

**BLUECASTLE ENTERPRISES LIMITED**

**Consolidated Financial Statements and  
Independent Auditors' Report**

**For the year ended 31 December 2011**

**Company registration number: 04128720**

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## **BLUECASTLE ENTERPRISES LIMITED**

### **REPORT OF THE DIRECTOR**

The director presents their report with the audited financial statements of the Group for the year ended 31 December 2011

#### **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.

#### **DIRECTORS**

The director has held office during the whole of the period from 1 January 2011 to the date of this report.

J Westmoreland

#### **REGISTERED OFFICE**

4<sup>th</sup> Floor, Lawford House, Albert Place, London, N3 1RL

#### **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 director.

Turnover for the Group's main trading subsidiary, CJSC Professional Football Club CSCA increased on a year on year basis by 20.56% to \$58,168,000.

The Group made substantial gain on disposal of players' registrations totalling to \$3,411,000.

The Group acquired various new players during the year and the value of the players' registration rights is \$30,027,000 at the year end.

#### **PRINCIPLE 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 30 to the financial statements. The key financial risks affecting the Group are described in note 29 to the financial statements.

#### **KEY PERFORMANCE INDICATORS**

The following is a summary of key performance indicators:

	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	58,168	48,250
Operating loss	(31,938)	(21,703)
Gain on disposal of players' registrations	3,411	21,000
Players' registration rights	30,027	43,216
Equity	(51,395)	(18,883)

#### **RESULTS AND DIVIDENDS**

The consolidated statement of comprehensive income for the period is set out on page 7.

No dividends will be distributed for the year ended 31 December 2011.

**BLUECASTLE ENTERPRISES LIMITED**  
**REPORT OF THE DIRECTOR**

**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 for use in 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**

  
Corporate Secretaries Limited - Secretary

Date 30/10/12

## **INDEPENDENT AUDITORS' REPORT** **TO THE SHAREHOLDERS OF BLUECASTLE ENTERPRISES LIMITED**

We have audited the financial statements of Bluecastle Enterprises Limited for the year ended 31 December 2011 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in a Report of the Auditor 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Qualified opinion on financial statements arising from limitation in audit scope**

The matter explained in note 2 to the financial statements indicates the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. We were unable to obtain information needed for the assessment of the appropriateness of the going concern basis of preparation of the Group and Company financial statements for a period of twelve months from the date of approval of these financial statements. We consider that the director has not been able to take adequate steps to satisfy herself that it is appropriate to adopt the going concern basis because the circumstances of the Group and the Company and the nature of the business require that such information be prepared and reviewed by the director and ourselves, for a period of at least twelve months from the date of approval of the financial statements. Had this information been available to us we might have formed a different opinion.

Except for any adjustments that might have been found necessary had we been able to obtain sufficient information concerning the appropriateness of the going concern basis of preparation of the Group and Company financial statements, in our opinion:

- the financial statements give a true and fair view of the state of the group and company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union, and
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT**  
**TO THE SHAREHOLDERS OF BLUECASTLE ENTERPRISES LIMITED**

**Matters on which we are required to report by exception**

In respect solely of the limitation on our work relating to the assessment of the appropriateness of the going concern basis of preparation of the Group and the Company financial statements we have not obtained all the information and explanations that we considered necessary for the purposes of our audit

- we have not obtained all of the information and explanations that we considered necessary for the purpose of our audit,
- we were unable to determine whether adequate accounting records had been kept by the Group and the Company

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

- returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns,
- 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

Steven Landes (Senior Statutory Auditor)  
for and on behalf of S H Landes LLP  
3<sup>rd</sup> Floor Fairgate House  
78 New Oxford Street  
London  
WC1A 1HB

Date 31/12/12

**BLUECASTLE ENTERPRISES LIMITED**  
**CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION**

	Note					
		Group 31 December 2011	Group 31 December 2010 As Restated	Group January 1 2010 As Restated	Company 31 December 2011	Company 31 December 2010 As Restated
<i>In thousands of US dollars</i>						
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property and equipment	8	78,829	106,794	68,422	-	-
Investment Property	9	43,169	-	-	-	-
Players registration rights	10	30,027	43,216	28,063	-	-
Land rights	11	15,485	16,750	17,272	-	-
Other non-current assets	12	5,665	11,618	11,845	-	-
Long term receivables	13	-	-	111	105,974	78,376
Investments	14	-	-	5	145	52,193
<b>Total non-current assets</b>		<b>173,175</b>	<b>178,378</b>	<b>125,718</b>	<b>106,119</b>	<b>130,569</b>
<b>Current assets</b>						
Accounts receivable	15	16,241	23,832	26,574	8,323	-
Taxes receivable		117	190	176	-	-
Prepayment and other current assets	16	802	605	6,140	-	-
Cash and cash equivalents	17	904	1,247	4,703	37	34
<b>Total current assets</b>		<b>18,064</b>	<b>25,874</b>	<b>37,593</b>	<b>8,360</b>	<b>34</b>
<b>TOTAL ASSETS</b>		<b>191,239</b>	<b>204,252</b>	<b>163,311</b>	<b>114,479</b>	<b>130,603</b>
<b>EQUITY</b>						
Ordinary shares	26	15	15	15	15	15
Additional capital		6,544	6,544	899	-	-
Retained earnings		(69,981)	(30,975)	(13,438)	(104,086)	(62,634)
Foreign exchange translation reserve		6,117	(1,381)	(1,298)	-	-
		(57,305)	(25,797)	(13,822)	(104,071)	(62,619)
			(3,296)			
<b>Non-controlling interests</b>		<b>5,910</b>	<b>6,914</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>(51,395)</b>	<b>(18,883)</b>	<b>(17,118)</b>	<b>(104,071)</b>	<b>(62,619)</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Deferred income tax liability	21	4,539	3,408	2,033	-	-
Loans from related parties	28	215,353	145,355	166,150	203,192	135,007
<b>Total non-current liabilities</b>		<b>219,892</b>	<b>148,763</b>	<b>168,183</b>	<b>203,192</b>	<b>135,007</b>
<b>Current liabilities</b>						
Loans from related parties	28	7,633	58,091	-	15,237	58,091
Accounts payable and accruals	18	5,170	10,325	7,959	121	124
Payroll and related obligations	19	7,732	4,641	3,003	-	-
Taxes payable	20	1,808	1,302	1,106	-	-
Deferred revenue		399	-	-	-	-
Other current liabilities		-	13	178	-	-
<b>Total current liabilities</b>		<b>22,742</b>	<b>74,372</b>	<b>12,246</b>	<b>15,358</b>	<b>58,215</b>
<b>TOTAL LIABILITIES</b>		<b>242,634</b>	<b>223,135</b>	<b>180,429</b>	<b>218,550</b>	<b>193,222</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>191,239</b>	<b>204,252</b>	<b>163,311</b>	<b>114,479</b>	<b>130,603</b>

