

BLUECASTLE ENTERPRISES LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2019

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 2019.

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 \$56,270,000 for the year.

The Group made gain on disposal of players' registrations totalling to \$709,000.

The Group acquired various new players during the year and the value of the players' registration rights is \$28,605,000 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:

	2019	2018
	\$'000	\$'000
Revenue	56,270	100,380
Operating (loss) / profit	(25,730)	12,596
Gain on disposal of players' registrations	709	48,566
Players' registration rights	28,605	13,336
Equity	(37,750)	(8,816)

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 2019.


.....
J. Westmoeland - Director

Date: 04/09/2020
.....

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 2019.

DIRECTOR

J Westmoreland has held office during the period from 1 January 2019 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: 04/09/2020

**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 2019 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 2019 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 2019, the Group's total liabilities exceeded its total assets by \$37,750,000. 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.

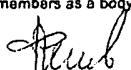
Auditors' responsibilities for the audit of the financial statements

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
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78 New Oxford Street
London
WC1A 1HB


Date: 04/09/2020

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note

<i>In thousands of US dollars</i>		Group 31 December 2019	Group 31 December 2018
ASSETS			
Non-current assets			
Property and equipment	6	149,101	156,486
Investment Property	7	159,414	160,146
Players registration rights	8	28,605	13,336
Land rights	9	-	5,981
Other non-current assets	12	8,522	1,154
Total non-current assets		338,822	337,103
Current assets			
Accounts receivable	11	22,224	54,557
Taxes receivable		103	117
Prepayment and other current assets	12	5,817	450
Cash and cash equivalents	13	5,317	11,850
Total current assets		40,280	66,974
TOTAL ASSETS		379,102	404,077
EQUITY			
Ordinary shares	22	202,502	202,502
Additional capital		100,229	77,279
Retained earnings		(319,703)	(250,001)
Foreign exchange translation reserve		(21,286)	(41,471)
		(38,258)	(11,691)
Non – controlling interests		508	2,875
TOTAL EQUITY		(37,750)	(8,816)
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	17	283	1,466
Loans from related parties	24	70,798	18,918
Loans and borrowings	27	265,531	322,425
Total non-current liabilities		336,612	342,809
Current liabilities			
Loans from related parties	27	288	288
Loans and borrowings	27	39,642	35,474
Accounts payable and accruals	14	30,631	25,875
Payroll and related obligations	15	7,177	5,580
Taxes payable	16	2,502	2,867
Total current liabilities		80,240	70,084
TOTAL LIABILITIES		416,852	412,893
TOTAL EQUITY AND LIABILITIES		379,102	404,077

The financial statements on pages 6 to 36 were authorized for issue by the director on 04/09/2020 and were signed on behalf of the board.


 J. Westmofeland
 Company registration number: 04128720

BLUECASTLE ENTERPRISES LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION

Note

<i>In thousands of US dollars</i>		31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Investments	10	49,083	93,492
Total non-current assets		49,083	93,492
Current assets			
Cash and cash equivalents	13	208	-
Total current assets		208	-
TOTAL ASSETS		49,291	93,492
EQUITY			
Ordinary shares	22	202,502	202,502
Additional capital		93,686	70,736
Retained earnings		(333,993)	(281,430)
TOTAL EQUITY		(37,805)	(8,192)
LIABILITIES			
Non-current liabilities			
Loans from related parties	24	72,308	20,220
Loans from other parties	27	14,006	80,882
Total non-current liabilities		86,314	101,102
Current liabilities			
Loans from related parties	27	443	338
Loans and borrowings	27	279	192
Accounts payable and accruals	14	60	52
Total current liabilities		782	582
TOTAL LIABILITIES		87,096	101,684
TOTAL EQUITY AND LIABILITIES		49,291	93,492

