

O1 PROPERTIES LIMITED

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

For the year ended 31 December 2018

O1 PROPERTIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

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O1 PROPERTIES LIMITED

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Ioanna Savvidou (Appointed 11/05/2018 / resigned 07/08/2019) Eleni Ralalarisoa (Appointed 11/05/2018) Adina Viviana Szemethy (Appointed 11/05/2018) Evripidis Pavlou (Appointed 11/05/2018) Sophia Demosthenous (Appointed 11/05/2018) Savvas Polyviou (Appointed 11/05/2018) Theonitsa Andriana Constantinou (Appointed 07/08/2019) Oleg Myshkin (Appointed 25/04/2019) Dmitriy Mints (Resigned 11/05/2018) Tomasz Zamara (Resigned 11/05/2018) Andrey Barinskiy (Resigned 11/05/2018) Alexander Ostrovskiy (Resigned 11/05/2018) Timothy Fenwick (Resigned 11/05/2018) Richard Gregson (Resigned 11/05/2018) Alexander Erdman (Resigned 11/05/2018) Norbert Kickum (Resigned 11/05/2018) Konstantin Yanakov (Resigned 11/05/2018)
Company Secretary:	Theonitsa Andriana Constantinou
Independent Auditors:	Deloitte Limited Certified Public Accountants and Registered Auditors
Registered office:	18 Spyrou Kyprianou 2nd Floor 1075 Nicosia Cyprus
Bankers:	Bank of Cyprus Plc UBS AG Russian Commercial Bank (Cyprus) Ltd Rigensis Bank AS VTB Bank (Europe) SE
Registration number:	HE 272334

O1 PROPERTIES LIMITED

MANAGEMENT REPORT

The Board of Directors of O1 Properties Limited or hereafter "the Company" presents its management report and audited financial statements of the Company for the year ended 31 December 2018.

Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding and financing of investments in financial assets at fair value through profit and loss comprising of investments in subsidiaries and associates, operating in the Russian real estate market.

Review of the development and current position of the Company and description of the major risks and uncertainties

The Company's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory, except for the issues discussed in Note 2, in the light of the current economic environment.

The loss of the Company for the year ended 31 December 2018 was USD 536,936 thousand (2017: USD 170,984 thousand) same as total comprehensive loss for the year USD 536,936 thousand (2017: USD 170,984 thousand).

At 31 December 2018 the total assets of the Company were USD 694,439 thousand and the total equity was USD 271,241 thousand (31 December 2017: USD 1,004,637 thousand and USD 807,168 thousand respectively).

The principal risks that both the Company face are market risk, interest rate risk, credit risk, liquidity risk, currency risk, operating risk and capital management risk. Additionally, the uncertain current economic environment in the Russian Federation and Cyprus, could adversely affect the results of the Company.

The main risks and uncertainties faced by the Company and the steps taken to manage these risks, are described in Notes 2, 3, 11 and 27 of the financial statements.

Dividends

During 2018 the Board of Directors did not approve the payment of dividends.

Expected future developments of the Company

The Board of Directors does not expect major changes in the principal activities of the Company in the foreseeable future.

Share capital

At 31 December 2018 and 31 December 2017 the authorized share capital of the Company was 21,694,704 class "A" shares of nominal value USD 0.01 each and 200,000,000 class "B" shares of nominal value EUR 0.01 each. For changes in the issued share capital of the Company please refer to note 20 to the financial statements.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2018 and at the date of this report are presented on page 1. Dmitriy Mints, Tomasz Zamiara, Andrey Barinskiy, Alexander Ostrovskiy, Timothy Fenwick, Richard Gregson, Alexander Erdman, Norbert Kickum and Konstantin Yanakov, who were directors as at 31 December 2017, resigned on 11 May 2018 and on the same date Ioanna Savvidou, Eleni Ralaiarisoa, Adina Viviana Szemethy, Evripidis Pavlou, Sophia Demosthenous and Savvas Polyviou were appointed in their place. Ioanna Savvidou, who was appointed director on 11 May 2018, resigned on 7 August 2019 and on the same date Theonitsa Andriana Constantinou was appointed in her place. Also, on 25 April 2019 Oleg Myshkin was appointed director.

In accordance with the Company's Articles of Association all Directors presently members of the Board continue in office.

Significant events after the reporting period

Any significant events that occurred after the end of the reporting period are described in note 28 to the financial statements.

Existence of branches

During the year ended 31 December 2018 the Company did not operate through any branches.

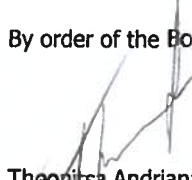
O1 PROPERTIES LIMITED

MANAGEMENT REPORT

Independent Auditors

The Independent Auditors, Deloitte Limited, who have been appointed during the year in replacement of the previous auditors, KPMG Limited, have expressed their willingness to continue in office and a resolution proposing their re-appointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,



Theonitsa Andriana Constantinou
Secretary

4 October 2019

Independent Auditor's Report

To the Members of O1 Properties Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the parent company O1 Properties Limited (the "Company"), which are presented in pages 8 to 51 and comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 to the financial statements, which indicates that the Company incurred a loss of USD 536,936 thousand during the year ended 31 December 2018 and as of that date, the Company's current liabilities exceeded its current assets by USD 302,717 thousand. As stated in Note 2, the Company is also exposed to uncertainties in relation to the business conditions of its subsidiaries and along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report which is presented in pages 2 and 3, but does not include the financial statements and our auditor's report thereon.



Independent Auditor's Report (Continued)

To the Members of O1 Properties Limited

Other information (continued)

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, 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.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



Independent Auditor's Report (Continued)

To the Members of O1 Properties Limited

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the management report presented in pages 2 and 3 has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Independent Auditor's Report (Continued)

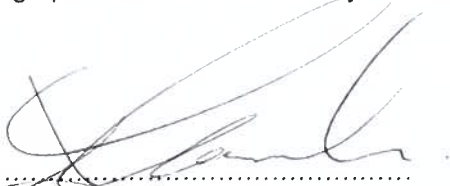
To the Members of O1 Properties Limited

Comparative figures

The financial statements of O1 Properties Limited for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion with emphasis of matter paragraph for material uncertainty related to going concern on these financial statements on 19 February 2019.

Consolidated financial statements

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 where we expressed an unmodified opinion with emphasis of matter paragraph for material uncertainty related to going concern on these financial statements.



.....
Demetris Papapericleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus

Limassol, 4 October 2019

01 PROPERTIES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 US\$	2017 US\$
Interest income	5	14,692,712	14,025,199
Dividend income	14	-	37,621,650
Other income	6	431,890	2,099,398
Net loss from financial assets	7	(311,566,767)	(214,131,193)
Administration expenses	8	(2,700,939)	(1,528,184)
Financial guarantees and other provisions	22	(230,214,718)	-
Operating loss		(529,357,822)	(161,913,130)
Net finance costs	9	(7,578,268)	(9,071,124)
Loss before tax		(536,936,090)	(170,984,254)
Tax	10	-	-
Net loss for the year		(536,936,090)	(170,984,254)
Other comprehensive income		-	-
Total comprehensive loss for the year		(536,936,090)	(170,984,254)

The notes on pages 13 to 51 form an integral part of these financial statements.


