

BLUECASTLE ENTERPRISES LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2018

Company registration number: 04128720



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BLUECASTLE ENTERPRISES LIMITED

STRATEGIC REPORT

The director presents her strategic report with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activity of the group is that of the operation of the professional football club, PFC CSCA. The club's activities are related to the development of youth football and the operations of the professional football team participating in competitions organized by the Football Union of Russia ("FUR") and Russian Football Premier League ("RFPL") as well as in international football tournaments.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results for the year and the financial position at the year end for the Group were considered satisfactory by the directors.

Turnover for the Group's main trading subsidiary, CJSC Professional Football Club CSCA was \$100,380,000 for the year.

The Group made gain on disposal of players' registrations totalling to \$48,566,000.

The Group acquired various new players during the year and the value of the players' registration rights is \$13,336,000 at the year end.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the Group's business and the execution of its strategy are subject to a number of risks. The key operating risks affecting the Group are described in note 26 to the financial statements. The key financial risks affecting the Group are described in note 25 to the financial statements.

KEY PERFORMANCE INDICATORS

The following is a summary of key performance indicators:

	2018 \$'000	2017 \$'000
Revenue	100,380	76,345
Operating profit / (loss)	12,596	(13,124)
Gain on disposal of players' registrations	48,566	2,308
Players' registration rights	13,336	2,242
Equity	(8,816)	(35,132)

RESULTS AND DIVIDENDS

The consolidated statement of comprehensive income for the period is set out on page 8.

No dividends were distributed for the year ended 31 December 2018.


.....
J. Westmoreland - Director

Date: 5/27/19

BLUECASTLE ENTERPRISES LIMITED
REPORT OF THE DIRECTOR

The director presents her report with the audited financial statements of the Group for the year ended 31 December 2018.

DIRECTOR

J Westmoreland has held office during the period from 1 January 2018 to the date of this report.

REGISTERED OFFICE

Suite No 2, First Floor, Kenwood House 77a Shenley Road Borehamwood WD6 1AG

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the director 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 group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. She is also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ON BEHALF OF THE BOARD:


.....
J. Westmoreland - Director

Date: 5/02/19

**Report of the Independent Auditors to the Members of
Bluecastle Enterprises Limited**

Opinion

We have audited the financial statements of Bluecastle Enterprises Limited (the parent company) and its subsidiaries (the group) for the year ended 31 December 2018 which comprise the Group and Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's and parent company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent 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.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that as at 31 December 2018, the Group's total liabilities exceeded its total assets by \$8,816,000. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The director is responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Director, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and 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 this regard.

Opinion 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 Strategic Report and the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Director have been prepared in accordance with applicable legal requirements.

**Report of the Independent Auditors to the Members of
Bluecastle Enterprises Limited**

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Director.

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

- adequate accounting records have not been kept by the parent company, 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 director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of director

As explained more fully in the Statement of Director's Responsibilities set out on page three, the director is 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 director determines 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 director is responsible for assessing the group's and the parent 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 director either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 a Report of the Auditors 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 Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the 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 company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Filip Lyapov (Senior Statutory Auditor)
for and on behalf of S H Landes LLP
Statutory Auditors
3rd Floor Fairgate House
78 New Oxford Street
London
WC1A 1HB

Date:

08 July 2019

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Group 31 December 2018	Group 31 December 2017
<i>In thousands of US dollars</i>			
ASSETS			
Non-current assets			
Property and equipment	6	156,486	120,437
Investment Property	7	160,146	205,550
Players registration rights	8	13,336	2,242
Land rights	9	5,981	7,419
Other non-current assets	12	1,154	1,248
Total non-current assets		337,103	336,896
Current assets			
Accounts receivable	11	54,557	11,512
Taxes receivable		117	117
Prepayment and other current assets	12	450	428
Cash and cash equivalents	13	11,850	2,079
Total current assets		66,974	14,136
TOTAL ASSETS		404,077	351,032
EQUITY			
Ordinary shares	22	202,502	202,502
Additional capital		77,279	76,816
Retained earnings		(250,001)	(275,980)
Foreign exchange translation reserve		(41,471)	(42,007)
		(11,691)	(38,669)
Non – controlling interests		2,875	3,537
TOTAL EQUITY		(8,816)	(35,132)
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	17	1,466	1,847
Loans from related parties	24	18,918	82,533
Loans and borrowings	27	322,425	272,060
Total non-current liabilities		342,809	356,440
Current liabilities			
Loans from related parties	27	288	282
Loans and borrowings	27	35,474	1,851
Accounts payable and accruals	14	25,875	18,057
Payroll and related obligations	15	5,580	6,871
Taxes payable	16	2,867	2,663
Total current liabilities		70,084	29,724
TOTAL LIABILITIES		412,893	386,164
TOTAL EQUITY AND LIABILITIES		404,077	351,032

The financial statements on pages 6 to 39 were authorized for issue by the director on 5/27/19 and were signed on behalf of the board.

J. Westmoreland
Company registration number: 04128720

BLUECASTLE ENTERPRISES LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION

Note

<i>In thousands of US dollars</i>		31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Investments	10	93,492	60,788
Total non-current assets		93,492	60,788
Current assets			
Cash and cash equivalents	13	-	121
Total current assets		-	121
TOTAL ASSETS		93,492	60,909
EQUITY			
Ordinary shares	22	202,502	202,502
Additional capital		70,736	70,272
Retained earnings		(281,430)	(307,683)
TOTAL EQUITY		(8,192)	(34,909)
LIABILITIES			
Non-current liabilities			
Loans from related parties	24	20,220	84,290
Loans from other parties	27	80,882	11,071
Total non-current liabilities		101,102	95,361
Current liabilities			
Loans from related parties	27	338	282
Loans and borrowings	27	192	121
Accounts payable and accruals		52	54
Total current liabilities		582	457
TOTAL LIABILITIES		101,684	95,818
TOTAL EQUITY AND LIABILITIES		93,492	60,909

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of US dollars</i>	Note	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	18	100,380	76,345
Operating expenses	19	(87,784)	(89,469)
Operating profit / (loss)		12,596	(13,124)
Net foreign exchange gain / (loss)		4,377	(3,495)
Net finance costs	20	(15,562)	(14,466)
Gain on disposal of player registrations	21	48,566	2,308
Gain on players' loans		67	779
Gain / (Loss) on disposal of property and equipment		69	10
Impairment gain / (loss)	6, 7	(24,270)	-
Gain / (loss) before income tax		25,843	(27,988)
Income tax	17	72	59
Income / (loss) for the year		25,915	(27,929)
Other comprehensive loss			
Foreign exchange translation		(62)	(4,979)
Other comprehensive (loss) for the year		(62)	(4,979)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		25,853	(32,908)
Loss for the year			
Attributable to:			
Equity holders of the parent		25,979	(27,944)
Non-controlling interest		(64)	15
Total		25,915	(27,929)
Total comprehensive loss for the year			
Attributable to:			
Equity holders of the parent		26,515	(32,082)
Non-controlling interest		(662)	(826)
Total		25,853	(32,908)