The financial statements on pages 6 to 33 were authorised for issue by the director on 30/10/12 and were signed on behalf of the board

J. Westmoreland  
Company registration number 04128720

**BLUECASTLE ENTERPRISES LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of US dollars</i>	<b>Note</b>	<b>2011</b>	<b>2010 Restated</b>
Revenue	22	58,168	48,250
Operating expenses	23	(90,106)	(69,953)
<b>Operating loss</b>		<b>(31,938)</b>	<b>(21,703)</b>
Net foreign exchange loss		(7,643)	(646)
Finance income	24	11,035	12,705
Finance costs	24	(12,782)	(17,181)
Gain on disposal of player registrations	25	3,411	21,000
(Loss)/gain on disposal of property and equipment		(574)	136
<b>Loss before income tax</b>		<b>(38,491)</b>	<b>(5,689)</b>
Income tax expense	21	(1,367)	(1,259)
<b>Loss for the year</b>		<b>(39,858)</b>	<b>(6,948)</b>
<b>Other comprehensive income</b>			
Foreign exchange translation		7,498	(109)
<b>Other comprehensive income/(loss) for the year</b>		<b>7,498</b>	<b>(109)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(32,360)</b>	<b>(7,057)</b>
<b>Loss for the year</b>			
Attributable to			
Equity holders of the parent		(39,766)	(5,389)
Non-controlling interest		(92)	(1,559)
<b>Total</b>		<b>(39,858)</b>	<b>(6,948)</b>
<b>Total comprehensive loss for the year</b>			
Attributable to			
Equity holders of the parent		(32,258)	(5,420)
Non-controlling interest		(102)	(1,637)
<b>Total</b>		<b>(32,360)</b>	<b>(7,057)</b>



**BLUECASTLE ENTERPRISES LIMITED**  
**CONSOLIDATED AND COMPANY STATEMENTS 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
Restated balance 1 January 2010	15	899	(1,298)	13,438	(13,822)	(3,296)	(17,118)
Additional capital	-	5,645	-	-	5,645	-	5,645
Loss for the year	-	-	-	(5,389)	(5,389)	(1,559)	(6,948)
Other comprehensive loss	-	-	(83)	-	(83)	(26)	(109)
Acquisition of non controlling interest	-	-	-	12,148	(12,148)	11,795	(353)
Restated balance 1 January 2011	15	6,544	(1,381)	30,975	(25,797)	6,914	(18,883)
Additional capital	-	-	-	-	-	-	-
Loss for the year	-	-	-	39,766	(39,766)	(92)	(39,858)
Other comprehensive income	-	-	7,498	-	7,498	-	7,498
Acquisition of non controlling interest	-	-	-	760	760	(912)	(152)
Balance as at 31 December 2011	15	6,544	6,117	69,981	(57,305)	5,910	(51,395)

*In thousands of US Dollars*

COMPANY	Share capital	Retained earnings	Total equity
Balance at 1 January 2010	15	(92,634)	(92,619)
Total comprehensive income	-	30,000	30,000
Restated balance as at 1 January 2011	15	(62,634)	(62,619)
Total comprehensive loss	-	(41,452)	(41,452)
Balance as at 31 December 2011	15	(104,086)	(104,071)

**BLUECASTLE ENTERPRISES LIMITED**  
**CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS**

<i>In thousands of US Dollars</i>	<b>Group 2011</b>	<b>Group 2010 Restated</b>	<b>Company 2011</b>	<b>Company 2010 Restated</b>
<b>Cash flows from operating activities</b>				
Operating (loss)/profit	(31,938)	(21,703)	(43,486)	37,779
Adjustments for				
Amortisation of players' registrations	13,001	11,743	-	-
Impairment loss on players' registrations	783	-	-	-
Depreciation of property and equipment	644	613	-	-
Amortisation of land rights	404	391	-	-
Impairment of receivables	1,452	59	-	-
Impairment of investments	-	-	40,654	(31,388)
Profit share from subsidiary	-	-	2,738	(6,489)
<b>(Loss)/profit before working capital changes</b>	<b>(15,654)</b>	<b>(8897)</b>	<b>(94)</b>	<b>(98)</b>
(Increase)/decrease in accounts receivable	(9,668)	(3,154)	-	-
Decrease/(increase) in taxes receivable	73	(14)	-	-
Decrease/(increase) in prepayments and other current assets	5,703	12,882	-	-
Increase/(decrease) in accounts payable and accruals	5,035	1,667	(1)	(28)
Increase/(decrease) in payroll related obligations	1,828	1,638	-	-
Increase/(decrease) in taxes payable	628	344	-	-
Increase/(decrease) in deferred revenue	438	-	-	-
(Decrease)/increase in other current liabilities	(13)	33	-	20
<b>Cash used in operations</b>	<b>(11,630)</b>	<b>4,499</b>	<b>(95)</b>	<b>(106)</b>
Foreign exchange loss	(2,207)	(1,471)	(7)	-
Finance expense	(302)	-	-	-
Interest received	26	9	22	-
Interest paid	(324)	(33)	(36)	-
Income tax paid	-	(1)	-	-
<b>Net cash received from/(used in) operating activities</b>	<b>(14,437)</b>	<b>3,003</b>	<b>(116)</b>	<b>(106)</b>
<b>Cash flow from investing activities</b>				
Purchases of property and equipment	(13,066)	(35,262)	-	-
Proceeds from disposal of property and equipment	-	194	-	-
Proceeds from transfer of players' registration rights	19,588	27,358	-	-
Investment in additional capital of subsidiary	-	-	-	-
Purchases of players' registration rights	(7,872)	(28,181)	-	-
<b>Net cash used in investing activities</b>	<b>(1,350)</b>	<b>(35,891)</b>	<b>-</b>	<b>-</b>
<b>Cash flow from financing activities</b>				
Proceeds from related party financing	23,971	36,815	18,013	30,917
Loans advanced during the year	(18)	-	(11,299)	(21,103)
Repayment of loans advanced	-	-	4,884	-
Repayment of related party borrowings	(8,526)	(7,225)	(8,526)	(7,225)
Repayment of short term borrowings	(22,448)	(1,031)	-	-
Proceeds from short term borrowings	22,646	851	-	-
Acquisition of non controlling interests	(145)	-	-	-
Shareholder contributions	-	-	(2,953)	(2,488)
<b>Net cash used in financing activities</b>	<b>15,480</b>	<b>29,410</b>	<b>119</b>	<b>101</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(307)</b>	<b>(3,478)</b>	<b>3</b>	<b>(5)</b>
Cash and cash equivalents at the beginning of the year	1,247	4,703	34	35
Exchange gains on cash and cash equivalents	(36)	22	-	4
<b>Cash and cash equivalents at the end of the year</b>	<b>904</b>	<b>1,247</b>	<b>37</b>	<b>34</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**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 4th Floor, Lawford House, Albert Place, London, N3 1RL. The consolidated financial statements of the Company as at 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The Group primarily is involved in operation of a 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.