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of US dollars</i>	Note	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	18	56,270	100,380
Operating expenses	19	(82,000)	(87,784)
Operating (loss) / profit		(25,730)	12,596
Net foreign exchange (loss) / gain		389	4,377
Net finance costs	20	(23,951)	(15,562)
Gain on disposal of player registrations	21	709	48,566
Gain on players' loans		3	67
Gain / (Loss) on disposal of property and equipment		25	69
Impairment gain / (loss)	6, 7	(18,624)	(24,270)
(Loss) / gain before income tax		(67,179)	25,843
Income tax benefit	17	1,296	72
(Loss) / gain for the year		(65,883)	25,915
Other comprehensive gain / (loss)			
Foreign exchange translation		20,416	(62)
Other comprehensive gain / (loss) for the year		20,416	(62)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(45,467)	25,853
Loss for the year			
Attributable to:			
Equity holders of the parent		(65,845)	25,979
Non-controlling interest		(38)	(64)
Total		(65,883)	25,915
Total comprehensive loss for the year			
Attributable to:			
Equity holders of the parent		(45,660)	26,515
Non-controlling interest		193	(662)
Total		(45,467)	25,853

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of US Dollars

Attributable to owners of the parent

GROUP	Attributable to owners of the parent						Total equity
	Share capital	Additional paid in capital	Foreign exchange translation reserve	Retained earnings	Total	Non controlling interest	
Balance as at 1 January 2018	202,502	76,816	(42,007)	(275,980)	(38,669)	3,537	(35,132)
Loss 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 1 January 2019	202,502	77,279	(41,471)	(250,001)	(11,691)	2,875	(8,816)
Loss for the year	-	-	-	(65,845)	(65,845)	(38)	(65,883)
Effect of IFRS 16 adoption using modified retrospective approach	-	-	-	(3,857)	(3,857)	(2,560)	(6,417)
Other comprehensive loss	-	-	20,185	-	20,185	231	20,416
Loan re-recognition	-	22,950	-	-	22,950	-	22,950
Balance as at 31 December 2019	202,502	100,229	(21,286)	(319,703)	(38,258)	508	(37,750)

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 2018	202,502	70,272	(307,683)	(34,909)
Total comprehensive loss	-	-	26,253	26,253
Loan re-recognition	-	464	-	464
Balance as at 1 January 2019	202,502	70,736	(281,430)	(8,192)
Total comprehensive loss	-	-	(52,563)	(52,563)
Loan re-recognition	-	22,950	-	22,950
Balance as at 31 December 2019	202,502	93,686	(333,993)	(37,805)

BLUECASTLE ENTERPRISES LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

<i>In thousands of US Dollars</i>	Group 2019	Group 2018	Company 2019	Company 2018
Operating activities				
Gate receipts and programme sales	7,329	12,894	-	197
Proceeds from general sponsor	1,915	1,975	-	-
Proceeds from advertising and other sponsors	26,337	19,604	-	-
Broadcasting proceeds	26,827	22,641	-	-
Proceeds from other current activities	9,662	8,488	-	-
Proceeds from other commercial activities	-	2,662	-	-
Gratuitous proceeds for youth football development	167	225	-	-
Payment for participation in official competitions organised by FUR	(2,284)	(1,950)	-	-
Payments for participation in UEFA Club competitions	(489)	(1,746)	-	-
Advertising and marketing expenses	(147)	(338)	-	-
Purchases of other goods, work and services	(5,280)	(5,452)	-	-
Personnel expenses	(33,303)	(39,680)	-	-
Payments of taxes and levies	(12,205)	(10,420)	-	-
Payments of insurance premiums and work accident and occupational life insurance premiums	(5,196)	(5,744)	-	-
Other expenses	(8,653)	(7,405)	(6)	(9)
Interest payments to bank and credit institutions, except for related parties	(11,481)	(428)	-	-
Net cash received used in operating activities	(6,801)	(4,674)	(6)	188
Cash flow from investing activities				
Purchases of property and equipment	(263)	(6,443)	-	-
Purchase of investment property	(2,677)	-	-	-
Proceeds from disposal of property and equipment	202	80	-	-
Proceeds from transfer of players' registration rights	16,199	33,781	-	-
Loan advanced during the period - related parties	(3,025)	(1,040)	-	-
Proceeds from loans repayment	3,202	16	-	-
Interest payments from related parties	20	-	-	-
Interest payments from other parties	9	-	-	-
Purchases of players' registration rights	(14,349)	(10,574)	-	-
Purchase of other intangible assets	-	(14)	-	-
Other funds received from investment activities	(17)	(3)	-	-
Loans granted to other organisations	(9,401)	(115)	-	-
Net cash from investing activities	(10,100)	15,688	-	-
Cash flow from financing activities				
Loans from banks and credit institutions (except for related parties)	9,929	3,828	-	-
Other proceeds from financing activities	7	2	-	1,120
Repayment of related party borrowings	-	(506)	236	(1,429)
Repayment of loans from banks and credit institutions	-	(1,285)	-	-
Repayment of borrowings from other organisations	(337)	(2,708)	(25)	-
Other repayments under financing activities	-	(28)	-	-
Net cash used in financing activities	9,599	(697)	211	(309)
Net decrease in cash and cash equivalents	(7,302)	10,317	205	(121)
Cash and cash equivalents at the beginning of the year	11,850	2,079	3	121
Exchange gains on cash and cash equivalents	769	(546)	-	-
Cash and cash equivalents at the end of the year	5,317	11,850	208	-