O1 PROPERTIES LIMITED


STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 US\$	2017 US\$
ASSETS			
Non-current assets			
Financial assets at fair value through profit and loss	14	522,596,919	776,655,785
Non-current loans receivable	17	110,659,015	152,716,070
		633,255,934	929,371,855
Current assets			
Trade and other receivables	18	57,690,931	65,575,298
Current loans receivable	17	-	2,099,890
Available-for-sale financial assets	15	-	158,565
Derivative financial instruments	16	-	2,143,460
Other investments		89,612	-
Cash and cash equivalents	19	3,402,257	5,288,131
		61,182,800	75,265,344
Total assets		694,438,734	1,004,637,199
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,137,342	1,137,342
Share premium - ordinary shares	20	1,183,411,606	1,183,411,606
Share-based payment reserve		9,810,321	9,810,321
Accumulated losses		(923,118,004)	(387,190,914)
Total equity		271,241,265	807,168,355
Non-current liabilities			
Borrowings	21	59,297,664	103,309,913
		59,297,664	103,309,913
Current liabilities			
Trade and other payables	23	70,616,465	82,336,600
Borrowings	21	61,355,243	11,821,952
Current tax liabilities	24	379	379
Financial guarantees and other provisions	22	231,927,718	-
		363,899,805	94,158,931
Total liabilities		423,197,469	197,468,844
Total equity and liabilities		694,438,734	1,004,637,199

On 4 October 2019 the Board of Directors of O1 Properties Limited authorised these financial statements for issue.


Adina Viviana Szemethy
Director


Eleni Ralalarisoa
Director

The notes on pages 13 to 51 form an integral part of these financial statements.

O1 PROPERTIES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital US\$	Share premium - ordinary shares US\$	Share-based payment reserve US\$	(Accumulated losses) US\$	Total US\$
Balance - 1 January 2017	1,137,342	1,183,411,606	9,810,321	(210,614,660)	983,744,609
Comprehensive loss					
Net loss for the year	-	-	-	(170,984,254)	(170,984,254)
Transactions with owners					
Fair value of guarantees issued to the companies controlled by the Ultimate Controlling Shareholder	-	-	-	(5,592,000)	(5,592,000)
Balance - 1 January 2018 as previously reported	1,137,342	1,183,411,606	9,810,321	(387,190,914)	807,168,355
Effect of Initial application of IFRS 9	-	-	-	(4,583,000)	(4,583,000)
Balance at 31 December 2017/ 1 January 2018	1,137,342	1,183,411,606	9,810,321	(391,773,914)	802,585,355
Comprehensive income					
Net loss for the year	-	-	-	(536,936,090)	(536,936,090)
Transactions with owners					
Write-off of guarantees issued to the companies controlled by the previous ultimate controlling shareholder (prior previous change of control)	-	-	-	5,592,000	5,592,000
Balance at 31 December 2018	1,137,342	1,183,411,606	9,810,321	(923,118,004)	271,241,265

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 17% will be payable on such deemed dividend to the extent that the ultimate shareholders at the end of the period of two years from the end of the year of assessment to which the profits refer are both Cyprus tax resident and Cyprus domiciled. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

Share premium is not available for distribution in the form of dividend.

The notes on pages 13 to 51 form an integral part of these financial statements.

01 PROPERTIES LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US\$	2017 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(536,936,090)	(170,984,254)
Adjustments for:			
Unrealised exchange (gain) / loss	9	(1,124,015)	1,866,905
Share of profit from joint ventures		(1,713,000)	-
Gain on financial guarantee		-	(1,380,000)
Loss from the sale of financial assets at fair value through profit or loss	7	32,539,856	-
Impairment of available for sale financial assets	7	-	3,038
Fair value losses on financial assets at fair value through profit and loss	7	183,619,795	164,354,290
Fair value gain on derivative financial instruments	7	-	(3,315,828)
Fair value losses on other investments	7	68,953	-
Impairment of financial assets	7, 11	96,241,603	53,089,693
Charge to the statement of profit or loss and other comprehensive income for provisions	22	231,927,718	-
Dividend income		-	(37,621,650)
Interest income	5	(14,692,712)	(14,025,199)
Interest expense	9	8,424,496	10,261,198
Net other non-cash expense/(Income)		2,256,224	(613,904)
Cash flows from operations before working capital changes		612,828	1,634,289
Increase in trade and other receivables		(6,186,433)	(24,486,897)
Increase / (decrease) in derivative financial instruments		2,143,460	(3,315,828)
Increase / (decrease) in trade and other payables		2,786,281	(26,110,158)
Net cash flows used in operating activities		(643,864)	(52,278,594)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted		(95,579,880)	(222,705,600)
Loans repayments received		57,290,024	270,788,928
Proceeds from sale of investments in financial assets at fair value through profit and loss		27,720,588	-
Interest received		1,080,000	10,723,996
Dividends received		-	37,621,651
Net cash flows (used in) / from investing activities		(9,489,268)	96,428,975
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		(107,940,635)	(171,137,202)
Proceeds from borrowings		116,871,725	137,840,167
Interest paid		(3,730,732)	(1,805,862)
Dividends paid		-	(6,523,854)
Proceeds in relation to derivatives		3,046,900	2,604,541
Net cash flows from / (used in) financing activities		8,247,258	(39,022,210)
Net (decrease) / increase in cash and cash equivalents		(1,885,874)	5,128,171
Cash and cash equivalents:			
At beginning of the year		5,288,131	159,960
At end of the year	19	3,402,257	5,288,131

The notes on pages 13 to 51 form an integral part of these financial statements.

01 PROPERTIES LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

2018 Non cash transactions:

1. During the year 2018 there were net payments/repayments totalling US\$ 666,000 made by/to related common ownership parties on behalf of the Company regarding the loan issued to Eagleman Ltd dated 27 March 2012.
2. During the year 2018 there were net payments/repayments totalling US\$ 321,000 made by/to related common ownership parties on behalf of the Company regarding the loan issued to Mistalda Holdings Ltd dated 2 September 2013.
3. During the year 2018 there were net payments/repayments totalling US\$ 763,000 made by/to related common ownership parties on behalf of the Company regarding the loan issued to Ratado Holding Ltd dated 23 September 2014.
4. During the year 2018 there were net payments/repayments totalling US\$ 243,000 made by/to related common ownership parties on behalf of the Company regarding the loan issued to Cesium Ltd dated 28 December 2015. In addition, on June 2018, the amount due by the Company to Cesium Ltd in the amount of US\$ 10,000,000 was set-off against the loan issued to Cesium Ltd dated 28 December 2015.
5. During the year 2018 the loan issued to Centimila Services Ltd dated 14 April 2015 was set-off against the Company's borrowing from Centimila Services Ltd in the amount of US\$ 8,493,944.

2017 Non cash transactions:

1. During the year 2017 there were net payments/repayments totalling US\$ 77,312 made by/to related common ownership parties on behalf of the Company regarding the loan issued to Eagleman Ltd dated 27 March 2012.
2. During the year 2017 there were net payments/repayments totalling US\$ 4,922,287 made by/to related common ownership parties on behalf of the Company regarding the loan payable from Minesign Ltd dated 25 January 2016.
3. On 9 January 2017, the Company entered into a Novation Agreement with VKS Invest for a total consideration of US\$ 1,196,136.

The above non-cash transactions are not reflected in the statement of cash flows.

O1 PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Incorporation and principal activities

Country of incorporation

The Company O1 Properties Limited (the "Company") was incorporated in Cyprus on 24 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap. 113. Its registered office is at 18 Spyrou Kyprianou, 2nd Floor, 1075 Nicosia, Cyprus.