In May 2011, the Club won the Russian Cup of 2010/2011.

In 2011, the Club participated in the 2011/2012 UEFA Championship League up to 1/8 rounds.

In 2011, the Club entered into a sponsorship agreement with OJSC Bashneft for the amount of \$8,000,000 (inclusive of Russian Value Added Tax ("VAT") of \$1,220,000).

At 31 December 2011, the club had 335 employees, including 83 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 statement of financial position date the group had net liabilities amounting to \$51,395,000 (2010: \$18,883,000).

The director considers the going concern basis to be appropriate due to the fact that the controlling parties have expressed their willingness to provide financial support for the next 12 months as from the date of approval of the financial statements in order for the company and the group to meet its current liabilities. Therefore the director continues to adopt the going concern basis of accounting which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The major factors affecting the financial performance is the successful performance of the football club in the Russian Football Premier League and Championship, and European Leagues. The Club's business continues to be significantly dependent on the shareholders' commitment to acquire new players' registration rights and provide financial support to the club.

In 2012, the group anticipates funding from cash generated from operations, financing from the controlling shareholders and corporate sponsors, and long and short-term borrowings.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**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 then 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 shareholders' portion of the identifiable asset and liabilities of the subsidiary at the acquisition date, and the non- controlling interest shareholders' portion of movements in equity since the date of the combination. Non-controlling interest is presented within the shareholders' 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 2011, 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 freely convertible in most countries outside the Russian Federation. Exchange restrictions and currency controls exist in relation to the conversion of the Russian Rouble into other currencies. The exchange rate used for the translation of transactions and balances denominated in Russian roubles as of 31 December 2011 and 2010, was equal to the official Central Bank of Russia exchange rate of 32.20 Russian Roubles and 30.48 Russian Roubles per one US Dollar, respectively. Average exchange rates in 2011 and 2010 were 29.39 Russian Roubles and 30.37 Russian Roubles per one US dollar, 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 2011**

**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.

**Cash and cash equivalents**

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

**Value added tax**

The 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:

Buildings	25-40 years
Football fields and other sports facilities	10 years
Vehicles and equipment	4 years
Furniture and office equipment	3 years
Other	5-7 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 recognised 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 2011**

**3. Significant accounting policies (continued)**

**Investment property**

Investment property is recognised at cost including transaction costs net of accumulated depreciation and impairment. The Club 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.

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.

**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.

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 Preliminary 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.

**Borrowing Costs**

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction, or production of qualifying assets. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Borrowing costs were capitalised in the amount \$6,027,000 and \$7,395,000 in 2011 and 2010, respectively. The weighted average rates used to determine the amounts of borrowing costs eligible for capitalisation were 7% and 9% in 2011 and 2010, respectively.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**3. Significant accounting policies (continued)**

**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 of 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.

Revenue for the Company comprises the Company's share of profits or losses in the 'Simple Partnership' each year. The company was a partner in the 'Simple Partnership' which was a result of the Joint activity agreement with CJSC Professional Football Club CSCA, a subsidiary of the company. The principal activity of the 'Simple Partnership' was same as that of the Company which is investment in sporting entities i.e. investment in CJSC Professional Football Club CSCA and promoting this entity's activities. The Simple Partnership was terminated on 30 June 2011.

**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.

**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.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**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 Club bases its impairment calculation on detailed budgets and forecast calculations which are prepared for Club'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.

***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.



**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**5. Changes in accounting policy and disclosure**

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new or revised standards and interpretations mandatory for financial years beginning on or after January 1, 2011

The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year

- IAS 24 Related Party Disclosures (Amended), effective January 1, 2011
- IAS 32 Financial Instruments Presentation (Amended), effective February 1, 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement, effective January 1, 2011
- Improvements to IFRSs (May 2010)

The adoption of aforementioned amended IFRS and IFRIC interpretations did not have any impact on, financial position or performance of the Group

**6. Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (Amendment)
- IAS 12 Income Taxes – Deferred Taxes Recovery of Underlying Assets (Amendment)
- IAS 19 Employee Benefits (Amendments)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 7 Financial Instruments Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)
- IFRS 9 Financial Instruments Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement

The Group, however, expects no impact from the adoption of the amendments to its accounting policy, financial position or performance.

**7 Retrospective restatement of errors**

During 2011 the Group discovered several prior period errors and corrected such errors by retrospective restatement in accordance with requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The nature of the prior period errors and the effect of the restatement on these financial statements is summarized below.