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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 2019 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 Russian football championship in season 2018/2019 PFC CSCA team took fourth place and got an opportunity to play in the UEFA Europe League group tournament. Unfortunately, PFC CSCA did not reach the goal to advance to the 1/16 final stage. In the 2019/2020 Russian Cup PFC CSCA reached the quarter finals and continues to fight for the main prize of the tournament.

As at December 31, 2019, the Club had 270 employees, including 57 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 \$37,750,000. 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. In April 2020 the bank loan was converted into share capital, thus financial sustainability indicators were improved.

Due to COVID19 pandemic, Russian Federation banned all sporting events in March 2020. By decrees of the Government of the Russian Federation, the Company is recognized as the company whose activities suffered the most due to the pandemic and the restrictions introduced to contain it. These factors, as well as the introduction of a high alert mode and the economic consequences associated with these circumstances, indicate the presence of significant uncertainty that may raise significant doubts about the ability of CSKA Professional Football Club Joint-Stock Company to continue to operate continuously. In May 2020 the restrictions and the sporting ban were lifted, sporting events are already being held, stadium now admits customers up to 10% of its capacity, 3,000 seats. From August 1, 2020 it is going to be 50%, 15,000 seats.

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 2019

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 2019, 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, 2019 and December 31, 2018, the official CBR exchange rates used for translating RUB-denominated transactions and balances were equal to RUB 61.91 and RUB 69.47 per USD 1, respectively. The average exchange rates were RUB 64.75 and RUB 62.77 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 2019

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.

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.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

3. Significant accounting policies (continued)

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 Club as lessee At inception of a contract the Club estimates whether the contract contains a lease. A contract contains a lease if it contains enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. The Club recognises a right-of-use asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee. Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date.

Right-of-use assets are measured at cost.

The Club does not recognise a right-of-use asset and a lease liability for short-term leases, the term of which does not exceed 12 months, and for leased assets of low value. A right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of a right-of-use asset is determined on the same basis as of the fixed asset. In addition, the value of a right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The Club as lessor

The Club recognizes assets which are subject to an operating lease in the statement of financial position depending on the nature of the asset. Rental income under operating leases is evenly recognized in the statement of comprehensive income over the lease term in income from investment activities.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

3. Significant accounting policies (continued)

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.

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.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

3. Significant accounting policies (continued)

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,

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

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

3. Significant accounting policies (continued)

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.

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, cancelled, 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.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

3. Significant accounting policies (continued)

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.

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.

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

4. Use of estimates and judgements (continued)

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.

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, 2019, are consistent with the principles applied in preparation of the consolidated financial statements of the Club for the year ended on December 31, 2018, except for IFRS16 Leases ("IFRS 16") the Club has adopted with effect from 1 January 2019. 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, 2019 the Club has applied all new and revised IFRSs issued by the International Accounting Standards Board ("IASB"), which are mandatory for use in 2019.