Change of Company name

On 1 July 2011 the Company's name was changed from Tonebol Limited to O1 Properties Limited. On 28 March 2012 the Company was reconstituted from a private limited liability company to a public limited company under the name O1 Properties plc. On 10 July 2012 the Company was reconstituted from public limited company to a private limited liability company under the name O1 Properties Limited.

At 31 December 2018 the Company's principal immediate shareholders were Riverstretch Trading and Investments Limited (Cyprus), Yofoura Holding Limited (Cyprus) and certain other companies which owned 70.038%, 14.410% and 15.552% of Class "A" shares respectively (31 December 2017: 70.545% of Class "A" shares were owned by Agdalia Holdings Limited (Cyprus), 18.051% by ICT Holding Ltd (Cyprus) and 11.404% of Class "A" shares were owned by certain other companies). At 31 December 2018 the owners of Class "B" shares were Riverstretch Trading and Investments Limited, Yofoura Holding Limited and certain other companies which owned 58.391%, 21.695% and 19.915% of Class "B" shares respectively (31 December 2017: 56.522% of Class "B" shares were owned by Agdalia Holdings Limited, 23.9% of Class "B" shares by ICT Holding Ltd and 7.391% of Class "B" shares by Goldman Sachs International (UK) and 12.187% by certain other companies). Refer to Note 19 for an overview of the differences in rights and obligations of "A" and "B" shareholders.

From 4 July 2018 following the Change of Control Mr. Pavel Vashchenko, citizen of the Russian Federation (the "Ultimate Controlling Shareholder"), became the ultimate controlling party of the Group (31 December 2017: the Group was ultimately controlled by Mr. Boris Mints, citizen of the Russian Federation).

Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding and financing of investments in financial assets at fair value through profit and loss comprising of investments in subsidiaries and associates, operating in the Russian real estate market.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements unless otherwise stated.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

These financial statements are the separate financial statement of the company.

The Company prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union for the Company and its subsidiaries. The consolidated financial statements can be obtained from 18 Spyrou Kyprianou, 2nd Floor, 1075, Nicosia, Cyprus. Users of these separate financial statements of the parent company should read them together with the consolidated financial statements of

O1 PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

the company and its subsidiaries as at and for the year ended 31 December 2018 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and its subsidiaries.

Going concern

O1 Properties Limited and its subsidiaries (the "Group") are operating in a difficult business environment and the Company has dependencies with the ultimate beneficial owners ("UBOs") business environment. The Company is exposed to the business conditions of its subsidiaries as it has undertaken to provide financial support to enable them to meet their obligations as and when they become payable.

In particular, on the 4 July 2018 O1 Group Limited (ex majority shareholder of the Company) transferred the control of the Company to Riverstretch Trading & Investments Limited ("Riverstretch"), a company registered and existing under the laws of Cyprus. This constitutes a "Change of Control", as defined in the terms of issuance of the Eurobonds (issued by a subsidiary of the Group) and loan facility agreements with all key banks of the Group (together the "Creditors"). In accordance with the terms of the agreements, the Creditors had the right to claim earlier redemption of the outstanding debt.

Following the above developments, the management of O1 Properties Group initiated discussions with all the above Creditors and as a result, as of the date of approval of these financial statements, the Group received waivers and/or restructured/refinanced its debts with all the above key Creditors.

The above was achieved without significant adverse impact on the terms of the existing facility agreements.

The Group's management has reviewed the viability of the Group from liquidity and solvency perspective over a period covering at least 12 months from the reporting date. Management has also assessed the sufficiency of Group's capital (significant net asset position) and liquidity (new financing if needed).

The Company incurred a loss of USD 536,936 thousand for the year ended 31 December 2018 (For the year ended 31 December 2017: USD 170,984 thousand) and as of that date, the Company's current liabilities exceeded its current assets by USD 302,717 thousand (31 December 2017: USD 18,894 thousand).

Described below are the reasons for the above shortfall and the Management's expectations in relation to how the Company will be able to meet its liabilities in the foreseeable future:

- The recognized financial guarantees and indemnity liabilities in the amount of USD 195,702 thousand and USD 36,226 thousand respectively (Note 22), though being part of the current liabilities, are not expected to become payable during the 12 months following the approval of these financial statements. More specifically the possible liabilities in relation to the recognized financial guarantees relate to financial obligations of subsidiary companies not expiring before December 2020. In relation to indemnity liabilities, based on the ongoing discussions with the relevant stakeholders, management expects that the above amounts will not become payable before November 2020.
- Current payables and current loans payable in the amount of USD 130,554 thousand (Notes 21 and 23) are payable to companies under the direct or indirect control of the Company. Management of the Company is in position to prolong the maturity of those payables as they become due.

Based on the above, the Company's financial statements have been prepared on a going concern basis. Therefore, the financial statements do not include any adjustments relating to the recovery of assets recorded and the amount and classification of liabilities or any other adjustments that should have been necessary should the Company and the Group were unable to continue as a going concern.

Notwithstanding the existence of the events and conditions discussed above that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, the Board of Directors prepared the financial statements of the Company on a going concern basis.

01 PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Adoption of New or Revised Standards and Interpretations

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 "Financial Instruments" (Issued in July 2014).

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has not early adopted IFRS 9 in its financial statements for the year ended 31 December 2017.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements have a material impact on its accounting for its financial assets.

On 1 January 2018 for financial assets held by the company, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI test) and has classified them into the appropriate IFRS 9 categories.

ii. Impairment – Financial assets and contract assets

In relation to impairment, IFRS 9 introduces a new future oriented model of expected credit loss (ECL) which replaces the 'incurred loss' model established by IAS 39.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Currently all of the Company's financial instruments are in the scope of the IFRS 9 impairment model.

In relation to financial assets, based on the estimated credit losses, the application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses of USD 2,870 thousand.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Company's classification of financial liabilities as at 1 January 2018 did not have any material impact on the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

The Company applied IFRS 9 retrospectively. The Company also applied exemption allowing not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. The effect of adoption of IFRS 9 on the financial statements as at 1 January 2018 results in additional impairment losses of USD 1,713 thousand.

iv. Classification – Equity instruments

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

The Company's classification of equity instruments as at 1 January 2018 did not have any material impact on the financial statements.

An assessment for equity instruments held by the Company was performed, in respect of whether they are held for trading or not. As a result, Management has classified its equity instruments into the appropriate IFRS 9 categories.

The Company applied IFRS 9 retrospectively. The Company also applied exemption allowing not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

The effect of adoption of IFRS 9 on financial statement as at 1 January 2018 is disclosed in the table below:

<i>in US Dollars</i>	As at 31 December 2017 (as reported under IAS 39)	Effect of adoption of IFRS 9	As at 31 December 2017 (as recalculated under IFRS 9)
ASSETS			
Non-current assets			
Loans issued	152,716,070	(2,423,000)	150,293,070
Financial assets at fair value through profit and loss	776,655,785	-	776,655,785
Total non-current assets	929,371,855	(2,423,000)	926,948,855
Current assets			
Trade and other receivables	65,575,298	(447,000)	65,128,298
Other assets	9,690,046	-	9,690,046
Total current assets	75,265,344	(447,000)	74,818,344
TOTAL ASSETS	1,004,637,199	(2,870,000)	1,001,767,199
LIABILITIES			
Total non-current liabilities	103,309,913	-	103,309,913
Current liabilities			
Trade and other payables	82,336,600	-	82,336,600
Financial guarantees and other provisions	-	1,713,000	1,713,000
Other current liabilities	11,822,331	-	11,822,331
Total current liabilities	94,158,931	1,713,000	95,871,931
TOTAL LIABILITIES	197,468,844	1,713,000	199,181,844
EQUITY			
Retained earnings	(387,190,914)	(4,583,000)	(391,773,914)
Other equity	1,194,359,269	-	1,194,359,269
Equity attributable to the owners of the Company	807,168,355	(4,583,000)	802,585,355
Non-controlling interest	-	-	-
TOTAL EQUITY	807,168,355	(4,583,000)	802,585,355
TOTAL LIABILITIES AND EQUITY	1,004,637,199	(2,870,000)	1,001,767,199

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

- IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014).