- 1) The Group discovered that no unused vacation liabilities were accrued. As a result, payroll and related obligations as well as players', coaches' and administrative staff remunerations and related social charges as previously reported, were understated. The following adjustments were made to correct for the above mentioned errors:

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**7. Retrospective restatement of errors (continued)**

As of January 1, 2010	<i>In thousands of US dollars</i>
• Increase of payroll and related obligations	730
• Decrease of deferred tax liabilities	146
• Net increase in accumulated deficit	550
• Decrease in foreign currency translation reserve	34

As of and for the year ended December 31, 2010	
• Increase of payroll and related obligations	2,499
• Decrease of deferred tax liabilities	500
• Increase of payers' remuneration	316
• Increase of coaches' remuneration	28
• Increase of administrative staff remuneration	1,437
• Decrease of foreign exchange loss	12
• Increase of income tax benefit	354
• Net increase in accumulated deficit	550
• Decrease in foreign currency translation reserve	34

2)The Group discovered accounting errors as detailed below

As of January 1, 2010	<i>In thousands of US dollars</i>
• Decrease in non controlling interests	3,622
• Increase in payroll and related obligations	730
• Decrease in deferred tax liabilities	146
• Decrease in foreign currency translation reserve	26
• Net decrease in accumulated deficit	3,064

As of and for the year ended December 31, 2010	
• Decrease in goodwill	6,499
• Increase of foreign currency translation reserve	21
• Net increase in accumulated deficit	6,520
• Increase in finance costs	424
• Decrease in finance income	477
• Decrease of foreign exchange loss	415
• Increase in loans payable to related parties	486

Included in the above adjustments is a prior year adjustment for the Company as detailed below

As of and for the year ended December 31, 2010	
• Increase in finance costs	424
• Decrease in finance income	477
• Decrease of foreign exchange loss	415
• Increase in loans payable to related parties	486

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**8. Property and equipment**

**GROUP**

The analysis of movements in property and equipment is as follows

<i>In thousands of US dollars</i>			Football fields and other sports facilities	Vehicles and equipment	Furniture and office equipment	Other	Construction in progress	Total
<b>Cost</b>	<b>Land</b>	<b>Buildings</b>						
At December 31, 2010 (Restated)	33,727	2,229	3,495	1,301	844	133	70,903	112,632
Additions	-	-	-	10	-	-	16,458	16,468
Transfers	-	39	484	362	62	166	(44,282)	(43,169)
Disposals	-	(687)	(179)	(104)	(56)	-	(18)	(1,044)
Foreign currency translation	(1)	(86)	(94)	(40)	4	(22)	108	(131)
At December 31, 2011	<b>33,726</b>	<b>1,495</b>	<b>3,706</b>	<b>1,529</b>	<b>854</b>	<b>277</b>	<b>43,169</b>	<b>84,756</b>
<b>Accumulated depreciation</b>								
At December 31, 2010 (Restated)	-	(1 613)	(2,552)	(787)	(753)	(133)	-	(5 838)
Depreciation charge for the year	-	(72)	(220)	(266)	(82)	(4)	-	(644)
Depreciation on disposals	-	123	92	102	54	-	-	371
Foreign currency translation	-	101	58	10	7	8	-	184
At December 31, 2011	-	<b>(1,461)</b>	<b>(2,622)</b>	<b>(941)</b>	<b>(774)</b>	<b>(129)</b>	-	<b>(5,927)</b>
<b>Carrying amount</b>								
At December 31, 2010 (Restated)	33,727	616	943	514	91	-	70 903	106,794
At December 31, 2011	<b>33,726</b>	<b>34</b>	<b>1084</b>	<b>588</b>	<b>80</b>	<b>148</b>	<b>43,169</b>	<b>78,829</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**8 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	Construction in progress	Total
<b>Cost</b>								
At December 31, 2009 (Restated)	-	2,241	3,503	1,330	808	134	65,869	73,885
Additions	33,767	-	1	24	10	-	9,420	43,222
Transfers	-	-	-	233	49	-	(285)	(3)
Disposals	-	-	-	(284)	(22)	-	(4,140)	(4,446)
Foreign currency translation	(40)	(12)	(9)	(2)	(1)	(1)	39	(26)
At December 31, 2010 (Restated)	<b>33,727</b>	<b>2,229</b>	<b>3,495</b>	<b>1,301</b>	<b>844</b>	<b>133</b>	<b>70,903</b>	<b>112,632</b>
<b>Accumulated depreciation</b>								
At December 31, 2009 (Restated)	-	(1,524)	(2,324)	(786)	(695)	(134)	-	(5,463)
Depreciation charge for the year	-	(100)	(236)	(206)	(71)	-	-	(613)
Depreciation on disposals	-	-	-	204	13	-	-	217
Foreign currency translation	-	11	8	1	-	1	-	21
At December 31, 2010 (Restated)	-	<b>(1,613)</b>	<b>(2,552)</b>	<b>(787)</b>	<b>(753)</b>	<b>(133)</b>	-	<b>(5,838)</b>
<b>Carrying amount</b>								
At December 31, 2009	-	717	1,179	544	113	-	65,869	68,422
At December 31, 2010	<b>33,727</b>	<b>616</b>	<b>943</b>	<b>514</b>	<b>91</b>	-	<b>70,903</b>	<b>106,794</b>

The amounts of construction in progress include advances for capital constructions of the new stadium in the amount \$459,000 and \$542,000 as at December 31, 2011 and 2010, respectively

As at December 31, 2011 and 2010 fully depreciated property and equipment amounted to \$3,698,000 and \$3,660,000 respectively

As at 31 December 31, 2011 and 2010, the group had no property or equipment with limited ownership rights or pledged as collateral

**9. Investment property**

Investment property is recognised at cost and is represented by construction in progress as at December 31, 2011. In 2011, investment property was not depreciated. Investment property represents the commercial real estate element of the Club's new football stadium.