The nature and impact of each new standard or amendment is described below.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). Under the IFRS 16 model a lessee is required to recognize (i) assets and liabilities for all leases and (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement. Lessors continue to classify and account for their leases as (i) operating leases with recognition of the underlying assets; or (ii) finance leases by derecognizing the underlying asset and recognition of a net investment, similar to the IAS 17 requirements.

In applying IFRS 16 "Leases" for the first time, the Club has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- accounting for payments for leases of low-value assets as operating expenses, without their recognition as right of-use assets at the date of initial application.

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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

On adoption of IFRS 16 "Leases", the Club recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the Central Bank's statistics on borrowing rates as of 1 January 2019 for loans with duration of more than 3 years. The weighted average lessee's discount rate applied to the lease liabilities on 1 January 2019 was 9,45%.

Reconciliation of lease obligation as of January 1, 2019 and lease obligation as of December 31, 2018 is provided below:

Operating lease contractual obligations as of December 31, 2018	566
Discount rate as of January 1, 2019	9,45%
Discounted operating lease liabilities as of January 1, 2019	
Effect from discounting	(398)
Right-of-use asset recognized as of January 1, 2019	168

Land lease rights recognized in the consolidated statement of financial position as of December 31, 2018 as intangible assets have been accounted for in accordance with IFRS 16 as of January 1, 2019. Their recognition as intangible assets was terminated due to the introduction of the new IFRS 16.

IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019).

IFRIC 23 provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.

Amendments IAS 28 Long-term Interests in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019)

The Amendments clarifies that a company applies IFRS 9 –Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that in substance form part of the net investment in the associate or joint venture (long-term interests).

Amendments IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2019)

The Amendments IFRS 9 enables companies to measure at amortised cost some pre-payable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

Amendments IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019)

The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. Indeed, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. Amendments also clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Annual Improvements to IFRS 2015 - 2017 Cycle (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019)

Collection of amendments to IFRS in response to issues that are not part of a major project.

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

A number of new standards, amendments to standards and interpretations, which become effective from 1 January 2020 or later, are published. They have not been early adopted by the Club.

Amendments IFRS 3 Business combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)

The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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

Amendments IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The International Accounting Standards Board (Board) issued the revised Conceptual Framework for Financial Reporting (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)

Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.

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 2018. It is effective for annual periods beginning on or after January 1, 2020. 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.

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, 2018	33,730	1,620	143,187	2,033	1,376	3,170	185,116
Additions	-	-	185	152	12	1	407
Disposals	-	-	-	(97)	(128)	-	(225)
Foreign currency translation	(4)	1	(3)	(3)	(1)	-	(11)
At December 31, 2019	33,726	1,621	143,369	2,085	1,259	3,227	185,287
Accumulated depreciation							
At December 31, 2018	(10,773)	(1,470)	(14,141)	(802)	(759)	(685)	(28,630)
Depreciation charge for the year	-	(1)	(7,187)	(102)	(64)	(10)	(7,454)
Depreciation on disposals	-	-	-	97	128	-	225
Foreign currency translation	1	-	(328)	-	4	-	(327)
At December 31, 2019	(10,772)	(1,471)	(21,656)	(807)	(691)	(789)	(36,186)
Carrying amount							
At December 31, 2018	22,957	150	129,046	1,231	617	2,485	156,486
At December 31, 2019	22,954	150	121,713	1,278	568	2,438	149,101

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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, 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

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, in 2018 impairment loss was recognized in the amount of \$12,754 thousand.

As at December 31, 2019 and as at December 31, 2018, bank loans were secured by the land owned by the club with a carrying value of \$22,956,000 and \$22,957,000 respectively (Note 27).