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of US Dollars

Attributable to owners of the parent

GROUP	Share capital	Additional paid in capital	Foreign exchange translation reserve	Retained earnings	Total	Non controlling interest	Total equity
Balance as at 1 January 2017	202,502	76,057	(36,850)	(248,036)	(6,327)	3,344	(2,983)
Loss for the year	-	-	-	(27,944)	(27,944)	15	(27,929)
Other comprehensive loss	-	-	(5,157)	-	(5,157)	178	(4,979)
Loan re-recognition	-	759	-	-	759	-	759
Balance as at 1 January 2018	202,502	76,816	(42,007)	(275,980)	(38,669)	3,537	(35,132)
Profit for the year	-	-	-	25,979	25,979	(64)	25,915
Other comprehensive loss	-	-	536	-	536	(598)	(62)
Loan re-recognition	-	463	-	-	463	-	463
Balance as at 31 December 2018	202,502	77,279	(41,471)	(250,001)	(11,691)	2,875	(8,816)

BLUECASTLE ENTERPRISES LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY

In thousands of US Dollars

COMPANY	Share capital	Additional capital	Retained earnings	Total equity
Balance as at 1 January 2017	202,502	69,513	(274,963)	(2,948)
Total comprehensive loss	-	-	(32,720)	(32,720)
Loan re-recognition	-	759	-	759
Balance as at 1 January 2018	202,502	70,272	(307,683)	(34,909)
Total comprehensive loss	-	-	26,253	26,253
Loan re-recognition	-	464	-	464
Balance as at 31 December 2018	202,502	70,736	(281,430)	(8,192)

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

<i>In thousands of US Dollars</i>	Group 2018	Group 2017	Company 2018	Company 2017
Operating activities				
Gate receipts and programme sales	12,894	10,844	197	-
Proceeds from general sponsor	1,975	1,061	-	-
Proceeds from advertising and other sponsors	19,604	24,951	-	-
Broadcasting proceeds	22,641	29,242	-	-
Proceeds from other current activities	8,488	2,020	-	-
Proceeds from other commercial activities	2,662	2,563	-	-
Gratuitous proceeds for youth football development	225	1,075	-	-
Payment for participation in official competitions organised by FUR	(1,950)	(2,360)	-	-
Payments for participation in UEFA Club competitions	(1,746)	(1,069)	-	-
Advertising and marketing expenses	(338)	(173)	-	-
Purchases of other goods, work and services	(5,452)	(4,256)	-	-
Personnel expenses	(39,680)	(45,124)	-	-
Payments of taxes and levies	(10,420)	(12,817)	-	-
Payments of insurance premiums and work accident and occupational life insurance premiums	(5,744)	(6,362)	-	-
Other expenses	(7,405)	(6,618)	(9)	-
Interest payments to bank and credit institutions, except for related parties	(428)	-	-	-
Net cash received used in operating activities	(4,674)	(7,023)	188	-
Cash flow from investing activities				
Purchases of property and equipment	(6,443)	(1,732)	-	-
Proceeds from disposal of property and equipment	80	12	-	-
Proceeds from transfer of players' registration rights	33,781	14,432	-	-
Loan advanced during the period - related parties	(1,040)	-	-	-
Proceeds from loans repayment	16	-	-	-
Purchases of players' registration rights	(10,574)	(6,434)	-	-
Purchase of other intangible assets	(14)	(26)	-	-
Other funds received from investment activities	(3)	-	-	-
Loans granted to other organisations	(115)	-	-	-
Net cash from investing activities	15,688	6,252	-	-
Cash flow from financing activities				
Loans from banks and credit institutions (except for related parties)	3,828	-	-	-
Other proceeds from financing activities	2	1,212	1,120	1,211
Repayment of related party borrowings	(506)	(1,145)	(1,429)	(1,098)
Repayment of loans from banks and credit institutions	(1,285)	(144)	-	-
Repayment of borrowings from other organisations	(2,708)	-	-	-
Other repayments under financing activities	(28)	(29)	-	-
Net cash used in financing activities	(697)	(106)	(309)	113
Net decrease in cash and cash equivalents	10,317	(877)	(121)	113
Cash and cash equivalents at the beginning of the year	2,079	2,777	121	1
Exchange gains on cash and cash equivalents	(546)	179	-	7
Cash and cash equivalents at the end of the year	11,850	2,079	-	121

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

1. The Group and its Operations

Bluecastle Enterprises Limited ('the Company') is a company incorporated in the UK. The address of the Company's registered office is Suite No 2, First Floor, Kenwood House, 77a Shenley Road, Borehamwood, United Kingdom, WD6 1AG. The consolidated financial statements of the Company as at 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in the operation of a professional football team through its principal subsidiary CJSC Professional Football Club CSCA ("the Club"). The principal activity of the Club is the development of youth football and operations of the professional football team participating in the competitions organized by the Football Union of Russia ("FUR") and Russian Football Premier League ("RFPL") as well as in the international football tournaments.

During the reporting period the Club continued improving its position, developing the infrastructure and transfer policies as well as achieving a high level of sport results.

According to the results of the championship of Russia on football season 2018/2019, PFC CSKA team won silver medals and got a direct opportunity to play in the UEFA Champions League group tournament. CSKA made a decent performance in the group, scoring two victories over one of the strongest teams in the world, Real Madrid, which previously established a unique achievement - victories in three consecutive UEFA Champions League draws. Unfortunately, the victories over the strongest rival gained at this stage did not allow PFC CSKA to solve the task set which was to reach the 1/8 final stage. In the 2018/2019 Russian Cup PFC CSKA performed poorly, dropping from the tournament at the 1/16 stage.

As at December 31, 2018, the Club had 245 employees, including 49 football players.

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. In publishing the parent company financial statements here together with the group financial statements, the company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by fair value measurement of certain items as disclosed in the accounting policies below. The consolidated financial statements are presented in US dollar ("USD") and all values are rounded to the nearest thousand except as otherwise indicated. The rationale for the selection of the US dollar as the group's functional currency is discussed in the foreign currency section of note 3.

Going concern

The financial statements have been prepared on a going concern basis even though at the year end the group had net current liabilities amounting to \$8,816,000. Whilst the group anticipates generating funds from operations, from corporate sponsors and from long and short-term borrowings, it is reliant on the continued financial support of its controlling party and related companies. The director has concluded that these circumstances represent a material uncertainty that cast significant doubt upon the group's ability to continue as a going concern and that, therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the controlling party and related companies have continued to provide financing to the group since the year end and have expressed their willingness to continue providing financial support for at least 12 months from the date of approval of the financial statements in order for the group to meet its current liabilities as they fall due. For these reasons the director continues to adopt the going concern basis of accounting in preparing the financial statements.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies

Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The cost of an acquisition is measured as the fair value of the assets plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as Goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the balance sheet date represents the non-controlling interest members' portion of the identifiable asset and liabilities of the subsidiary at the acquisition date, and the non-controlling interest members' portion of movements in equity since the date of the combination. Non-controlling interest is presented within the members' equity.

Foreign currency

(i) Functional and presentation currency

The individual financial statements of each Group company are recorded in the currency of the primary economic environment in which it operates (its 'functional currency'). The consolidated financial statements and the financial statements of the Company are presented in US Dollars ('USD'), which is the Group's presentation and functional currency. The results and financial position of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities are translated to the presentation currency at the exchange rate prevailing at the balance sheet date. The income statement and cash flow statement are translated at the average exchange rate for the period. The resulting exchange differences are recognised in the translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

(ii) Transactions and balances

Monetary assets and liabilities, which are held by the Group and denominated in foreign currencies at 31 December 2018, are translated into functional currency at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

The Russian rouble is not a fully convertible currency outside the Russian Federation. In the Russian Federation, official exchange rates are set daily by the Central Bank of the Russian Federation ("CBR"). As at December 31, 2018 and December 31, 2017, the official CBR exchange rates used for translating RUB-denominated transactions and balances were equal to RUB 69.47 and RUB 57.60 per USD 1, respectively. The average exchange rates were RUB 62.77 and RUB 58.46 respectively.