As at December 31, 2011 the fair value of investment property determined by an independent appraiser amounted to \$107,396,000. The fair value of construction in progress was not determined based on transactions observable on the market due to the nature of construction and absence of comparative data. The valuation model was used instead based on the recommendations of the International Valuation Standards Committee. As at December 31, 2011 major inputs included:

Discount rate	20.9% for the period of investing activities
Capitalisation rate	12%
Lease rates (net of VAT)	\$612 - \$735 per sq. m per year
Hotel occupancy	60 - 70%
Price per hotel room (incl. VAT)	\$153 per night
Investment costs (incl. VAT)	\$2,052 - \$2,358 per sq. m

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**10. Players' registration rights**

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

<i>In thousands of US dollars</i>	<b>Group</b>	
<b>Cost</b>	<b>2011</b>	<b>2010 (Restated)</b>
At beginning of year	82,998	66,781
Additions	683	28,226
Disposals	(418)	(12,009)
Foreign currency translation	(106)	-
At end of year	<b>83,157</b>	<b>82,998</b>
<b>Accumulated amortization</b>		
At beginning of year	(35,430)	(34,366)
Amortization charge for the year	(13,001)	(11,788)
Accumulated amortization on disposed assets	293	10,724
Foreign currency translation	75	-
At end of year	<b>(48,063)</b>	<b>(35,430)</b>
<b>Accumulated impairment loss</b>		
At beginning of year	(4,352)	(4,352)
Impairment loss recognized during the year	(783)	-
Foreign currency translation	68	-
At end of year	<b>(5,067)</b>	<b>(4,352)</b>
<b>Carrying amount</b>		
At beginning of year	43,216	28,063
At end of year	<b>30,027</b>	<b>43,216</b>

In 2010, the group acquired several players' registrations, including that for Keisuke Honda for \$9,001,000 (€6,250,000), Seidu Dumbia for \$11,782,000 (€8,000,000) and Zoran Tosic for \$7,357,000 (€6,073,000)

In 2011, the group acquired a number of players' registrations, including that for Viktor Vasin for \$500,000

The impairment of intangible assets recognized in 2011 represents the excess of the book value of players' registrations rights over their estimated net realisable value. In 2010, the Club assessed that there is no indication of players' registration rights impairment.

At December 31, 2011 and 2010 intangible assets included fully amortized players' registrations of \$19,265,000 and \$19,274,000 respectively.

At December 31, 2011 and 2010, the group had no players' registrations with limited ownership rights or pledged as collateral.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**11. Land lease rights**

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

<i>In thousands of US dollars</i>	2011	Group 2010 (Restated)
<b>Cost</b>		
At beginning of year	19,089	19,236
Additions	-	-
Foreign currency translation	(1,021)	(147)
<b>At year end</b>	<b>18,068</b>	<b>19,089</b>
<b>Accumulated amortisation</b>		
At beginning of year	(2,339)	(1,964)
Amortization charge for the year	(403)	(391)
Foreign currency translation	159	16
<b>At end of year</b>	<b>(2,583)</b>	<b>(2,339)</b>
<b>Carrying amount</b>		
At beginning of year	16,750	17,272
<b>At end of year</b>	<b>15,485</b>	<b>16,750</b>

**12. Other non-current assets**

Other non-current assets comprise of

<i>In thousands of US dollars</i>	2011	Group 2010 Restated
Long term VAT receivables	5,251	4,242
Receivables in respect of sale of players' registrations	-	7,376
Other non-current assets	414	-
	<b>5,665</b>	<b>11,618</b>

**13. Company long term receivables**

Long term receivables comprises of loans advanced to related parties of \$105,974,000 (2010 - \$78,376,000)

**14. Company Investments**

<i>In thousands of US dollars</i>	Shares in group undertakings	Loans to group undertakings	Capital contribution in Simple Partnership	Profit/ (loss) share from Simple Partnership	Total
<b>Cost</b>					
<b>Balance at 1 January 2010</b>	<b>128</b>	-	<b>8,000</b>	-	<b>8,128</b>
Additions	2,488	-	-	6,489	8,977
Loss on initial loan recognition	-	4,274	-	-	4,274
Foreign exchange effects	-	-	-	(574)	(574)
(Provision for impairment)/reversal of provision	(2,488)	(4,274)	-	38,150	31,388
<b>Balance at 31 December 2010</b>	<b>128</b>	-	<b>8,000</b>	<b>44,065</b>	<b>52,193</b>
Additions	-	7,753	-	4,866	12,619
Repayment of loans	-	-	(8,000)	(51,690)	(59,690)
Loss on initial loan recognition	-	32,918	-	-	32,918
Foreign exchange effects	-	-	-	2,759	2,759
(Provision for impairment)/reversal of provision	-	(40,654)	-	-	(40,654)
<b>Balance at 31 December 2011</b>	<b>128</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>145</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**14. Company investments (continued)**

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%

In February 2001, Bluecastle Enterprises Limited ('Bluecastle') entered into The Simple Partnership, an open-end contractual arrangement (in the form of a Joint Activity Agreement) with CJSC Professional Football Club CSCA ('the Club'), its subsidiary company, whereby Bluecastle initially undertook to contribute up to \$8,000,000 towards the acquisition of players' registrations and improvement of training facilities. In return, Bluecastle is entitled to (i) the amount equalling 80% of the net financial result of operations within the framework of the contractual arrangement and (ii) 100% reimbursement of certain costs incurred by Bluecastle before such financial result is determined. All entitlements are determined by the parties on an annual basis in accordance with the provisions of the contractual arrangement. Depending on the cash flows generated by the Club from operations, the parties to the contractual arrangement may agree that Bluecastle absorbs certain agreed-upon portion of the incurred expenditure.

Starting from 2006 Bluecastle and the Club were entitled to 96% and 4% of the Joint activity net financial result of operations within the framework of the contractual arrangement, respectively.

Starting from 2009 Bluecastle and the Club are entitled to 60% and 40% of the Joint activity net financial result of operations within the framework of the contractual arrangement, respectively.

The Simple Partnership was terminated on 30 June 2011.