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has not early adopted IFRS 15 in its financial statements for the year ended 31 December 2017.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions".
- IAS 40 (Amendments) "Transfers of Investment Property".
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts".
- Annual Improvements to IFRSs 2014-2016 Cycle.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted, as follows:

(i) Adopted by the European Union

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
Based on its preliminary assessment, the Company does not believe that the new requirements of the standard would have had a material impact on its financial statements.
- IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
- IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019).
- IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).

(ii) Not adopted by the European Union

- IFRS 3 (Amendments) "Business Combinations" (effective for annual periods beginning on or after 1 January 2020).
- IAS 1 and IAS 8 (Amendments) "Definition of material" (effective for annual periods beginning on or after 1 January 2020).
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).
- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020).
- Interest rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7) (effective for annual periods 1 January 2020).

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Company.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Investment in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. Assets in this category are classified as current if they are either held for trading or expected to be realized within twelve months of the reporting date.

(i) Classification:

The Company classifies its investments in subsidiaries as financial assets at fair value through profit or loss and are presented as non current because they are held for long term investment rather than for trading. Management determines the classification of financial assets at initial recognition. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Company's documented investment strategy.

Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. Assets in this category are classified as current if they are either held for trading or expected to be realized within twelve months of the reporting date.

(ii) Recognition and measurement:

Regular way purchases and sales of financial assets are recognized on the trade date which is the date on which the Company commits to purchase or sell the investment in subsidiary. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expenses in statement of profit or loss and other comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of profit or loss and other comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss and other comprehensive income as part of the dividend income when the Company's right to receive payments is established. Whereby the Company undertakes a group restructuring which results in a new intermediary holding company, with the transfer of previously held subsidiaries to a new intermediary holding company in exchange for the issue of shares by the new intermediary holding company, the Company determines the initial fair value of the new intermediary holding company with reference to the fair value of the subsidiaries transferred at the date of transfer.

Revenue recognition

Revenues earned by the Company are recognised on the following basis:

- **Interest income**

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

- **Dividend income**

Dividend income is recognised when the right to receive payment is established.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Other income and expenses

All other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Borrowing costs

Borrowing costs are recognised in statement of profit or loss and other comprehensive income as incurred.

Finance costs

Interest expense and other costs on borrowings to finance construction or production of qualifying assets are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Foreign currency translation

(1) *Functional and presentation currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars (US\$), which is the Company's functional and presentation currency.

(2) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income. Translation differences on non-monetary items such as equities held at fair value through profit and loss are reported as part of the fair value gain or loss. Translation differences on available-for-sale financial assets are recognised in other comprehensive income.

Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Financial Instruments

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination) if any, are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

Classification of financial assets

The Company classifies its financial assets into the following measurement models: amortised cost, fair value through profit or loss, fair value through other comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. Trade and other receivables are also subject to the impairment requirements of IFRS 9.

Loans receivable

Loans are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Loans are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with banks with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Cash and cash equivalents are subject to the impairment requirements of IFRS 9. Restricted balances are excluded from cash and cash equivalents for the purpose of the statement of cash flow.

Equity instruments

The Company subsequently measures all equity investments at fair value.

Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. Dividend income from financial assets at FVTPL is recognised in the statement of comprehensive income when the Company's right to receive payments is established. Fair value is determined in the manner described in note 7.

Classification of financial liabilities

The Company classifies its financial liabilities except for derivatives into financial liabilities carried at amortised cost. Modification to the terms of a financial liabilities is substantial if the net present value of the cash flow under the modified terms, including any fees paid net of any fees received, is at least 10 % different from the net present value of the remaining cash flows of the liability prior to modification, both discounted at the original effective interest rate. A gain or loss in case of such modifications are recognised through profit or loss for the period

01 PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs are recognised in statement of profit or loss and other comprehensive income as incurred.

Trade and other payables

Trade and other payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost, using the effective interest method.

Financial guarantees

Financial guarantees are irrevocable contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the amount determined in accordance with the expected credit loss model under IFRS 9.

Derivatives

Derivatives are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Company does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Initial recognition of financial instruments

All financial instruments carried at amortised cost are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Company uses discounted cash flow valuation techniques to determine the fair value of derivative financial instruments, loans to and from related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight-line basis over the term of the derivative financial instruments, loans to and from related parties.

The changes in the fair value of derivatives are recognised immediately in the profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Initial recognition of financial instruments (continued)

Derecognition of financial assets and liabilities

Financial assets

The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

The Company derecognises a financial liability or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on its financial assets and financial guarantees. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due (depending on type and nature of financial asset), unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 180 days past due (depending on type and nature of financial asset) unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For the purposes of calculation of loss allowance for expected credit losses the Company uses public data on external credit rating of the counterparty and, in case of absence of such information, internal credit rating assigned using internally developed methodology. Credit rating represents ability of the counterparty to repay debt or service contractual cash flows timely and cover outstanding amount in case of default based on the assessment of financial performance of the counterparty. The internal credit rating methodology allows to assign internal credit rating and determine probability of default and losses in case of default for the counterparties based on the external historical statistics on frequency of defaults and losses for the companies and financial instruments with similar quantitative and qualitative characteristics. Among other factors following indicators of the counterparty are taken into account in order to determine internal credit rating:

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

- Long Term and Short Term Assets
- Equity
- Long Term and Short Term Liabilities
- Revenue
- EBITDA
- Interest Expenses

In order to determine probability of default of the particular financial instrument the following characteristics of the instrument are considered:

- maturity
- direct or indirect security/collateral provided
- nature of the instrument.

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Transactions with equity owners/subsidiaries

The Company enters into transactions with shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contributions or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non equity holders or subsidiaries, are recognised through the profit or loss in accordance with IAS 39, 'Financial Instruments Recognition and Measurement'.

The Company accounts for all the transactions with equity owners/subsidiaries, involving the disposals of subsidiaries at transaction price. If a gain or loss arises, this is accounted for as per above.

Share capital and share premium

Ordinary shares are classified as equity.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. Accounting policies (continued)

Shares issued are classified as equity if, and only if, both conditions (a) and (b) below are met: (a) the shares include no contractual obligation (i) to deliver cash or another financial asset to another entity, or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, and (b) the shares will or may be settled in the issuer's own equity instruments and the shares are (i) non derivatives that include no contractual obligation for the issuer to deliver a variable number of its own equity instruments, or (ii) derivatives that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

For equity settled share-based payment transactions whereby shares are issued as consideration for the acquisition of investments, the entity recognises investments at fair value with a corresponding increase in equity.