Financial instruments

(i) Financial assets: loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired as well as through the amortization process.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

Financial instruments (continued)

(ii) Financial liabilities: interest bearing loans and borrowings

All loans and borrowings are valued initially at fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price), net of transaction costs incurred. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the loans and borrowings.

Interest expense is recognised on a time-proportion basis using the effective interest method.

Interest-free long term debt granted to and by the related parties is initially recognized in accordance with the recognition of the financial instruments policy. The difference between nominal amount of consideration given and the fair value of loans granted and borrowed at other than market terms is recognized in the period the loan is granted and borrowed as initial recognition of loans from related parties at fair value. Loans with fixed maturities are subsequently measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and borrowings are derecognized or impaired as well as through the amortization process.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Value added tax

Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Property and equipment

Property, plant and equipment is recorded at historical cost determined as purchase or construction cost. An asset's carrying amount is written down immediately to its recoverable amount when it is determined to be impaired.

Depreciation is calculated on a straight-line basis over the estimated useful economic lives of the assets which are:

Freehold Land	Not depreciated
Buildings	25-40 years
Football fields and other sports facilities	5-10 years
Vehicles and equipment	3-10 years
Furniture and office equipment	2-7 years
Other	2-7 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each year end.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Land lease rights

Land rights are recognized as intangible assets and represent the value of premiums which would have been paid for the right to lease land in accordance with the regulations issued by Moscow City Government. They are amortised over a period of 49 years which is the term of the underlying land lease agreement.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

Investment property

Investment property is recognised at cost including transaction costs net of accumulated depreciation and impairment. The Group has recognised the portion attributable to investment property within construction in progress (construction of a stadium in Moscow) in the consolidated financial statements based on the approved construction plan.

Players' Registration Costs

The costs associated with the acquisition of players' registrations are capitalized as intangible assets. These costs are amortised in equal annual instalments over the football seasons covered by the player's initial contract.

Cost includes expenses directly attributable to the acquisition of rights, including transfer payments, agency fees, solidarity payments and contingent payments provided that management assesses the occurrence of such contingency at the acquisition date as highly probable. Where management assesses the occurrence of such contingency as remote, contingent payments are not included in the cost of the registration, however, upon occurrence of such contingency in the future or a change in the probability assessment, they are recorded in the current period results and recognized in solidarity payments and other expenses related to registrations within other operating expenses

At each year end, the Group's management assesses whether there is any indication of impairment, e.g. because of serious health problems of professional football players or significant decline in market value of their registrations. If any such indication exists, the recoverable amount is estimated.

Investments in subsidiaries

Investments in subsidiaries are valued at cost less provision for impairment.

Gain on Disposal of Players' Registrations

Profits or losses on the disposal of players' registrations are credited or charged to the profit and loss account in the year in which the player's registration is sold. They are calculated as the difference arising between the transfer fees received and the net book value of the contracts at the time of the disposal. Any excess of net book value of a player's registration over its net realizable value is taken to the profit and loss account as and when it arises.

Should potential recipients of associated compensations be unknown and the respective debt remain unclaimed over the period of limitation, the Group reverses accrued liabilities and recognizes income within gain on disposal of players' registrations in the current period.

Solidarity payments related to registration rights attributable to the Group are recognized in the reporting period in which a player's transfer to a third club took place, and then recorded within gain on disposal of players' registrations.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

Leases (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the Consolidated Statement of Income on a straight line basis over the lease term.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The future expenses are recorded at the best estimate of the amount required to settle the obligations, determined at the reporting date, taking into account the risks and uncertainties characteristic of these obligations. If the future expenses reserve is calculated on the basis of the estimated cash flows to settle the obligations, the future expenses reserve is determined as the discounted value of such cash flows.

If the payments required to settle liabilities are expected to be partially or fully reimbursed by a third party, the corresponding receivables are recorded as an asset, provided that there is almost full confidence that reimbursement will be received and that the amount of these receivables is reliably estimated.

Contingent assets and liabilities are not recognized in the financial statements, but are subject to disclosure if there is a probable inflow or outflow of economic benefits.

Financial instruments

Financial assets

Financial assets are classified into three measurement categories: those to be measured subsequently at fair value through profit and loss, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at amortized cost. The Group classifies financial assets at initial recognition.

A financial asset is measured at amortised cost if both of the following conditions are met:

- (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- (c) In other case a financial asset is measured at fair value.

After initial recognition financial assets are measured on the following basis:

- (d) financial assets measured at amortized cost are measured using effective interest rate method;
- (e) financial assets different from those measured at amortized cost are measured at fair value.

In addition, for the purpose of preparation of financial statements, fair value measurements are classified based on the fair value hierarchy (Level 1, 2 or 3). The levels correspond to the possibility of directly determining fair value based on market data and reflect the significance of the input data used in measuring fair value as follows:

- (f) Level 1 inputs do not require adjustments to the quotes for identical assets or liabilities in active markets that the Group has access to on the valuation date;
- (g) Level 2 inputs are not quotes determined for Level 1, but which are observable in the market for an asset or liability, either directly or indirectly; and
- (h) Level 3 inputs are unobservable inputs for asset or liability.

Impairment of financial assets

In accordance with IFRS 9, for each reporting period, the Group assesses the existence of objective evidence of impairment of financial assets measured at amortized cost.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

The Group applies a simplified approach and recognizes the expected credit losses for these assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since the initial recognition of the relevant financial instrument. The Group always recognizes the expected credit losses throughout the life cycle of trade receivables and loans granted.

Expected credit losses on these financial assets are estimated based on the historical experience of the Group's credit losses, taking into account factors specific to debtors, general economic conditions and estimates of both current and projected conditions at the reporting date, including the time value of money, if necessary.

For all other financial instruments, the Group recognizes expected credit losses during the life cycle of a financial instrument, when a significant increase in credit risk has occurred since the initial recognition. If the credit risk of a financial instrument has not significantly increased since the initial recognition, the Group estimates the provision for losses for this financial instrument in an amount equal to 12 months of the expected credit losses. The assessment of whether the expected credit loss should be recognized during the life cycle of a financial instrument is based on a significant increase in the probability or risk of default occurring since the initial recognition.

The expected credit losses over the life cycle of a financial instrument represents the expected credit losses that may arise from all possible default events during the expected life of the financial instrument. In contrast, a 12-month expected credit losses are a part of expected credit losses during the life cycle of a financial instrument, which is expected to be caused by events of default on a financial instrument that are possible within 12 months after the reporting date.

In assessing how significantly the credit risk of a financial instrument has increased since its initial recognition, the Group compares the risk of default of a financial instrument at the reporting date to the risk of default of a financial instrument at the date of initial recognition. In conducting this assessment, the Group considers both quantitative and qualitative information that is reasonable and acceptable, including historical experience and prospective information, which is available without undue cost or effort. The prospective information under consideration includes analysis of prospective development of industries in which the Group's counterparties work, obtained from economic expert reports, financial analysts, government bodies, relevant analytical centers and other similar organizations, as well as from various external sources on actual and forecasted economic information.