7. Investment property

The analysis of movements in investment property in 2019 and 2018 is presented below:

<i>In thousands of US dollars</i>	Group	
	2019	2018
Cost		
At beginning of year	160,146	205,550
Additions	167	13,486
Transfer from fixed assets	-	(42,126)
Impairment in the year	(18,624)	(12,489)
Depreciation	(940)	(441)
Foreign currency translation	18,665	(3,835)
At end of year	159,414	160,146

As of December 31, 2019, the professional appraiser estimated the fair value of investment property in the amount of \$159,910 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 \$18,624 thousand.

From the beginning of 2018, the Group began to lease the investment property. Rental income from investment property for 2019 amounted to \$5,068 thousand (2018: \$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, 2019 and December 31, 2018, the following were used as collateral for the bank loan (Note 27):

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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

8. Players' registration rights

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

<i>In thousands of US dollars</i>	Group	
	2019	2018
At beginning of year	30,075	35,484
Additions	21,278	16,101
Disposals	(300)	(20,727)
Foreign currency translation	442	(783)
At end of year	51,495	30,075
Accumulated amortization		
At beginning of year	(16,739)	(33,242)
Amortization charge for the year	(6,422)	(3,919)
Accumulated amortization on disposed assets	295	20,404
Foreign currency translation	(24)	18
At end of year	(22,890)	(16,739)
Carrying amount		
At beginning of year	13,336	2,242
At end of year	28,605	13,336

In 2019, the Club proceeded with efficient transfer policy and followed the course on optimization of the transfer budget. In 2019, the Club did not sell the rights on its key players. At the same time, the Club acquired the rights on permanent football registration of promising foreign footballer Nikola Vlasic (Croatia) and young talented Russian defender Igor Diveev. These players play for youth or main national teams of their countries. The Club also loaned Zvonimir Sharlia from Slaven Belupo (Croatia) with the right of subsequent redemption of the transfer.

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 (Izat 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.

As at December 31, 2019 and 2018, the Club had no players' registrations with limited ownership rights or pledged as collateral.

9. Land lease rights

The recognition of land lease rights as intangible assets was terminated in 2019, resulting in a loss of \$6,417 thousand recognized directly in accumulated loss as of 1 January 2019. The recognition as intangible assets was terminated due to the introduction of the new IFRS 16.

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

10. Company Investments

<i>In thousands of US dollars</i>	Shares in group undertakings	Additional capital	
Cost			
Balance at 1 January 2018	128	60,660	60,788
Impairment	-	32,704	32,704
Balance at 31 December 2018	128	93,364	93,492
Impairment	-	(44,409)	(44,409)
Balance at 31 December 2019	128	48,955	49,083

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	
	2019	2018	2019	2018
Accounts receivable from transfer of players' registrations	427	16,024	-	-
Broadcasting proceeds receivables	868	531	-	-
Accounts receivable for advertising and sponsorship	2,670	5,470	-	-
Accounts receivable from related parties	-	148	-	-
Russian Football Union	16,444	31,646	-	-
Other	5,327	3,785	-	-
	25,735	57,235	-	-
Allowance for impairment of receivables	(3,511)	(2,678)	-	-
	22,224	54,557	-	-

BLUECASTLE ENTERPRISES LIMITED
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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

	Group	
	2019	2018
Non-current accounts receivable from related parties*	8,230	1,123
Leases - right-of-use asset	183	-
Other non-current assets	109	31
	8,522	1,154

*This represents mainly five 5 year loans in the amount of USD 6,820 thousands granted to the former ultimate beneficiary owner Mr Evgeniy Giner at an annual interest of 4.84%.

Other current assets

In thousands of US dollars

	Group	
	2019	2018
Inventories	39	208
Loans granted to related parties	-	160
Loans granted to other parties*	3,452	79
Prepayments	2,326	3
	5,817	450

*Current loan with an annual interest of 4.8%

As of 1 January 2019:

- Right-of-use assets in the amount of \$168 thousand were recognized in the consolidated statement of financial position. These right-of-use assets were previously recognized as operating lease.
- Lease obligations in the amount of \$168 thousand recognized in the consolidated statement of financial position.