**15. Accounts Receivable**

Accounts receivable consisted of the following

<i>In thousands of US dollars</i>	Group		Company	
	2011	2010 Restated	2011	2010 Restated
Accounts receivable from transfer of players' registrations	8,305	15,662	-	-
Broadcasting proceeds receivables	3,129	3,523	-	-
Accounts receivable for advertising and sponsorship	2,256	734	-	-
Accounts receivable from related parties	-	-	8,323	-
Other	4,207	3,982	-	-
	<b>17,897</b>	<b>23,901</b>	<b>8,323</b>	-
Allowance for impairment of receivables	(1,656)	(69)	-	-
	<b>16,241</b>	<b>23,832</b>	<b>8,323</b>	-

Broadcasting proceeds mostly represent amounts due from RFPL and UEFA.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**16. Prepayment and other current assets**

Accounts receivable consisted of the following

<i>In thousands of US dollars</i>	Group	
	2011	2010 Restated
Inventories	312	229
Prepayments	401	266
Other current assets	89	110
	<b>802</b>	<b>605</b>

**17. Cash and Cash Equivalents**

Cash consisted of the following

<i>In thousands of US dollars</i>	Group		Company	
	2011	2010 Restated	2011	2010 Restated
Cash held in Russian Roubles	825	1,201	-	-
Cash held in Euros	10	4	-	-
Cash held in British Pound	16	16	16	16
Cash held in US Dollars	53	26	21	18
	<b>904</b>	<b>1,247</b>	<b>37</b>	<b>34</b>

The Group holds majority the of its cash in OJSC Moscow Joint- stock bank Tempbank, a company under common control which provides most of the banking services to the Group

**18. Accounts Payable and Accruals**

Accounts payable and accruals consisted of the following

<i>In thousands of US dollars</i>	Group		Company	
	2011	2010 Restated	2011	2010 Restated
Players' registrations payable	306	7,513	-	-
Amounts payable for property and equipment	2,946	837	-	-
Rentals payable	152	185	-	-
Other payables and accruals	1,766	1,790	121	124
	<b>5,170</b>	<b>10,325</b>	<b>121</b>	<b>124</b>

**19. Payroll and Related Obligations**

Payroll and related obligations consisted of the following

<i>In thousands of US dollars</i>	Group	
	2011	2010 Restated
Players' remuneration	2,817	1,540
Coaches staff remuneration	289	257
Administrative staff remuneration	511	346
Unused vacation liabilities accrued	4,115	2,498
	<b>7,732</b>	<b>4,641</b>



**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**20. Taxes Payable**

Taxes payable consisted of the following

*In thousands of US dollars*

	<b>Group</b>	
	<b>2011</b>	<b>2010 Restated</b>
VAT	1,209	732
Personal income tax	548	493
Unified social tax	28	19
Other	23	58
	<b>1,808</b>	<b>1,302</b>

**21. Income Tax**

The income tax expense consisted of the following

*In thousands of US dollars*

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010 Restated</b>	<b>2011</b>	<b>2010 Restated</b>
Current tax expense/(benefit)	17	(148)	-	-
Deferred tax expense/(benefit)	1,350	1,407	-	1,546
	<b>1,367</b>	<b>1,259</b>	<b>-</b>	<b>1,546</b>

The current tax expense is computed by applying the statutory tax rate to the Russian taxable income

Reconciliation between the income tax expense computed by applying the statutory tax rates 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

*In thousands of US dollars*

	<b>2011</b>	<b>2010 Restated</b>
(Loss)/profit before income taxes	(38,491)	(5,689)
Statutory income tax rate	26.50%	28%
Income tax (benefit)/expense at statutory rate	(10,200)	(1,593)
Non-recognized deferred tax asset movement	-	25
Net effect of foreign exchange	(1,614)	(92)
Net effect of joint activity operating results	1,477	(1,810)
Non deductible items	1,772	11,831
Provision against investments	10,773	(8,789)
Fair value & amortisation adjustment under IAS 39	(348)	1,637
Effect from the change of income tax rate	(446)	116
Utilisation of brought forward losses	(47)	(66)
<b>Income tax benefit reported in the consolidated financial statements</b>	<b>1,367</b>	<b>1,259</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**21. Income Tax (continued)**

Movements in deferred tax balances were as follows

	Recognized in statement of financial position		Recognised in statement of comprehensive income	
	31 December			
	31 December 2011	2010 Restated	2011	2010 Restated
<i>In thousands of US dollars</i>				
<b>Tax effects of deductible temporary differences</b>				
Accounts receivable	688	466	(222)	83
Property and equipment	738	728	(10)	19
Accounts payable & accruals	856	543	(313)	(387)
<b>Tax effects of taxable temporary differences</b>				
Property and Equipment	(2,402)	(1,252)	1,150	86
Accounts payable	(1,298)	(542)	756	135
Land lease rights	(3,097)	(3,351)	(254)	(78)
Loans from related parties	(24)	-	24	-
<b>Net tax effect of temporary differences</b>	<b>(4,539)</b>	<b>(3,408)</b>	<b>1,131</b>	<b>(142)</b>
Less recognised deferred tax asset on tax losses	-	-	-	1,546
<b>Total change in net deferred tax liability</b>			<b>1,131</b>	<b>1,404</b>
<b>Total net deferred tax liability</b>	<b>(4,539)</b>	<b>(3,408)</b>		

Change in net deferred tax liability recognized in

	Group	
	2011	2010 Restated
Income		
Deferred tax (expense)/ benefit	1,350	1,407
Foreign exchange loss	(219)	(3)
<b>Total change in net deferred tax liability</b>	<b>1,131</b>	<b>1,404</b>

Change in net deferred tax assets recognized in

	Company	
	2011	2010 Restated
Income		
Tax losses	-	(1,546)
<b>Total change in net deferred tax assets</b>	<b>-</b>	<b>(1,546)</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**22. Revenue**

Revenue consisted of the following

**Group**

*In thousands of US dollars*

Broadcasting proceeds  
Advertising and sponsorship  
Gate receipts and programme sales  
Other income

<b>2011</b>	<b>2010 Restated</b>
23,278	19,415
25,142	19,880
5,035	4,717
4,739	4,247
<b>58,194</b>	<b>48,259</b>

All revenue arises in the Russian Federation

**23. Operating Expenses**

Operating expenses consisted of the following

**Group**

*In thousands of US dollars*

Travel expenses  
Rent of sport facilities  
Cost of materials (including cost of uniforms)  
Insurance, food and laundry  
Training fees  
Expenses from sport activities not related to football  
Solidarity payments and other expenses of players' registrations  
Advertising  
Training and development of young players  
Security  
Registration and membership fees  
Professional services  
Rent of property for administrative purposes  
Taxes (other than income tax)  
Rent of players  
Repair and maintenance  
Training and sport equipment costs  
Communication  
Players' remuneration and related social charges  
Coaches and administrative staff costs and remuneration and related social charges  
Amortisation of players' registrations  
Impairment loss on players' registrations  
Depreciation on property and equipment  
Land rights amortisation  
Allowance for impairment of receivables  
Auditor's remuneration for audit work  
Auditor's remuneration for non audit work  
Other general and administrative expenses