In particular, when assessing whether credit risk has increased since initial recognition, the following information is taken into account:

- (i) actual or expected significant deterioration in the external (if any) or internal credit rating of the financial instrument;
- (j) significant deterioration in external market credit risk indicators for a specific financial instrument; a significant increase in the credit spread, the price of the swaps on loans by default for the debtor or the duration or the extent to which the fair value of the financial asset is less than its amortized cost;
- (k) existing or projected adverse changes in business, financial or economic conditions that are expected to lead to a significant reduction in the counterparty's ability to meet its debt obligations; actual or expected significant deterioration in counterparty operating results;
- (l) significant increase in credit risk for other financial instruments of the same counterparty;
- (m) actual or expected significant adverse change in regulatory, economic or technological environment of the counterparty, which leads to a significant decrease in counterparty's ability to meet its debt obligations.

Regardless of the results of the above assessment, the Group believes that the credit risk of a financial asset has increased significantly since initial recognition when the delay in payments under the contract exceeds 30 days, in cases where the Group does not have reasonable information that levels the fact of delay in payments.

The Group assumes that the credit risk on the financial instrument has not increased significantly since its initial recognition, if it was determined that the financial instrument has a low credit risk at the reporting date. A financial instrument has been found to have a low credit risk if:

- i) a financial instrument has a low default risk,
- ii) the counterparty is able to fulfil its contractual obligations on cash flows in the nearest future
- iii) adverse changes in the economic conditions of doing business in the long run may,

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

but not necessarily, reduce the counterparty's ability to fulfil its contractual obligations on cash flows. The Group believes that a financial asset has a low credit risk when it has an "investment class" internal or external credit rating in accordance with a globally recognized definition.

The Group regularly monitors the effectiveness of criteria used to determine whether a significant increase in credit risk has occurred, and reviews them accordingly to ensure that the criteria are able to identify a significant increase in credit risk before contract payments are past due.

If there is objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of loss is determined as the difference between the carrying amount of the asset and the present value of expected future cash flows.

If an impairment is recognized, the carrying amount of the financial asset is reduced by the allowance for doubtful debts, and impairment losses are recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced by the amount of the impairment when it is expected that debts will become bad debts in the future. If, in a subsequent period, the amount of the impairment loss changed due to an event that occurred after the impairment was recognized, the previously recognized impairment loss is reversed to reflect a provision for bad debts.

De-recognition

The Group derecognizes a financial asset only when contractual rights to the cash flows from the asset expire, or it transfers the financial asset and virtually all the risks and rewards associated with owning the asset to another person. If the Group does not transfer or retain almost all the risks and rewards of ownership, and continues to control the transferred asset, The Group recognizes its unallocated interest in the assets and the associated liability in relation to the amounts it can pay. If the Group retains virtually all the risks and benefits associated with owning the transferred financial asset, the Group continues to recognize the financial asset, and also recognizes borrowed funds with collateral for proceeds received.

Effective interest rate method

The effective interest method is a method for calculating the amortized cost of a financial asset by distributing interest over a period. The effective interest method typically involves discounting future payments (including commission payments, transaction costs, premiums and discounts) over the expected term of the financial asset or if a shorter period is applicable.

Revenue is recognized using the effective interest method for debt instruments except for financial assets at fair value through profit or loss.

Loans granted and accounts receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, excluding assets which are classified to other categories of financial assets.

Loans granted by the Group are initially recognized at fair value plus transaction costs directly attributable to the acquisition or creation of such financial assets. If the fair value of the funds provided is not equal to the fair value of the loan, for example, if loans are granted at a rate lower than the market, the difference between the fair value of the funds provided and the fair value of the loan is reflected as a loss upon initial recognition of the loan and presented in the statement of comprehensive income in accordance with the nature of such losses. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, except for short-term loans and receivables for which interest income / expense is immaterial. Loans and receivables are stated net of allowance for impairment.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or as other financial liabilities carried at amortised cost.

The Group do not have financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including loans, are initially measured at fair value through profit or loss less transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities only in case of their repayment, cancellation or expiration.

De-recognition of financial liabilities

Financial liability is derecognized when the obligation is settled, canceled, or expired, when an existing financial obligation is replaced with another obligation to the same creditor under significantly different conditions, or the conditions of the existing obligation change significantly. Such an exchange or change is recorded as a write-off of the original obligation and recognition of a new obligation, and the difference in the corresponding carrying amount is recognized in the statement of comprehensive income.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to be prepared for intended use or sale are capitalized as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of accrued interest and other costs that the Group incurs in connection with borrowing of funds.

Revenue and Expense Recognition

Revenue and expense are recognized in the period when revenue is earned and expense is incurred. Revenue is recognized, net of VAT and sales tax, when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue comprises broadcasting proceeds which represent amounts due to the Club from the Russian Football Premier League and UEFA for the transfer of broadcasting rights related to the Club's participation in the Russian Premier League and European football competitions. The Club is entitled to certain percentage of actual funds received from broadcasting proceeds and advertising through the Russian Football Premier League from the Club's home games during the next football season. This percentage is determined partly based on actual result in prior football season.

Pension expenses

The Group contributes to the Russian Federation state pension, social insurance, and medical insurance funds on behalf of its employees. These contributions are expensed as incurred.

Income taxes

Taxation on profits or losses for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

3. Significant accounting policies (continued)

Finance income and costs

Finance income and costs comprise interest expense on borrowings and loans payable, deposits, interest income/expense from unwinding of discount on provision for asset retirement obligations and on other financial assets and liabilities, net foreign currency gains/(loss) related with borrowings.

4. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Information about critical judgements, key assumptions and estimates in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements is detailed in below:

Useful life of property and equipment

Management assesses the remaining useful lives of items of property and equipment at least at each financial year-end. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

Allowance for impairment of receivables

Management maintains an allowance for impairment of receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for impairment of receivables, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties.

Impairment of property and equipment and construction in progress

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared for Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

4. Use of estimates and judgements (continued)

Impairment of players' registration rights

Management conducts an impairment test of each player registration rights, as required by IAS 36, Impairment of Assets, at least at each financial year end. The impairment of a player registration rights may occur due to deterioration of a player's physical condition, such as if a player is seriously injured, and consequently, the player registration right loses in fair value, or due to excess of the carrying value of a player registration rights over the related future cash flows. The assessment of recoverable amount of player registration rights involves the exercise of significant judgement.

5. Adoption of New or Revised Standards and Interpretations

Changes in accounting policies and disclosure principles

The accounting principles adopted in the preparation of the consolidated financial statements for the year ended December 31, 2017, are consistent with the principles applied in preparation of the consolidated financial statements of the Group for the year ended on December 31, 2016, with the exception of the new standards and explanations that came into force on January 1, 2017. There was no early adoption of any other standards, clarifications or amendments that have been issued but have not yet become mandatory.

In the year ended December 31, 2018 the Group has applied all new and revised IFRSs issued by the International Accounting Standards Board ("IASB"), which are mandatory for use in 2018.

Although the Group applied these new standards and amendments for the first time, they did not have a significant impact on the consolidated financial statements of the Group. The nature and impact of each new standard or amendment is described below:

IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018).