Provisions

Provision for legal claims and guarantees obligations are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of the time is recognized as interest expense.

Cash-settled share based payments plan

Certain directors and key management of the Company are entitled to a share based payments plan. The Company has a liability to settle the plan in cash and therefore the plan is accounted for as a cash settled share based payment transaction. The calculation of the plan related liabilities and expense are based on (1) vesting period, (2) estimated fair value of the unit options, (3) the number of unit options expected to satisfy vesting conditions, and (4) estimated timing of exercise of the unit options. At each end of the reporting period the plan related liability is re-measured to its fair value through profit or loss to the extent the award is vested. The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

Equity-settled share-based payment transactions

As from 2013 certain directors and key management of the Company are entitled to an equity settled, share based compensation plan, under which the entity receives services from employees as consideration for equity instruments issued by the Company. For such plans, the entity measures the services received, and the corresponding increase in equity, directly, at the fair value of the services received, unless that fair value cannot be estimated reliably. When the entity cannot estimate reliably the fair value of the services received, the entity measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments is measured at the grant date.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Financial risk management

Financial risk factors

The Company is exposed to interest rate risk, credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in the market interest rates as the Company's interest bearing assets and liabilities have fixed rates.

3.2 Credit risk

The Company takes on an exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's exposure to credit risk is reflected in the carrying amounts of the respective financial instruments.

In order to minimise credit risk, the Company has adopted a policy of dealing with credit worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. For details on Company's exposure to credit risk as at year end, please see Note 11.

3.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amounts	Contractual cash flows	3 months or less	Between 3-12 months	Between 1-5 years
	US\$	US\$	US\$	US\$	US\$
31 December 2018					
Other loans	97,728	97,728	-	-	97,728
Trade and other payables	1,196,104	1,196,104	-	1,196,104	-
Payables to related companies	69,420,361	-	-	-	-
Borrowings from related companies	120,555,179	134,808,276	-	63,902,636	70,905,640
Financial guarantees and other provisions	<u>231,927,718</u>	<u>231,927,718</u>	-	-	<u>231,927,718</u>
	<u>423,197,090</u>	<u>368,029,826</u>	-	<u>65,098,740</u>	<u>302,931,086</u>
31 December 2017					
Other loans	97,728	97,728	-	-	97,728
Trade and other payables	10,810,580	10,810,580	-	10,810,580	-
Payables to related companies	67,314,020	67,314,020	-	67,314,020	-
Borrowings from related companies	<u>115,034,137</u>	<u>129,685,304</u>	-	<u>29,773,817</u>	<u>99,911,487</u>
	<u>193,256,465</u>	<u>207,907,632</u>	-	<u>107,898,417</u>	<u>100,009,215</u>

For maximum exposure on guarantees given please refer to credit risk disclosure (Note 11).

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Financial risk management (continued)

3.4 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro, the United Kingdom Pound and the Russian Rouble. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's exposure to foreign currency risk was as follows:

31 December 2018

	Euro US\$	Russian Rouble US\$	United Kingdom Pound US\$
Assets			
Cash at bank	2,021	3,392,002	-
Loans receivable	1,883,295	10,205,219	-
Receivables	<u>2,999,260</u>	<u>13,982,131</u>	<u>570,387</u>
	<u>4,884,576</u>	<u>27,579,352</u>	<u>570,387</u>
Liabilities			
Trade and other payables	(222,866)	(133,230)	(91,655)
Loans payable	-	(26,650,041)	-
	<u>(222,866)</u>	<u>(26,783,271)</u>	<u>(91,655)</u>
Net exposure	<u>4,661,710</u>	<u>796,081</u>	<u>478,732</u>

31 December 2017

	Euro US\$	Russian Rouble US\$	United Kingdom Pound US\$
Assets			
Cash at bank	10,566	5,165,126	44
Loans receivable	1,755,267	11,241,331	-
Receivables	<u>1,741,861</u>	<u>6,011,220</u>	<u>282,157</u>
	<u>3,507,694</u>	<u>22,417,677</u>	<u>282,201</u>
Liabilities			
Trade and other payables	(175,523)	(4,371,767)	(97,259)
Loans payable	(9,564,800)	(37,131,100)	-
	<u>(9,740,323)</u>	<u>(41,502,867)</u>	<u>(97,259)</u>
Net exposure	<u>(6,232,629)</u>	<u>(19,085,190)</u>	<u>184,942</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. Financial risk management (continued)

Sensitivity analysis

A 10% strengthening of the United States Dollars against the following currencies at 31 December 2018 (2017: 10%) would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollars against the relevant currency, there would be an equal and opposite impact on the profit and equity.

	Equity		Profit or loss	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
Euro	(466,171)	623,263	(466,171)	623,263
United Kingdom Pounds	(47,873)	(18,494)	(47,873)	(18,494)
Russian Rouble	(79,608)	1,908,519	(79,608)	1,908,519
	<u>(593,652)</u>	<u>2,513,288</u>	<u>(593,652)</u>	<u>2,513,288</u>

3.5 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

The Company's gearing ratio is calculated as follows:

	2018	2017
	US\$	US\$
Total borrowings (Note 21)	120,652,907	115,131,865
Less: Cash and cash equivalents (Note 19)	<u>(3,402,257)</u>	<u>(5,288,131)</u>
Net debt	117,250,650	109,843,734
Total equity	<u>271,241,265</u>	<u>807,168,355</u>
Total capital	<u>388,491,915</u>	<u>917,012,089</u>
Gearing ratio	<u>30.18%</u>	<u>11.98%</u>

Fair value estimation

The carrying amounts and fair values of certain financial assets and liabilities are as follows:

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
Financial assets				
Cash and cash equivalents	3,402,257	5,288,131	3,402,257	5,288,131
Derivative financial instruments	-	2,143,460	-	2,143,460
Financial assets	110,659,015	201,629,860	111,097,569	212,545,848
Trade and other receivables	57,690,931	65,575,298	57,690,931	65,575,298
Financial liabilities				
Amortised cost				
Trade and other payables	(70,616,465)	(82,336,600)	(70,616,465)	(82,336,600)
Borrowings	(120,652,708)	(115,131,865)	(130,953,216)	(118,431,323)
Financial guarantees and other provisions	<u>(231,927,718)</u>	-	<u>(231,927,718)</u>	-
	<u>(251,444,688)</u>	<u>77,168,284</u>	<u>(261,306,642)</u>	<u>84,784,814</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Calculation of loss allowance**

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 11.

- **Income taxes**

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Fair value of financial assets**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The fair value of the financial assets has been estimated based on the fair value of these individual assets.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The Company uses various valuation methods to value non-listed investments. These methods are based on assumptions made by the Board of Directors which are based on market information at the reporting date. For more information on the assumptions made by the Board of Directors in determining the fair value of the investments refer to Note 13 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Critical accounting estimates and judgements (continued)

• Functional currency

The functional currency of the Company was determined based on the underlying economic conditions of its operations which are financing activities and sale and purchase of investments/holding of investments. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, the Company evaluates among other factors, the location of activities, the sources of revenue and expense and risks associated with activities.

The functional currency was determined to be US Dollars on the basis that the Company raised its capital in US Dollars and most investments were purchased using US Dollars.

