office sanctioned Mr Potanin under the UK's Russia (Sanctions) (EU Exit) Regulations 2019. As a result, the Potanin Foundation was subject to UK sanctions until the Charity Commission issued an Order suspending Mr Potanin as Member on 27 July 2022.

On 12 July 2022, the Charity Commission appointed Guy Hollander of Mazars LLP as Interim Manager having all the powers and duties of the trustees of the Charity, to the exclusion of the Charity's trustees.

The Charity Commission's Statutory Inquiry is ongoing at the date of these accounts and the Interim Manager continues to manage and operate the Charity.

As a result of the sanctioning of Mr Potanin on 29 June 2022, J P Morgan International Bank Limited gave notice to terminate their engagement. Subsequently, they have liquidated the investment portfolio managed by them on the Charity's behalf and have paid over the funds to the Interim Manager to retain under his control. Goldman Sachs International are continuing to provide banking and investment management services to the Charity.

Mr Potanin has sought to challenge the sanctioning of the Charity and whilst this matter is pending resolution, the Interim Manager has confirmed that he will not dissipate any of the funds through grants and or donations to any organisation, institution or beneficiary.