The main provisions of this standard are as follows:

- (a) Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (with changes recognised in other comprehensive income or in profit or loss) and those to be measured subsequently at amortised cost. The decision on classification is made at the time of initial recognition.
- (b) Subsequent measurement of financial instruments at amortized cost is carried out only for debt instruments when the following conditions are met: the Group has such a business model that cash flows are expected from the redemption of a financial instrument, and under the terms of the contract the cash flows expected from the instrument represent only principal and interest. All other financial instruments should be measured at fair value with changes recognised in profit or loss.
- (c) Investments in equity instruments shall always be measured at fair value. Changes in fair value of equity instruments held for trading, are recognized in profit or loss. For all other equity instruments, at the time of recognition, a choice is made that is not subject to change, whether realized and unrealized gains and losses arising from changes in fair value will be reflected in other comprehensive income rather than in profits and losses. Other comprehensive income or expense from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss.
- (d) In terms of impairment, IFRS 9 introduces the new, future-oriented "expected credit loss" model, which replaces the "incurred credit loss" model established by IAS 39.

Comparative figures were not restated, which is consistent with the provisions of IFRS 9.

Impact on consolidated financial statements.

Based on the analysis of financial assets and financial liabilities of the Group as of January 1, 2018, using the facts and circumstances that existed at that date, the Group assessed the impact on the relevant items of the consolidated financial statements.

The Group utilizes a simplified approach to recognizing expected credit losses in respect of cash and cash equivalents in accordance with the requirements of IFRS 9. Management does not expect any credit losses to be recognized within 12 months.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

5. Adoption of New or Revised Standards and Interpretations (continued)

Trade and other receivables (recognized in current assets) do not contain a significant financial component. The Group utilizes a simplified model to calculate impairment losses (the amount of loss is estimated as the amount equal to expected credit losses over the life of the debt). The introduction of IFRS 9 did not have a significant impact on measurement of trade and other receivables.

Loans granted continue to be carried at amortized cost. The club uses a simplified model to calculate impairment losses (the amount of loss is estimated as the amount equal to expected credit losses over the life of the loan). The introduction of IFRS 9 did not have a significant impact on measurement of loans granted.

Loans and borrowings continue to be carried at amortized cost. The modification of debt obligations, which took place as of January 1, 2018 in connection with the application of IFRS 9, did not have a significant impact on the Group's loans and borrowings.

As of January 1, 2018, the Group considered and assessed existing financial assets for impairment using reasonable and reliable information available in accordance with the requirements of IFRS 9 to reflect the effect of the expected credit risks of the respective financial assets and liabilities at the date of initial recognition. This did not result in adjustments to the carrying amount of financial assets.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) and amendments to IFRS 15 (issued in April 2017 and effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.

The following standards have no significant impact on the Group's consolidated financial statements

A number of new standards, amendments to standards and interpretations, which become effective from 1 January 2019 or later, are published. They have not been early adopted by the Group.

IFRS 16 Leases

Issued in January 2016 and effective for annual periods beginning on or after 1 January 2019. Early adoption of this standard is possible only if IFRS 15 «Revenue from Contracts with Customers» is applied.

The main provisions of this standard are as follows:

- (a) IFRS 16 changes the requirements for accounting for a lessee defined in IAS 17 and excludes the classification of leases into financial and operational. Instead, it represents a unified lease accounting model, which requires to reflect the following:
 - i) all assets and liabilities arising from lease, with a period of more than 12 months, except for those that have an insignificant value;
 - ii) depreciation of leased assets separately from financial expenses in income statements.
- (b) IFRS 16 does not change the lessor's accounting principles identified in IFRS (IAS) 17.
- (c) IFRS 16 does not change the accounting principles for services related to leasing.

The Club is evaluating the impact of the new standard on its consolidated financial statements.

IFRIC 23 — Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017. It is effective for annual periods beginning on or after 1 January, 2019. IFRIC 23 explains the treatment of uncertainties related to income taxes. The Company is currently assessing the impact of the standard on the consolidated financial statements.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

6. Property and equipment

GROUP

The analysis of movements in property and equipment is as follows:

<i>In thousands of US dollars</i>	Land	Buildings	Football fields and other sports facilities	Vehicles and equipment	Furniture and office equipment	Other	Total
Cost							
At December 31, 2017	33,730	1,620	104,668	1,112	1,032	1,141	143,303
Additions	-	-	266	328	34	321	949
Transfers	-	-	42,126	-	-	-	42,126
Impairment	-	-	(12,754)	-	-	-	(12,754)
Disposals	-	-	-	(150)	(6)	-	(156)
Foreign currency translation	-	-	8,881	743	316	1,708	11,648
At December 31, 2018	33,730	1,620	143,187	2,033	1,376	3,170	185,116
Accumulated depreciation							
At December 31, 2017	(10,774)	(1,468)	(8,474)	(900)	(695)	(555)	(22,866)
Depreciation charge for the year	-	(1)	(7,246)	(41)	(77)	(143)	(7,508)
Impairment	-	-	974	-	-	-	974
Depreciation on disposals	-	-	-	150	6	-	156
Foreign currency translation	1	(1)	605	(11)	7	13	614
At December 31, 2018	(10,773)	(1,470)	(14,141)	(802)	(759)	(685)	(28,630)
Carrying amount							
At December 31, 2017	22,956	152	96,194	212	337	586	120,437
At December 31, 2018	22,957	150	129,046	1,231	617	2,485	156,486

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

6. Property and equipment (continued)

GROUP

The analysis of movements in property and equipment is as follows:

<i>In thousands of US dollars</i>	Land	Buildings	Football fields and other sports facilities	Vehicles and equipment	Furniture and office equipment	Other	Total
Cost							
At December 31, 2016	33,729	1,619	140,092	1,134	869	849	178,292
Additions	-	-	521	41	83	94	739
Transfers	-	-	(33,272)	-	-	-	(33,272)
Disposals	-	-	-	(63)	(5)	-	(68)
Foreign currency translation	1	1	(2,673)	-	85	198	(2,388)
At December 31, 2017	33,730	1,620	104,668	1,112	1,032	1,141	143,303
Accumulated depreciation							
At December 31, 2016	(10,773)	(1,467)	(4,744)	(889)	(643)	(431)	(18,947)
Depreciation charge for the year	-	(1)	(3,456)	(74)	(57)	(123)	(3,711)
Depreciation on disposals	-	-	-	63	5	-	68
Foreign currency translation	(1)	-	(274)	-	-	(1)	(276)
At December 31, 2017	(10,774)	(1,468)	(8,474)	(900)	(695)	(555)	(22,866)
Carrying amount							
At December 31, 2016	22,956	152	135,348	245	226	418	159,345
At December 31, 2017	22,956	152	96,194	212	337	586	120,437

As of December 31, 2018, valuation of the stadium was carried out and a value of \$129,046 thousand noted. The fair value of the stadium was not determined based on operations observed in the market due to its nature and the lack of comparative data. The appraisal model applied was based on estimation of net present value of future cash flows. Based on valuation, impairment loss was recognized in the amount of \$12,754 thousand.

As at December 31, 2018 and as at December 31, 2017, bank loans were secured by the land owned by the club with a carrying value of \$22,957,000 and \$22,956,000 respectively (Note 27).

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

7. Investment property

The analysis of movements in investment property in 2018 and 2017 is presented below

<i>In thousands of US dollars</i>	Group	
	2018	2017
Cost		
At beginning of year	205,550	162,505
Additions	13,486	10,809
Transfer from fixed assets	(42,126)	33,272
Impairment in the year	(12,489)	-
Depreciation	(441)	-
Foreign currency translation	(3,835)	(1,036)
At end of year	160,146	205,550

As of December 31, 2018, the professional appraiser estimated the fair value of investment property in the amount of \$160,146 thousand. The appraisal model applied was based on the net present value of future cash flows. Due to the fact that the book value of the investment property exceeded the fair value obtained in valuation, impairment was recognized in the amount of \$12,489 thousand.