5. Interest income

	2018	2017
	US\$	US\$
Interest income from third parties	8,384,126	8,304,032
Interest income from related parties (Note 25)	6,308,586	5,721,167
	<u>14,692,712</u>	<u>14,025,199</u>

6. Other income

	2018	2017
	US\$	US\$
Income on financial guarantees	-	1,380,000
Income from recharge of expenses (Note 25)	431,890	719,398
	<u>431,890</u>	<u>2,099,398</u>

7. Net loss from financial assets

	2018	2017
	US\$	US\$
Loss from sale of financial assets at fair value through profit and loss	(32,539,856)	-
Impairment of available for sale financial assets (Note 15)	-	(3,038)
Fair value losses on financial assets at fair value through profit and loss (Note 14)	(183,619,795)	(164,354,290)
Fair value gains on other investments	(68,953)	-
Fair value gains on derivative financial instruments	903,440	3,315,828
Impairment of financial assets (Note 11)	(96,241,603)	(53,089,693)
	<u>(311,566,767)</u>	<u>(214,131,193)</u>

For more information on the disposals of financial assets refer to Note 14 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. Administration expenses

	2018 US\$	2017 US\$
Professional fees	1,018,497	594,067
Legal fees	1,237,663	32,129
Directors' remuneration (Note 25)	161,499	400,000
Auditors' remuneration - current year	199,200	75,300
Travelling	4,381	119,273
Administration fees	23,224	190,952
Marketing and promotion	4,031	25,307
Sundry expenses	27,641	27,696
Insurance	18,267	59,803
Auditors' remuneration - prior years	6,536	3,657
	<u>2,700,939</u>	<u>1,528,184</u>

The operating expenses stated above include fees of US\$ 7,000 (2017: US\$ 8,334) for tax consultancy services charged by the Company's statutory audit firm.

9. Net finance costs

	2018 US\$	2017 US\$
Finance income		
Sundry finance income	-	2,604,541
Other income	27,216	1,326,075
Realised exchange profit	1,226,096	-
Unrealised exchange gain	1,124,015	-
	<u>2,377,327</u>	<u>3,930,616</u>
Interest expense		
Interest expense from related parties (Note 25)	(8,134,811)	(9,061,647)
Other interest expense	(289,685)	(1,199,551)
Other finance expenses		
Bank charges	(35,096)	(47,953)
Sundry finance expenses	(1,496,003)	(712,171)
Net foreign exchange transaction losses		
Realised exchange loss	-	(113,513)
Unrealised exchange loss	-	(1,866,905)
	<u>(9,955,595)</u>	<u>(13,001,740)</u>
	<u>(7,578,268)</u>	<u>(9,071,124)</u>

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For the year ended 31 December 2018

10. Tax

	2018 US\$	2017 US\$
Charge for the year	<u>-</u>	<u>-</u>
The tax on the Company's loss before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:		
	2018 US\$	2017 US\$
Loss before tax	<u>(536,936,090)</u>	<u>(170,984,254)</u>
Tax calculated at the applicable tax rates of 12.5%	<u>(67,117,011)</u>	<u>(21,373,032)</u>
Tax effect of expenses and losses not deductible for tax purposes	<u>68,479,461</u>	<u>27,435,055</u>
Tax effect of allowances, income and gains not subject to tax	<u>(1,171,298)</u>	<u>(5,873,056)</u>
Tax effect of tax losses brought forward	<u>(191,152)</u>	<u>(188,967)</u>
Tax charge	<u>-</u>	<u>-</u>

The Company is subject to income tax on taxable profits at the rate of 12.5%.

Under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 30%.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 17%. In certain cases dividends received from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus Income tax.

Due to tax losses sustained in the period, no tax liability arises on the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the following five years.

11. Credit quality of financial assets

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is > 90 days past due (depending on type and nature of financial asset) or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – non credit-impaired
In default	Amount is > 180 days past due (depending on type and nature of financial asset) or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

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For the year ended 31 December 2018

11. Credit quality of financial assets (continued)

The tables below detail the credit quality of the Company's financial assets as well as the Company's maximum exposure to credit risk by credit risk rating grades:

31 December 2018	Note	External credit rating	Internal credit rating	Basis for recognising expected credit losses	Gross carrying amount	Loss allowance	Net carrying amount
Loans issued	17	N/A	Performing	12-month ECL	25,960,864	(984,641)	24,976,223
Loans issued	17	N/A	Doubtful	Lifetime ECL (not credit impaired)	208,211,648	(122,528,856)	85,682,792
Trade and other receivables	18	N/A	Doubtful	Lifetime ECL (not credit impaired)	40,359,477	(28,578,151)	11,781,326
Trade and other receivables	18	N/A	Performing	12-month ECL	46,010,553	(108,447)	45,902,106
Deposits in banks	19	BBB-	Performing	12-month ECL	2,878,915	(1,199)	2,877,716

Off-balance sheet items:

31 December 2018	Note	External credit rating	Internal credit rating	Basis for recognising expected credit losses	Nominal amount of guarantee (*)	Loss allowance
Financial guarantee contracts	22	N/A	Performing	12-month ECL	40,088,000	(555,786)
Financial guarantee contracts	22	N/A	Doubtful	Lifetime ECL (not credit impaired)	1,125,920,541	(195,145,932)

* For Company guarantee, the nominal amount of guarantee represents the maximum amount the Company has guaranteed under the respective agreement.

For trade receivables, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix below:

Days of payment delay	0-30	31-90	91-180	More than 180
Provision, % of outstanding amount	1%	20%	50%	100%

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. Credit quality of financial assets (continued)

The following table shows the movement in expected credit losses that has been recognised for the respective financial assets and financial guarantees:

	12-month ECL	Lifetime ECL (not credit impaired)	Total
Balance as at 1 January 2018 under IFRS 9	3,425,786	54,246,905	57,672,691
Increase/Decrease in loss allowance recognised in the year	(1,775,714)	292,006,035	290,230,321
Balance as at 31 December 2018	1,650,072	346,252,940	347,903,012

The amount of US\$ 290,230,321 charged in statement of profit or loss and other comprehensive income comprises loss allowance on financial assets of US\$ 96,241,603 (US\$ 70,423,807 on loans receivable, US\$ 25,816,597 on trade and other receivables, and US\$ 1,199 on bank deposits) and on financial guarantees of US\$ 193,988,718 (Notes 7 and 22).

	2018 US\$	2017 US\$
Cash at bank and short term bank deposits		
Without credit rating	3,392,765	5,071,990
BB- (Standard & Poor's)	-	157,107
B- (Fitch)	7,498	46,590
A- (Standard & Poor's)	3,194	12,444
	<u>3,403,457</u>	<u>5,288,131</u>

12. Presentation of Classes of Financial Instruments with Measurement Categories

The Company's accounting policy for financial assets and financial liabilities was applied in accordance with the following measurement categories:

As at 31 December 2018	Financial assets measured at amortised cost US\$	Financial assets at fair value through profit or loss US\$	Total US\$
Financial assets			
Financial assets at fair value through profit or loss	-	522,596,919	522,596,919
Loans receivable	110,659,015	-	110,659,015
Other investments	-	89,612	89,612
Trade and other receivables (excluding prepayments)	57,683,431	-	57,683,431
Cash and cash equivalents	3,402,257	-	3,402,257
Total	<u>171,744,703</u>	<u>522,686,531</u>	<u>694,431,234</u>
As at 31 December 2018			
	Financial liabilities at fair value through profit or loss US\$	Other financial liabilities at amortised cost US\$	Total US\$
Financial liabilities			
Borrowings	-	120,652,907	120,652,907
Trade and other payables	-	70,616,465	70,616,465
Total	<u>-</u>	<u>191,269,372</u>	<u>191,269,372</u>