<b>2011</b>	<b>2010</b>
3,249	3,270
1,900	2,556
1,693	-
1,449	1,456
1,230	1,116
1,186	-
1,174	-
421	439
754	685
474	455
227	330
194	797
105	-
608	488
569	-
73	207
63	-
55	66
41,701	29,274
15,100	13,661
13,001	11,743
783	-
644	613
404	391
1,452	59
10	10
53	50
1,534	2,287
<b>90,106</b>	<b>69,953</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**24. Finance Income/expense**

<i>In thousands of US dollars</i>	Group		Company	
	2011	2010 Restated	2011	2010 Restated
Interest accrued on long term receivables	7,385	9,097	9,826	7,439
Gain from initial loan recognition	3,650	3,608	3,500	3,608
Interests on borrowings from related parties	(12,680)	(17,181)	(12,013)	(16,895)
Interests on borrowings from other parties	(102)	-	-	-
	<b>(1,747)</b>	<b>(4,476)</b>	<b>1,313</b>	<b>(5,848)</b>

**25. Gain on Disposal of Players' Registrations**

In 2011, gain on disposal of players' registrations consisted of the following

<i>In thousands of US dollars</i>	Proceeds	NBV	Related fees	Discount	Gain
Pomazan Evgeny	1,847	119	-	-	1,728
Grigoryev Anton	1,024	-	-	72	952
Other players	41	6	-	-	35
Solidarity payments on disposal of prior periods	696	-	-	-	696
<b>Total for the year ended December 31, 2011</b>	<b>3,608</b>	<b>125</b>	<b>-</b>	<b>72</b>	<b>3,411</b>
	Proceeds	NBV	Related fees	Discount	Gain
Krsic Milos	19,289	-	-	1,359	17,930
Caner Erkin	3,865	1,285	-	330	2,250
Carvalho Daniel	506	-	125	-	381
Burmistrov Nikita	490	4	-	-	486
Other disposals of players' registrations	60	107	-	-	(47)
<b>Total for the year ended December 31, 2010</b>	<b>24,210</b>	<b>1,396</b>	<b>125</b>	<b>1,689</b>	<b>21,000</b>

**26. Share Capital**

**Company**

Allotted, issued and fully paid Number	Class	Nominal value	31.12.11	31.12.10
10,000	Ordinary Shares	£1	\$14,715	\$14,715

**27 Ultimate controlling party**

In September 2011 Macasyng Holding BV sold its 50% shareholding in Bluecastle Enterprises Limited to Financiere Quirinus SA a company registered in Luxembourg. As of 30 September 2011 Alidanos BV, a company incorporated in the Netherlands and Financiere Quirinus SA 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 there was no ultimate controlling party as both parent companies are owned by a consortium of individuals.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**28. 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 2011 and 31 December 2010 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	
		2011	2010 Restated	2011	2010 Restated
<i>In thousands of US dollars</i>					
<b>Related party loans</b>					
Nordnet Holdings Limited	Under common control	2,857	2,574	-	-
Sensei International S A	Under common control	148,870	128,135	148,870	128,135
Financiere Quirinus S A	Under common control	40,680	-	40,680	-
Carrere Co Limited	Under common control	7,864	6,872	7,864	6,872
Marlane Limited	Under common control	5,778	-	5,778	-
Dartford Services Limited	Under common control	595	-	-	-
Orgmarket Limited	Under common control	8,709	7,774	-	-
<b>Total related party loans</b>		<b>215,353</b>	<b>145,355</b>	<b>203,192</b>	<b>135,007</b>
<b>Other current liabilities</b>					
Financial Consultation Bureau Limited	Under common control	53	-	53	-
Spencerdale Limited	Under common control	20	20	20	20
Carrere Co Limited	Under common control	7,560	10,109	7,560	10,109
Macasyng B V	Under common control	-	44,051	-	44,051
Marlane Limited	Under common control	-	3,911	-	3,911
CJSC Professional Football Club CSCA	100% Subsidiary	-	-	7,604	-
<b>Total related party loans</b>		<b>7,633</b>	<b>58,091</b>	<b>15,237</b>	<b>58,091</b>
<b>Additional paid in capital</b>					
Nordnet Holdings Limited	Under common control	-	899	-	-
Orgmarket Limited	Under common control	-	5,645	-	-
<b>Total related party loans</b>		<b>-</b>	<b>6,544</b>	<b>-</b>	<b>-</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**28. Balances and transactions with related parties (continued)**

**Transactions with related parties**

		Group		Company	
Income statement	Relationship	2011	2010 Restated	2011	2010 Restated
<i>In thousands of US dollars</i>					
<b>Finance costs</b>					
Nordnet Holdings Limited	Under common control	-	17	-	-
Sensei International S A	Under common control	9,686	10,991	9,686	10,991
Macasyng B V	Under common control	440	4,005	440	4,005
Marlene Limited	Under common control	320	356	320	356
Carrere Co Limited	Under common control	1,554	1,544	1,554	1,554
Financiere Quirinus S A	Under common control	680	-	680	-
Orgmarket Limited	Under common control	-	21	-	-
		<b>12,680</b>	<b>16,934</b>	<b>12,680</b>	<b>16,906</b>
<b>Finance Income</b>					
Sensei International S A	Under common control	(5,508)	3,608	(5,508)	3,608
Marlene Limited	Under common control	2,052	-	2,052	-
Financiere Quirinu S A	Under common control	3,845	-	3,845	-
Dartford Services Limited	Under common control	150	-	-	-
Carrere Co Limited	Under common control	3,111	-	3,111	-
CJSC Professional					
Football Club CSCA	100% Subsidiary	5,877	6,907	9,826	7,439
		<b>9,527</b>	<b>10,515</b>	<b>13,326</b>	<b>11,047</b>

Loans granted to and borrowed from related parties are not on arms length basis. Most of the loans are interest free or at significantly low rate of interest. This interest free long term debt granted to and by the related parties is initially recognized in accordance with the recognition of financial instruments policy. The difference between the 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.