From the beginning of 2018, the Group began to lease the investment property. Rental income from investment property for 2018 amounted to \$1,559 thousand.

In the beginning of 2018, the Group decided to reclassify a part of investment property to other sports facilities due to a change in the nature of their use.

As of December 31, 2018 and December 31, 2017, the following were used as collateral for the bank loan (Note 27):

- investment property;
- stadium;
- land owned by the Group.

8. Players' registration rights

The analysis of movements in players' registration rights is as follows:

<i>In thousands of US dollars</i>	Group	
	2018	2017
At beginning of year	35,484	52,387
Additions	16,101	16
Disposals	(20,727)	(17,134)
Foreign currency translation	(783)	215
At end of year	30,075	35,484
Accumulated amortization		
At beginning of year	(33,242)	(42,547)
Amortization charge for the year	(3,919)	(7,435)
Accumulated amortization on disposed assets	20,404	17,034
Foreign currency translation	18	(294)
At end of year	(16,739)	(33,242)
Carrying amount		
At beginning of year	2,242	9,840
At end of year	13,336	2,242

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

8. Players' registration rights (continued)

In 2018, the Club proceeded with the efficient transfer policy and followed the course on optimization of the transfer budget. In summer 2018, the Club sold the rights on Alexander Golovin to FC Monaco (France) and rights on Victor Vinicius Coelho dos Santos to FC Flamengo (Brazil) which allowed to significantly improve solvency and make substantial profit.

At the same time, the Club acquired the rights on permanent football registration of promising foreign footballers - Yaki Bijola (Slovenia), Arnor Sigurdsson and Herdur Magnusson (both - Iceland), Takuma Nishimura (Japan) and young talented Russian midfielder Ivan Oblyakov. These players play for youth or main national teams of their countries.

The Club also leased Rodrigo Becao from Baya FC (Brazil) with the right of subsequent redemption of the transfer. Rodrigo Becao is currently one of the best defenders of the RPL according to many statistical indicators.

In addition, the Club has signed employment contracts with a number of free-agent football players, both with experienced (Abel Hernandez Platero, who played for the national team of Uruguay, in the Italian Serie A and the English Premier League) and the young ones (Ilzat Akhmetov in 2018 received the award "The first five" as the best young football player in Russia).

Provision of match practice to footballers whose opportunities do not yet allow them to claim a permanent presence in the main holder continued. Several players rights were rented to foreign and Russian clubs.

In 2017, the Club proceeded with the efficient transfer policy and followed the course to minimize costs. In the summer of 2017, the Club sold the rights on Kirill Panchenko to Dynamo Moscow.

As at December 31, 2018 and 2017, the Club had no players' registrations with limited ownership rights or pledged as collateral.

9. Land lease rights

The analysis of movements in the value land rights is as follows:

In thousands of US dollars

	Group 2018	2017
Cost		
At beginning of year	10,101	9,591
Foreign currency translation	(1,726)	510
At year end	8,375	10,101
Accumulated amortisation		
At beginning of year	(2,682)	(2,350)
Amortization charge for the year	(189)	(203)
Foreign currency translation	477	(129)
At end of year	(2,394)	(2,682)
Carrying amount		
At beginning of year	7,419	7,241
At end of year	5,981	7,419

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

10. Company Investments

<i>In thousands of US dollars</i>	Shares in group undertakings	Additional capital	Total
Cost			
Balance at 1 January 2017	128	80,882	81,010
Impairment	-	(20,222)	(20,222)
Balance at 31 December 2017	128	60,660	60,788
Impairment	-	32,704	32,704
Balance at 31 December 2018	128	93,364	93,492

Details of the group undertakings are as follows:

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
CJSC Professional Football Club CSCA	Russia	Ordinary	100%
OJSC AVO- Capital	Russia	Ordinary	100%
OJSC Sport Training Base Oktyabr ("The Training base")	Russia	Ordinary	60.1%
Youth Sports School of Professional Football Club CSCA ("The Sports School")	Russia	Ordinary	50.0%

76.44% of the Company's investment in CJSC Professional Football Club CSCA has been pledged as security for the group's obligations and liabilities under the loan facility agreement provided by the bank.

11. Accounts Receivable

Accounts receivable consisted of the following:

<i>In thousands of US dollars</i>	Group		Company	
	2018	2017	2018	2017
Accounts receivable from transfer of players' registrations	16,024	1,079	-	-
Broadcasting proceeds receivables	531	905	-	-
Accounts receivable for advertising and sponsorship	5,470	4,424	-	-
Accounts receivable from related parties	148	184	-	-
Other	35,062	4,954	-	-
	57,235	11,546	-	-
Allowance for impairment of receivables	(2,678)	(34)	-	-
	54,557	11,512	-	-

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

12. Other non-current and current assets

Other non-current and current assets comprised the following:

Other non-current assets

In thousands of US dollars

Non-current accounts receivable from related parties
 Other non-current assets

	Group	
	2018	2017
Non-current accounts receivable from related parties	1,123	1,212
Other non-current assets	31	36
	1,154	1,248

Other current assets

In thousands of US dollars

Inventories
 Loans granted to related parties
 Loans granted to other parties
 Prepayments

	Group	
	2018	2017
Inventories	208	401
Loans granted to related parties	160	-
Loans granted to other parties	79	-
Prepayments	3	27
	450	428

13. Cash and Cash Equivalents

Cash consisted of the following:

	Group		Company	
<i>In thousands of US dollars</i>	2018	2017	2018	2017
Cash held in Russian Roubles	7,849	1,803	-	-
Cash held in Euros	3,781	262	-	121
Cash held in US Dollars	220	14	-	-
	11,850	2,079	-	121

The Club holds its cash mostly in Vnesheconombank and OJSC AKB Novibank which provide most of the banking services to the Club.

14. Accounts Payable and Accruals

Accounts payable and accruals consisted of the following:

	Group		Company	
<i>In thousands of US dollars</i>	2018	2017	2018	2017
Players' registrations payable	4,189	72	-	-
Amounts payable for property and equipment	8,265	9,993	-	-
Rentals payable	-	807	-	-
Advances from general sponsor	946	2,001	-	-
Other payables and accruals	12,475	5,184	582	457
	25,875	18,057	582	457

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

15. Payroll and Related Obligations

Payroll and related obligations consisted of the following:

<i>In thousands of US dollars</i>	Group	
	2018	2017
Players' remuneration	1,928	2,545
Coaches staff remuneration	245	217
Administrative staff remuneration	474	531
Unused vacation liabilities accrued	2,933	3,578
	5,580	6,871

16. Taxes Payable

<i>In thousands of US dollars</i>	Group	
	2018	2017
Personal income tax	385	490
Insurance	379	432
VAT	1,962	1,588
Other	141	153
	2,867	2,663

17. Income Tax

The income tax expense consisted of the following:

<i>In thousands of US dollars</i>	Group		Company	
	2018	2017	2018	2017
Current tax expense/(benefit)	-	4	-	-
Deferred tax expense/(benefit)	(72)	(63)	-	-
	(72)	(59)	-	-

The applicable tax rate used is 20%, which is the corporation tax rate in Russia. As almost all the group's activities take place in Russia this is considered to be the rate most applicable to the group.