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For the year ended 31 December 2018

As at 31 December 2017	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	US\$	US\$	US\$	US\$
Financial assets				
Financial assets at fair value through profit or loss	-	776,655,785	-	776,655,785
Loans receivable	154,815,960	-	-	154,815,960
Available-for-sale financial assets	-	-	158,565	158,565
Derivative financial instruments	-	2,143,460	-	2,143,460
Trade and other receivables (excluding prepayments)	65,567,798	-	-	65,567,798
Cash and cash equivalents	<u>5,288,131</u>	-	-	5,288,131
Total	<u>225,671,889</u>	<u>778,799,245</u>	<u>158,565</u>	<u>1,004,629,699</u>

As at 31 December 2017	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
	US\$	US\$	US\$
Financial liabilities			
Borrowings	-	115,131,865	115,131,865
Trade and other payables	-	82,336,600	82,336,600
Total	-	<u>197,468,465</u>	<u>197,468,465</u>

13. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values have been determined by the Company using available market information, when such information exists and is considered a reliable indicator, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market. Market quotations may be outdated or reflect distressed sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets at fair value through profit or loss. The fair values of the financial assets at fair value through profit or loss (Note 14) are based on Level 3 valuations. These valuations are determined based on the adjusted net asset method defined by IFRS 13. For subsidiaries which do not hold investment properties, the fair value is based on the calculated fair value of their assets and liabilities which is determined using market rates (where applicable) adjusted as deemed necessary in order to reflect the risk exposure of each subsidiary. For such subsidiaries which hold investment properties in Russia, net assets are determined to be a proxy for their fair value, as they reflect the fair value of the investment properties on their statement of financial position. In determining the fair value of the investment properties, management uses valuation reports of independent property valuers who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The fair value of investment properties was determined mainly using discounted cash flow valuation techniques. The Company used assumptions that were based on market conditions existing at each reporting date. Changes in assumptions used in the valuation techniques could affect reported fair values.

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13. Fair Value of Financial Instruments (continued)

The valuation technique, inputs used in the fair value measurement of the investment property and related sensitivity to reasonably possible changes in those inputs were as follows at 31 December 2018:

<i>In thousands of US Dollars</i>	Valuation technique	Inputs used in valuation of investments properties	Range of inputs (weighted average)	Reasonable change (% of input)	Sensitivity of fair value measurement
Subsidiaries holding yielding investment property	Discounted Cash Flow Technique	Discount rates	10.0 - 12.0%	+10%	(159,900)
				-10%	171,400
		Estimated rental value	240 - 620 USD/sq.m.	+10%	247,800
				-10%	(247,300)
		Exit capitalization rates	8.25 - 9.75%	+10%	(168,900)
				-10%	206,500
Subsidiaries holding investment property under development	Discounted Cash Flow Technique	Discount rates	17.0 - 20.0%	+10%	(3,730)
				-10%	4,230
		Expected sq.m. price / estimated rental value	290 - 2100 USD/sq.m.	+10%	9,610
				-10%	(9,500)
		Exit capitalization rates	9.0%	+10%	(3,200)
				-10%	4,000

The valuation technique, inputs used in the fair value measurement of the investment property and related sensitivity to reasonably possible changes in those inputs were as follows at 31 December 2017:

<i>In thousands of US Dollars</i>	Valuation technique	Inputs used in valuation of investments properties	Range of inputs (weighted average)	Reasonable change (% of input)	Sensitivity of fair value measurement
Subsidiaries holding yielding investment property	Discounted Cash Flow Technique	Discount rates	10.0 - 12.5 %	+10%	(180,100)
				-10%	193,400
		Estimated rental value	230 - 730 USD/sq.m.	+10%	261,400
				-10%	(260,800)
		Exit capitalization rates	8.5 - 10.5%	+10%	(190,100)
				-10%	232,100
Subsidiaries holding investment property under development	Discounted Cash Flow Technique	Discount rates	19.0 - 20.0%	+10%	(1,900)
				-10%	2,030
		Estimated rental value	2600 - 5900 USD/sq.m.	+10%	10,580
				-10%	(10,570)

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For the year ended 31 December 2018

13. Fair Value of Financial Instruments (continued)

The sensitivity of fair value measurement to change of inputs is estimated by adjusting the variable and assuming that other variables remain the same.

During the year 2017 there were no re-classifications from or into Level 3 measurements.

Cash and cash equivalents. Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

Financial assets and liabilities carried at amortized cost. Financial assets and liabilities are carried at amortized cost which approximates their current fair value.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value based on value as per stock exchange.

14. Financial assets at fair value through profit and loss

	2018 US\$	2017 US\$
Balance on 1 January	776,655,785	941,007,814
Additions	116,000,000	2,261
Disposals	(186,439,071)	-
Fair value losses (Note 7)	(183,619,795)	(164,354,290)
Balance at 31 December	<u>522,596,919</u>	<u>776,655,785</u>

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NOTES TO THE FINANCIAL STATEMENTS

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14. Financial assets at fair value through profit or loss (continued)

The details of the subsidiaries at fair values are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2018 Holding %	2017 Holding %
Wallasey Ltd	Cyprus	Financing	100*	100*
Ratado Holding Ltd	Cyprus	Holding and financing Investments	100*	100*
O1 Properties Management	Russia	Services	100	100
Vielle Ltd	Cyprus	Holding and financing investments	100	100
LLC City-Developer	Russia	Services	100	100
CJSC Nash Standart	Russia	Services	100	100
Letvion Investments Ltd	Cyprus	Holding and financing investments	85	85
Collins Crest Limited	Cyprus	Holding	-	100
Silverflair Ltd	Cyprus	Holding and financing Investments	100*	100*
O1 Properties Finance PLC	Cyprus	Financing	99.98	99.98
Taavo Enterprises Ltd	Cyprus	Holding and financing Investments	85	85
Barkmere Limited	Cyprus	Inactive	100	100
Hannory Holdings Ltd	BVI	Holding and financing investments	100	100
Mooncrown Ltd	Cyprus	Holding and financing investments	100	100
Nikkon Global Ltd	BVI	Inactive	100	100
Cemvertia Holdings Ltd	Cyprus	Holding and financing investments	100	100
Kolston Group Ltd	BVI	Holding and financing Investments	-	100
Simeona Ltd	Cyprus	Inactive	100	100
Fundin Investments Ltd	Cyprus	Holding and financing Investments	100	100
Thabit Holdings Ltd	Cyprus	Holding and financing Investments	100	100
Eagleman Ltd	Cyprus	Holding and financing investments	100	100
Minesign Ltd	Cyprus	Holding and financing investments	-	100
O1 Advisory Ltd	Cyprus	Management company	100	100
Moonbow Ltd	Cyprus	Holding and financing investments	-	100
Goldflavour Ltd	Cyprus	Financing	100*	100*
Stoneface Ltd	Cyprus	Holding and financing investments	100	100

The ownership stakes marked (*) were pledged in relation to borrowings of related parties (Note 25) at respective dates.

Refer to Note 26 for the information on pledge of shares in Ratado Holding Limited.