The carrying amount of right-of-use assets, as well as its changes during the period:

	Land	Total
As of 1 January 2019	168	168
Additions	-	-
Amortization	(5)	(5)
Foreign currency translation	20	20
As of 31 December 2019	183	183

The carrying amount of lease obligations, as well as its changes during the period:

	Land	Total
As of 1 January 2019	168	168
Additions	-	-
Interest expenses	16	16
Lease expenses	(17)	(17)
Foreign currency translation	21	21
As of 31 December 2019	188	188

13. Cash and Cash Equivalents

Cash consisted of the following:

	Group		Company	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
Cash held in Russian Roubles	2,735	7,849	-	-
Cash held in Euros	2,369	3,781	8	-
Cash held in US Dollars	213	220	200	-
	5,317	11,850	208	-

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

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

14. Accounts Payable and Accruals

Accounts payable and accruals consisted of the following:

<i>In thousands of US dollars</i>	Group		Company	
	2019	2018	2019	2018
Players' registrations payable	12,996	4,189	-	-
Amounts payable for property and equipment	9,131	8,265	-	-
Deferred revenue	248	-	-	-
Advances from general sponsor	847	946	-	-
Other payables and accruals	7,409	12,475	60	52
	30,631	25,875	60	52

Deferred income represents subsidies granted by Ministry of sport of Russian Federation on playground equipment

15. Payroll and Related Obligations

Payroll and related obligations consisted of the following:

<i>In thousands of US dollars</i>	Group	
	2019	2018
Players' remuneration	1,890	1,928
Coaches staff remuneration	245	245
Administrative staff remuneration	524	474
Unused vacation liabilities accrued	4,518	2,933
	7,177	5,580

16. Taxes Payable

<i>In thousands of US dollars</i>	Group	
	2019	2018
Personal income tax	242	385
Insurance	370	379
VAT	1,817	1,962
Other	73	141
	2,502	2,867

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

17. Income Tax

The income tax expense consisted of the following:

	Group		Company	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
Current tax expense/(benefit)	-	-	-	-
Deferred tax expense/(benefit)	(1,296)	(72)	-	-
	(1,296)	(72)	-	-

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>	2019	2018
(Loss) / profit before income taxes	(67,179)	25,843
Statutory income tax rate	20.00%	20.00%
Income tax benefit/(expense) at statutory rate	(13,436)	5,169
Net effect of foreign exchange	(40)	637
Non-deductible items		(7,100)
Foreign exchange difference	5,614	
Depreciation	3,861	
Others insignificant items	3,735	
Losses carried forward	(1,030)	1,222
Income tax benefit reported in the consolidated financial statements	(1,296)	(72)

Movements in deferred tax balances were as follows:

	Recognized in statement of financial position		Recognised in statement of comprehensive income	
<i>In thousands of US dollars</i>	31 December 2019	31 December 2018	2019	2018
Tax effects of deductible temporary differences:				
Tax loss utilised	(236)	(609)	(373)	791
Tax effects of taxable temporary differences:				
Property and Equipment	(273)	(246)	27	(57)
Accounts payable	236	609	373	(791)
Land lease rights	-	(1,196)	(1,196)	(288)
Loans from related parties	(10)	(24)	(14)	(36)
Net tax effect of temporary differences	(283)	(1,466)	(1,183)	(381)
Total change in net deferred tax liability			(1,183)	(381)
Total net deferred tax liability	(283)	(1,466)		

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

Change in net deferred tax liability recognized in:

	Group	
	2019	2018
Income:		
Deferred tax expense / (benefit)	(1,296)	(72)
Foreign exchange loss	113	(309)
Total change in net deferred tax liability	(1,183)	(381)

18. Revenue

Revenue consisted of the following:

	Group	
	2019	2018
<i>In thousands of US dollars</i>		
Broadcasting proceeds	4,004	4,100
Prizes	10,080	52,054
Advertising and sponsorship	23,585	24,756
Gate receipts and programme sales	7,085	13,499
Gratuitous proceeds for youth football development	166	225
Lease and rental income	5,803	2,086
Non-football Sports activities and Other Income	5,540	3,660
	56,270	100,380

All revenue arises in the Russian Federation.