Reconciliation between the income tax expense computed by applying the Russian corporation tax rate to the loss before taxes from ordinary activities presented in the accompanying consolidated financial statements to the income tax expense reported in the consolidated financial statements is as follows:

<i>In thousands of US dollars</i>	2018	2017
Profit / (Loss) before income taxes	25,843	(27,988)
Statutory income tax rate	20.00%	20.00%
Income tax benefit/(expense) at statutory rate	(5,169)	(5,598)
Net effect of foreign exchange	(637)	28
Non-deductible items	7,100	3,013
Losses carried forward	(1,366)	2,498
Income tax benefit reported in the consolidated financial statements	(72)	(59)

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

17: Income Tax (continued)

Movements in deferred tax balances were as follows:

<i>In thousands of US dollars</i>	Recognized in statement of financial position		Recognised in statement of comprehensive income	
	31 December 2018	31 December 2017	2018	2017
Tax effects of deductible temporary differences:				
Tax loss utilised	(609)	182	791	437
Tax effects of taxable temporary differences:				
Property and Equipment	(246)	(303)	(57)	9
Accounts payable	609	(182)	(791)	(437)
Land lease rights	(1,196)	(1,484)	(288)	37
Loans from related parties	(24)	(60)	(36)	(13)
Net tax effect of temporary differences	(1,466)	(1,847)	(381)	33
Total change in net deferred tax liability			(381)	33
Total net deferred tax liability	(1,466)	(1,847)		

Change in net deferred tax liability recognized in:

	Group	
	2018	2017
Income:		
Deferred tax expense / (benefit)	(72)	(63)
Foreign exchange loss	(309)	(96)
Total change in net deferred tax liability	(381)	33

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

18. Revenue

Revenue consisted of the following:

Group

<i>In thousands of US dollars</i>	2018	2017
Broadcasting proceeds	4,100	6,129
Prizes	52,054	26,832
Advertising and sponsorship	24,756	26,824
Gate receipts and programme sales	13,499	11,527
Gratuitous proceeds for youth football development	225	1,085
Other income	5,746	3,948
	100,380	76,345

All revenue arises in the Russian Federation.

19. Operating Expenses

Operating expenses consisted of the following:

Group

<i>In thousands of US dollars</i>	2018	2017
Expenses from sport activities	5,888	5,258
Advertising	1,677	2,021
Youth football development	2,421	2,253
Taxes (other than income tax)	596	972
Rent of sport facilities	379	23
Rent of property for administrative purposes	-	75
Cost of materials	542	476
Insurance and medical services of players	388	274
Solidarity payments and other expenses on players' registrations	-	233
Provision for impairment of accounts receivable	2,933	(2)
Selling expenses	31	53
Professional fees	252	123
Agents fees	-	265
Fines and penalties	348	-
Sports objects maintenance	4,894	4,482
Other	4,140	4,007
Amortisation of players' registrations	3,919	7,435
Depreciation of property and equipment	7,949	3,711
Amortisation of land rights	189	203
Players' remuneration and related social charges	37,962	44,899
Coaches and administrative staff remuneration and related social charges	13,210	12,651
Auditor's remuneration for audit work	18	10
Auditor's remuneration for non audit work	48	47
	87,784	89,469

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

20. Finance Income / expense

<i>In thousands of US dollars</i>	Group 2018	2017
Discount of long-term borrowing from related parties	(143)	(81)
Discount of long-term accounts receivable from related parties	131	126
Interests on borrowings from related parties	(1,778)	(8,778)
Interests on borrowings from other parties	(13,772)	(5,734)
	(15,562)	(14,466)

21. Gain on Disposal of Players' Registrations

In 2018 and 2017, gain on disposal of players' registrations consisted of the following:

<i>In thousands of US dollars</i>	Revenue	NBV	Gain
Steven Zuber	172	-	172
Alibek Aliev	-	(81)	(81)
Alexander Golovin	35,280	-	35,280
Victor Vinicius Coelho dos Santos	13,437	(240)	13,197
Other players	1	(3)	(2)
Total for the year ended December 31, 2018	48,890	(324)	48,566
Panchenko Kirill	1,959	(98)	1,860
Musa Ahmed	273	-	273
Tsuber Stiven	171	-	171
Other players	5	(2)	3
Total for the year ended December 31, 2017	2,408	(100)	2,308

The work on providing game practice for the players, which are not yet capable of playing in the basic team on a constant base, has been continued in 2018.

22. Share Capital

Company

Allotted, issued and fully paid:

Number	Class	Nominal value	31.12.18	31.12.17
130,699,550	Ordinary Shares	£1	\$202,502,000	\$202,502,000

Additional capital in capital reserve represents undistributed reserve resulted from fair valuing related loans.

23. Ultimate controlling party

Alidanos B.V, a company incorporated in the Netherlands and Lasseti SA, a company registered in Marshal Islands were both immediate parent companies of Bluecastle Enterprises Limited holding 50% interest in the issued share capital of the company. In the opinion of the director the ultimate controlling party is Mr Evgeniy Giner.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

24. Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures".

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2018 and 31 December 2017 are detailed below. In accordance with IAS 24 disclosure is not required of transactions and balances between Group companies where such transactions are eliminated upon consolidation.

Balances with related parties:

Statement of financial position	Relationship	Group		Company	
		2018	2017	2018	2017
<u>In thousands of US dollars</u>					
Related party loans:					
Loans payable	Under common management	-	63,848	-	63,848
Loans payable	Under common control	18,918	18,685	18,449	17,735
Loans payable	Subsidiary	-	-	1,771	2,707
		18,918	82,533	20,220	84,290
Other current liabilities:					
Accounts payable	Subsidiary	-	-	50	-
Accounts payable	Under common control	288	282	288	282
		288	282	338	282

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

24. Balances and transactions with related parties (continued)

Assets

	Relationship	Group		Company	
		2018	2017	2018	2017
Long term accounts receivable from related parties	Under common control	1,123	1,212	-	-
Accounts receivable	Under common control	148	-	-	-
Loans granted	Under common control	160	-	-	-
		1,431	1,212	-	-

Transactions with related parties:

		Group		Company	
<i>In thousands of US dollars</i>		2018	2017	2018	2017
Finance costs:					
(Accruals) / Recovery of loss of long term accounts receivable	Under common control	131	126	-	-
(Accrual)/Recovery of discount on non-current loans	Under common control	(143)	-	-	-
Interests on borrowings from related parties	Under common control	(1,778)	(8,778)	(1,819)	(8,420)
		(1,790)	(8,652)	(1,819)	(8,420)

In 2013 the Club also entered into agreement with E.L. Giner concerning assignment of receivables under co-investment construction contract. The amount of assigned receivables totals \$1,638,000 (2017: \$1,975,000) due in June 2021.

In 2018 and 2017, current compensation of key management personnel of the group amounted to \$3,016,000 and \$2,920,000, respectively. In 2018 and 2017, related social charges amounted to \$472,000 and \$457,000, respectively. Other compensation (non-current, post-retirement benefits) was not paid during the reporting period.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

25. Financial risk management

The Group's principal financial instruments comprise of cash and cash equivalents, accounts receivable, borrowings, trade accounts payable and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, and credit risk.

Foreign Currency Risk

Currency risk is the risk of increase or decrease in liabilities and assets and the risk of loss resulting from changes in exchange rates applied to open foreign currencies positions.

The Group is exposed to currency risk on receivables from transfer of players' registrations, broadcasting proceeds, receivables for advertising and sponsorship and borrowings in a currency other than the functional currency of the Club. The currencies in which these transactions primarily are denominated are Euros and Russian Roubles. The Group does not have formal arrangements to mitigate currency risks of its operations.