In 2011 and 2010, current compensation of key management personnel of the group amounted to \$3,225,000 and \$3,072,000, respectively. In 2011 and 2010, related social charges amounted to \$11,000 and \$9,000, respectively. Other compensation (non-current, post-retirement benefits) were not paid during the reporting period.

**Other related party transactions of the Company**

Some loans issued by the Company to CSCA in 2007 in the amount of \$8,323,000 mature in 2012 and were recognised as current liabilities in the Company statement of financial position.

In 2011, the Company issued short-term loans to the Club in the total amount of \$8,281,000, which were fully repaid at December 31, 2011.

In 2011, the Company additionally incurred \$2,953,290 of expenditures that are recorded as investments in CSCA as CSCA does not have any obligation to repay them to the Company.

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**29. 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.

**Foreign Currency Risk (continued)**

Effect of principal exchange rate fluctuations on the Group's consolidated statement of comprehensive income for the year ended 31 December 2011 is as follows:

<i>In thousands of US dollars</i>	<b>Exchange rate fluctuations %</b>	<b>Estimation of gain/(loss)</b>
	+13%	68,617
RUB/USD	-13%	(89,123)
	+13%	27,996
EUR/USD	-13%	(36,362)

**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>	<b>Including overdue</b>					<b>Total</b>
	<b>Total</b>	<b>Up to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 365 days</b>	<b>Over 365 days</b>	
<b>December 31, 2011</b>						
Current accounts receivable	16,197	619	619	206	1,557	3,001
Non-current receivables	414	-	-	-	-	-
Prepayments and other current assets	44	-	-	-	-	-
<b>Total</b>	<b>16,655</b>	<b>619</b>	<b>619</b>	<b>206</b>	<b>1,557</b>	<b>3,001</b>
	<b>Including overdue</b>					<b>Total</b>
	<b>Total</b>	<b>Up to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 365 days</b>	<b>Over 365 days</b>	
<b>December 31, 2010 (restated)</b>						
Current accounts receivable	23,793	-	-	-	-	-
Non-current receivables	7,375	-	-	-	-	-
Prepayments and other current assets	-	-	-	-	-	-
<b>Total</b>	<b>31,168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**29. 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
<b>December 31, 2011</b>						
Long-term loan payable to a related party	-	-	-	276,059	-	276,059
Players' registrations payable	64	167	-	-	-	231
Short term loans payable to related parties	-	3,580	4,200	-	-	7,780
Other payables and accruals	4,939	-	-	-	-	4,939
	<b>5,003</b>	<b>3,747</b>	<b>4,200</b>	<b>276,059</b>	<b>-</b>	<b>289,009</b>
<b>December 31, 2010 (restated)</b>						
Long-term loan payable to a related party	-	-	-	202,936	-	202,936
Players' registrations payable	125	5,433	2,106	-	-	7,664
Short term loans payable to related parties	33	-	-	-	-	33
Other payables and accruals	2,187	-	-	-	-	2,187
	<b>2,345</b>	<b>5,433</b>	<b>2,106</b>	<b>202,936</b>	<b>-</b>	<b>212,820</b>

**Fair Values**

Fair values of Group's financial instruments at 31 December 2011 and 2010 approximate their carrying values due to their short maturities.

**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 shareholders.

**30. Commitments and contingencies and operating risks**

**Players' Insurance Coverage**

At 31 December 2011 and 2010, the Group maintained medical insurance coverage for its players, which covers any direct medical costs. Other than that, the Group does not have any professional insurance coverage for its players, since this was not considered economically expedient and no direct requirements are present in the Russian legislation.

**Financial guarantee contracts**

The Group issued several financial guarantees in connection with the mortgages received by the Club's players, coaches and administrative personnel totaling \$2,381,000, \$1,813,000, and \$1,330,000 respectively. The Group does not expect to incur any losses in connection with these guarantees.



**BLUECASTLE ENTERPRISES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011**

**30. Commitments and contingencies and operating risks (continued)**

**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 Club 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 2011 and 2010, the Club's contributions to state pension, social insurance and medical insurance funds approximated 2.53% and 1.42% of payroll and were expensed as incurred. The Club incurred \$1,355,000 and \$545,000 of pension, social and medical insurance costs in 2011 and 2010, respectively. The Club 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 Club**

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.

**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.

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.

**Contingencies**

On 30 June 2011, the Group terminated the Simple Partnership. Due to deficiencies in the legislation and absence of clear legal and court practice of termination of such agreements, it is impossible to evaluate potential liabilities arising from terminating the Joint Activity Agreement with Bluecastle and, therefore, a provision for contingencies is not recorded in the consolidated financial statements.

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**31 Commitments and contingencies and operating risks (continued)**

**Capital commitments**

At December 31, 2011, the Group had capital commitments of approximately \$18,397,000 principally relating to the construction of a new stadium in the city of Moscow

**32. Financial Instruments**

The Group and Company's financial instruments comprise of cash and cash equivalents, accounts receivable, accounts payable, loan receivable from related parties and loans payable to related parties. The main purpose of these financial instruments is to provide finance for the company's operations. The company is exposed to variety of financial risks including credit risk, the directors have set policies regarding financial risk management which is in line with size of the group

	2011		2010 Restated	
<i>In thousands of US dollars</i>				
Group	Loans & Receivables	Other financial liabilities at amortised cost	Loans & Receivables	Other financial liabilities at amortised cost
Accounts receivable	16,241	-	23,832	-
Cash and cash equivalents	904	-	1,247	-
Long term loans from related parties	-	215,353	-	145,355
Short term loans from related parties	-	7,633	-	58,091
Accounts payable	-	5,049	-	10,201
	<b>17,145</b>	<b>228,035</b>	<b>25,079</b>	<b>213,647</b>
<b>Company</b>				
Long term loans due from related parties	105,974	-	78,376	-
Accounts receivable	8,323	-	-	-
Cash and cash equivalents	37	-	34	-
Long term loans from related parties	-	203,192	-	135,007
Short term loans from related parties	-	15,237	-	58,091
	<b>114,334</b>	<b>218,429</b>	<b>78,410</b>	<b>193,098</b>