19. Operating Expenses

Operating expenses consisted of the following:

	Group	
	2019	2018
<i>In thousands of US dollars</i>		
Expenses from sport activities	4,896	5,888
Advertising	525	1,677
Youth football development	1,740	2,421
Taxes (other than income tax)	337	596
Rent of sport facilities	23	379
Rent of property for administrative purposes	-	-
Cost of materials	287	542
Insurance and medical services of players	224	388
Solidarity payments and other expenses on players' registrations	20	-
Provision for impairment of accounts receivable	474	2,933
Selling expenses	1,132	31
Professional fees	231	252
Depreciation of right-of-use asset	5	-
Fines and penalties	60	348
Sports objects maintenance	2,574	4,894
Other	10,545	4,140
Amortisation of players' registrations	6,422	3,919
Depreciation of property and equipment	8,395	7,949
Amortisation of land rights	-	189
Players' remuneration and related social charges	30,100	37,962
Coaches and administrative staff remuneration and related social charges	13,990	13,210
Auditor's remuneration for audit work	20	18
Auditor's remuneration for non audit work	-	48
	82,000	87,784

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

20. Finance Income / expense

<i>In thousands of US dollars</i>	Group 2019	2018
Discount of long-term borrowing from related parties	(78)	(143)
Discount of long-term accounts receivable from related parties	142	131
Interests on borrowings from related parties	(7,425)	(1,778)
Interest on lease liability	(16)	-
Interests on borrowings from other parties	(16,574)	(13,772)
	(23,951)	(15,562)

21. Gain on Disposal of Players' Registrations

In 2019 and 2018, gain on disposal of players' registrations consisted of the following:

<i>In thousands of US dollars</i>	Revenue	NBV	Gain
Karavaev Vyacheslav	145	-	145
Tkachev Sergey	232	-	232
Chernov Nikita	327	-	327
Other players	10	(5)	5
Total for the year ended December 31, 2019	714	(5)	709
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

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 2019.

22. Share Capital

Company

Allotted, issued and fully paid:

Number	Class	Nominal value	31.12.19	31.12.18
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. Please refer to Note 28 "Events after the reposting date."

BLUECASTLE ENTERPRISES LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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 affected 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 2019 and 31 December 2018 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 and transactions with related parties:

		Group		Company	
		2019	2018	2019	2018
Statement of financial position					
<i>In thousands of US dollars</i>					
Related party loans:					
Loans payable	Under common control	70,798	18,918	70,182	18,449
Loans payable	Subsidiaries	-	-	2,126	1,771
		70,798	18,918	72,308	20,220
Other current liabilities:					
Accounts payable	Subsidiary	-	-	155	155
Accounts payable	Under common control	288	288	288	288
		288	288	443	443
Assets					
Long term accounts receivable from related parties	Under common control	8,229	1,123	-	-
Accounts receivable	Under common control	-	148	-	-
Loans granted	Under common control	-	160	-	-
		8,229	1,431	-	-

Statement Of Comprehensive Income:

In thousands of US dollars

Finance costs:

(Accruals) / Recovery of loss of long term accounts receivable	Under common control	(21)	131	-	-
(Accrual)/Recovery of discount on non-current loans	Under common control	(78)	(143)	-	-
Interests on borrowings from related parties	Under common control	(7,455)	(1,778)	(7,449)	(1,819)
		(7,554)	(1,790)	(7,449)	(1,819)

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 \$1,838,000 (2017: \$1,638,000) due in June 2021.