Effect of principal exchange rate fluctuations on the Group's consolidated statement of comprehensive income for the year ended 31 December 2018 is as follows:

<i>In thousands of US dollars</i>	Exchange rate fluctuations %	Estimation of gain/(loss)
	+10%	341
RUB/USD	-10%	(341)
	+10%	1,053
EUR/USD	-10%	(1,053)

Credit Risk

Credit risk is the risk of financial losses arising from counterparty's failure to discharge its contractual obligations. Financial assets, which potentially subject the Group to credit risk, consist principally of accounts receivables resulting from the transfer of players' registrations. The Group has no significant concentration of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The exposure of such accounts receivable to credit risk is mitigated by the regulations of the Russian Football Premier League, Professional Football League and Russian Football Union, which might impose severe financial and sport-related penalties to the clubs that failed to pay for players' registrations. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk.

Aging analysis of financial assets is as follows:

<i>In thousands of US dollars</i>		Including overdue				
	Total	Up to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
December 31, 2018						
Current accounts receivable	54,805	52,618	-	239	1,939	54,797
Non-current receivables	1,124	-	-	-	1,124	1,124
Total	55,929	52,618	-	239	3,063	55,921
		Including overdue				
	Total	Up to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
December 31, 2017						
Current accounts receivable	11,512	9,251	-	-	2,261	11,512
Non-current receivables	1,248	-	-	-	1,248	1,248
Total	12,760	9,251	-	-	3,509	12,760

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

25. Financial risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its obligations. Liquidity (cash) management is the ability to settle current payment liabilities and eliminate risk of early repayment.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and loans from related parties.

The maturity of the Group's financial liabilities is as follows:

In thousands of US dollars

	On demand	Up to 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total
December 31, 2018						
Long-term loan payable to a related party	-	-	-	18,918	-	18,918
Long-term loan payable	-	-	-	322,425	-	322,425
Players' registrations and other short term payable	8,456	25,066	800	-	-	34,322
Short term loans payable	-	-	35,475	-	-	35,475
Short term loans payable to related parties	-	-	288	-	-	288
	8,456	25,066	36,563	341,343	-	411,428
December 31, 2017						
Long-term loan payable to a related party	-	-	-	82,403	-	82,403
Long-term loan payable	-	-	-	272,190	-	272,190
Players' registrations and other short term payable	-	9,534	18,057	-	-	27,591
Short term loans payable	-	-	1,851	-	-	1,851
Short term loans payable to related parties	-	-	282	-	-	282
	-	9,534	20,190	354,593	-	384,317

Fair Values

Fair values of Group's financial instruments at 31 December 2018 and 2017 approximate their carrying values due to their short maturities and discounting of long-term financial instruments.

Interest rate risk

The Group's interest rate risk principally arises from long-term bank borrowings at a fixed interest rate (Note 27). The Group's policy is to obtain the most favourable interest rates available for its borrowings. Trade receivables and payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial assets and liabilities. The Group does not use any derivative instruments to reduce its economic exposure to changes in interest rates. At 31 December 2018 it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would increase/decrease the Group's results after tax and retained earnings by approximately USD 3,224 thousand (31 December 2017: USD 2,611) thousand from bank borrowings.

Capital Management

Capital comprises equity and borrowed funds available to the Group as of the balance sheet date. The Group's capital management policy is primarily focused on obtaining requisite sources of funding that would be sufficient to finance the Group's business operations.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, by means of additional finance from the members.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

26. Commitments and contingencies and operating risks

Players' Insurance Coverage

At 31 December 2018 and 2017, the Group maintained medical insurance coverage for its players, which covers any direct medical costs.

Commitments under Player Transfer Agreements

Certain contracts for the purchase of players' registrations contain commitments to the clubs from which the Group purchased such registration rights to share a portion of proceedings from further transfer of the underlying players' registrations to a third club. Such fees might range from 10% to 50% of the subsequent resale price, and sometimes lapse after a certain period of time.

Certain contracts for the purchase of players' registrations contain payment commitments to clubs from which the Group purchased such registration rights, which are determined based on the subsequent performance of the player or the Club. Such fees are recognised in other expenses during the contractual term.

Because of the volatility of the market values of players' registrations and lack of market information no reliable estimate of the amount of such future obligation can be made.

Litigation, claims and assessments

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Pension insurance

In 2018 and 2017, the Group's contributions to state pension, social insurance and medical insurance funds approximated 11% and 11% of payroll and were expensed as incurred. The Group incurred \$5,195,000 and \$5,904,000 of pension, social and medical insurance costs in 2018 and 2017, respectively. The Group has no other program for payment of post retirement benefits to its employees and thus no future liability for such payments.

Operating Environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and effectiveness of economic, financial and monetary measures undertaken by the Government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

In addition the Group is vulnerable to international sanctions on Russian entities as it is involved in European Football competitions.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual. The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

Current tax inspection resulted in a charge of USD 707 thousand due to late tax payment. The decision comes into force in one month from the 15 February 2019. Group is appealing against this charge.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

26. Commitments and contingencies and operating risks (continued)

In Russia tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during three-year period. Management believes that the Group has complied with all regulations, and paid or accrued all taxes that are applicable. However, it is possible that the relevant local or national governmental authorities may attempt to revise their previous approach to such transactions and assess additional VAT and other taxes against the Group.

27. Loans and borrowings

Loans and borrowings comprised the following:

<i>In thousands of US dollars</i>		
Group	2018	2017
Long - term		
USD - denominated borrowings from related parties	15,620	47,371
RUB - denominated borrowings from related parties	3,224	2,982
GBP - denominated borrowings from related parties	-	571
EUR - denominated borrowings from related parties	74	31,480
EUR - denominated borrowings from other parties	33,696	130
GBP - denominated borrowings from other parties	587	-
USD - denominated borrowings from other parties	46,599	10,941
USD - denominated bank loans	241,543	261,118
	341,343	354,593
Short - term		
GBP - denominated borrowings from related parties	288	282
GBP - denominated borrowings from other parties	193	121
USD - denominated loans from banks	35,281	-
EUR - denominated loans from banks	-	1,730
	35,762	2,133
<i>In thousands of US dollars</i>		
Company	2018	2017
Long - term		
USD - denominated borrowings from related parties	15,620	47,371
RUB - denominated borrowings from related parties	2,755	2,492
GBP - denominated borrowings from related parties	-	571
EUR - denominated borrowings from related parties	1,845	33,856
GBP - denominated borrowings from other parties	587	-
EUR - denominated borrowings from other parties	33,696	130
USD - denominated borrowings from other parties	46,599	10,941
	101,102	95,361
Short - term		
GBP - denominated borrowings from other parties	192	121
GBP - denominated borrowings from related parties	338	282
	530	403

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27. Loans and borrowings (continued)

In March 2013, the Club and Vnesheconombank entered into agreement on opening a credit line with a drawdown limit of \$280,000,000 bearing an interest rate of 6.5% and maturing in 2023 for financing costs related to stadium construction. The Club pledged property and equipment (Note 6), Bluecastle and OJSC AVO-Capital pledged 100% shares of PFC CSCA as collateral under the agreement. According to the terms of addendum № 8 of 15.05.2019 to credit agreement № 110100/1324 of 22.03.2013 with Vnesheconombank, the Club has the liability to pay interest in the amount of USD 562,353 as of 01.08.2019.

28. Events after the reporting date

There were no significant events after the reporting date.