In 2019 and 2018, current compensation of key management personnel of the group amounted to \$2,913,000 and \$3,016,000, respectively. In 2019 and 2018, related social charges amounted to \$456,000 and \$472,000, 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 2019

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 Rubles. 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 2019 is as follows:

<i>In thousands of US dollars</i>	Exchange rate fluctuations %	Estimation of gain/(loss)
		(849)
RUB/USD		849
		(1,317)
EUR/USD		1,317

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
	Total	Up to 90 days	91 to 180 days	181 to 365 days	Over 365 days	
December 31, 2019						
Current accounts receivable	22,224	19,426	-	-	2,798	22,224
Loans granted to other parties	3,452	-	-	-	3,452	3,452
Loans granted to related parties	8,229	-	-	-	8,229	8,229
Total	33,905	19,426	-	-	14,479	33,905
	Including overdue					Total
	Total	Up to 90 days	91 to 180 days	181 to 365 days	Over 365 days	
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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

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, 2019						
Long-term loan payable to a related party	-	-	-	70,798	-	70,798
Long-term loan payable	-	-	-	265,531	-	265,531
Players' registrations and other short term payable	9,927	17,333	7,450	5,600	-	40,310
Short term loans payable	-	-	39,642	-	-	39,642
Short term loans payable to related parties	-	-	288	-	-	288
	9,927	17,333	47,380	341,929	-	416,569
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

Fair Values

Fair values of Group's financial instruments at 31 December 2019 and 2018 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 2019 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 2,655 thousand (31 December 2018: USD 3,224) 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 2019

26. Commitments and contingencies and operating risks

Players' Insurance Coverage

At 31 December 2019 and 2018, 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 2019 and 2018, 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 \$5,069,000 and \$5,195,000 of pension, social and medical insurance costs in 2019 and 2018, 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.

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.

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27. Loans and borrowings

Loans and borrowings comprised the following:

<i>In thousands of US dollars</i>		
Group	2019	2018
Long - term		
USD - denominated borrowings from related parties	66,687	15,620
RUB - denominated borrowings from related parties	4,039	3,224
EUR - denominated borrowings from related parties	73	74
EUR - denominated borrowings from other parties	11,287	33,696
GBP - denominated borrowings from other parties	-	587
USD - denominated borrowings from other parties	12,720	46,599
USD - denominated bank loans	241,523	241,543
	336,329	341,343
Short - term		
GBP - denominated borrowings from related parties	288	288
GBP - denominated borrowings from other parties	279	193
USD - denominated loans from banks	39,203	35,281
EUR - denominated borrowings from other parties	160	-
	39,930	35,762
<i>In thousands of US dollars</i>		
Company	2019	2018
Long - term		
USD - denominated borrowings from related parties	66,888	15,620
RUB - denominated borrowings from related parties	3,423	2,755
GBP - denominated borrowings from related parties	-	-
EUR - denominated borrowings from related parties	1,997	1,845
GBP - denominated borrowings from other parties	-	587
EUR - denominated borrowings from other parties	1,285	33,696
USD - denominated borrowings from other parties	12,721	46,599
	86,314	101,102
Short - term		
GBP - denominated borrowings from other parties	279	192
GBP - denominated borrowings from related parties	443	338
	722	530

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. In December 2019 the supervisory board of Vnesheconombank concluded that the bank loan and outstanding interest payable would be, first, converted from USD into Russian rubles and, second, converted into share capital in full. This was executed in April 2020.

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28. Events after the reporting date

In April 2020, CSKA issued additional 9,595 ordinary shares, at 600 Russian roubles each. These shares were fully subscribed by Vnesheconombank in exchange of the loan conversion, see note 27. This has diluted control of the group over the football club to only 22.37%. This is a non-adjusting post balance sheet event.

Due to COVID19 pandemic, Russian Federation banned all sporting events in March 2020. By decrees of the Government of the Russian Federation, the Club is recognized as the company whose activities suffered the most due to the pandemic and the restrictions introduced to contain it. These factors, as well as the introduction of a high alert mode and the economic consequences associated with these circumstances, indicate the presence of significant uncertainty that may raise significant doubts about the ability of CSKA Professional Football Club Joint-Stock Company to continue to operate continuously.

In May 2020 the restrictions and the sporting ban were lifted, sporting events are already being held, stadium now admits customers up to 10% of its capacity, 3,000 seats. From August 1, 2020 it is going to be 50%, 15,000 seats. According to the Group's and Club's management, the uncertainty in connection with the spread of coronavirus will not affect the observance by the Group and the Club of going concern principle.