The following are transactions affecting the investments in subsidiaries during the years ended 31 December 2018 and 31 December 2017:

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For the year ended 31 December 2018

14. Financial assets at fair value through profit or loss (continued)

2018 transactions:

On 15 May 2018, the Company sold 100% of shares in Kolston Group Ltd to Bellrun Trading Ltd for a total consideration of US\$ 50 thousand.

On 16 June 2018, the Company sold 100% of shares in Moonbow Ltd to Cesium Ltd for a total consideration of US\$ 37,848 thousand.

On 16 June 2018, the Company sold 100% of shares in Collins Crest Ltd to Cesium Ltd for a total consideration of US\$ 1 thousand.

On 22 June 2018, the Company sold 100% of shares in Minesign Ltd to Ratado Holding Ltd for a total consideration of US\$ 116,000 thousand.

On 22 June 2018, the Company subscribed to additional 1,000 shares in Ratado Holding Ltd for a total consideration of US\$ 116,000 thousand.

2017 transactions:

On 21 February 2017, the Company acquired 100% share capital of Goldflavour Limited for a total consideration of EUR 1,000.

On 20 September 2017, the Company acquired 100% share capital of Stoneface Limited for a total consideration of EUR 1,000.

Dividend income from investments in subsidiaries

	2018 US\$	2017 US\$
The Company received dividends from its subsidiaries as follows:		
CJSC Nash Standart	-	424,113
Simeona Limited	-	480,000
Moonbow Limited	-	36,717,537
	-	<u>37,621,650</u>

15. Available-for-sale financial assets

	2018 US\$	2017 US\$
Balance on 1 January	158,565	161,603
Impairment (Note 7)	-	(3,038)
Reclassification	<u>(158,565)</u>	-
Balance at 31 December	<u>-</u>	<u>158,565</u>

At the end of March 2013 cash balances of the Company with the Bank of Cyprus amounted to EUR 2 256 thousand. An amount of EUR 1 024 thousand representing 47.5% of the uninsured deposits has been converted to shares of Bank of Cyprus with nominal value of EUR 1 each following the bail in of uninsured depositors (amounts in excess of EUR 100 thousand) for the recapitalisation of Bank of Cyprus.

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For the year ended 31 December 2018

15 Available-for-sale financial assets (continued)

On 18 January 2017 an amount of 51,206 depositary interest have been converted to shares of Bank of Cyprus with nominal value of EUR 0.10 each.

The 51,206 shares received from the conversion of bank deposits into shares as described above were recognised at EUR 1.53 each as at 31 December 2018 (31 December 2017: EUR 2.59 each).

IFRS 9 contains a new classification and measurement approach for available-for-sale financial assets and as at 31 December 2018 the available-for-sale financial assets were classified under statement of financial position as other investments.

16. Derivative financial instruments

Interest rate swaps

	2018 US\$	2017 US\$
Assets - positive fair value	-	2,143,460

At 31 December 2017, the Company had interest rate swap contracts with a total notional amount of US\$ 35,712,962 (2016: US\$ 307,382,000) expiring on 2 August 2018 whereby the Company was paying a fixed interest rate in exchange of floating interest rate.

At 31 December 2018 the net positive fair value of these contracts was US\$ NIL (2017: 2,143,460).

17. Loans receivable

	2018 US\$	2017 US\$
Loans to own subsidiaries (Note 25)	1,874,631	1,755,266
Loans to related companies (Note 25)	33,370,256	40,879,953
Loans to third parties	<u>75,414,128</u>	<u>112,180,741</u>
	<u>110,659,015</u>	<u>154,815,960</u>
Less current portion	-	(2,099,890)
Non-current portion	<u>110,659,015</u>	<u>152,716,070</u>
The loans are repayable as follows:		
Within one year	-	2,099,890
Between one and five years	<u>110,659,015</u>	<u>152,716,070</u>
	<u>110,659,015</u>	<u>154,815,960</u>

The loans to third parties were provided at an interest between 8.35% and 9%, and are repayable between 28 and 31 December 2020.

At 31 December 2018 the Company had one counterparty (31 December 2017: one counterparty) with balances of loans issued above 10% of the aggregate balances of loans issued. This counterparty did not have credit rating provided by external agency. Aggregate balances of loans issued to the above counterparty as at 31 December 2018 amounted to USD 75,363 thousand (31 December 2017: USD 112,015 thousand).

Loans receivables are unsecured.

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The exposure of the Company to credit risk and expected credit losses in relation to loans receivable is reported in Notes 3, 11 and 27 of the financial statements.

The fair values of non-current receivables approximate to their carrying amounts as presented above.

18. Trade and other receivables

	2018	2017
	US\$	US\$
Receivables from own subsidiaries and other related companies (Note 25)	49,030,857	58,447,528
Receivables from shareholders (Note 25)	1,349	1,349
Deposits and prepayments	7,500	7,500
Other receivables	8,651,225	7,118,921
	<u>57,690,931</u>	<u>65,575,298</u>

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in Notes 3, 11 and 27 of the financial statements.

19. Cash and cash equivalents

Cash balances are analysed as follows:

	2018	2017
	US\$	US\$
Cash at bank	524,541	5,288,131
Bank deposits	2,877,716	-
	<u>3,402,257</u>	<u>5,288,131</u>

Analysis by currency:

	2018	2017
	US\$	US\$
United States Dollars	9,433	112,395
Euro	2,022	10,566
United Kingdom Pounds	-	44
Russian Ruble	3,390,802	5,165,126
	<u>3,402,257</u>	<u>5,288,131</u>

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in Notes 3, 11 and 27 of the financial statements.

As at 31 December 2018, due to implementation of IFRS 9, the cash and cash equivalents incurred a loss allowance of USD 1,199 (Note 11).

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. Share capital and share premium

Issued and fully paid	Number of ordinary shares	Share capital US\$	Share premium - ordinary shares US\$	Total US\$
Balance at 31 December 2017/ 1 January 2018	<u>90,869,715</u>	<u>1,137,342</u>	<u>1,183,411,606</u>	<u>1,184,548,948</u>
Balance at 31 December 2018	<u>90,869,715</u>	<u>1,137,342</u>	<u>1,183,411,606</u>	<u>1,184,548,948</u>

At 31 December 2018 and 31 December 2017 the authorized share capital of the Company was 21,694,704 class "A" shares of nominal value USD 0.01 each and 200,000,000 class "B" shares of nominal value EUR 0.01 each and the issued share capital of the Company was 21,694,704 class "A" shares of nominal value USD 0.01 each and 69,175,017 class "B" shares of nominal value EUR 0.01 each.

In accordance with the Articles of Association of the Company class "A" shares (1) do not have voting rights in the event that the holders of class A shares do receive dividends in the preceding calendar quarter, (2) are entitled to non-cumulative quarterly dividends at the absolute discretion of directors of the Company not exceeding USD 2.17 per share p.a. and in priority to other shares, (3) receive maximum USD 18.11 per share upon liquidation and (4) give the holder the right to convert its class "A" shares into class "B" shares. Class "B" shares (1) have voting rights, (2) may receive dividends only if at least minimum amount of dividends has been distributed to the holders of class "A" shares within the same period, and (3) are entitled to distributions upon liquidation.

21. Borrowings

	2018 US\$	2017 US\$
Current borrowings		
Borrowings from related companies (Note 25)	<u>61,355,243</u>	<u>11,821,952</u>
	<u>61,355,243</u>	<u>11,821,952</u>
Non current borrowings		
Other loans	97,728	97,728
Borrowings from related companies (Note 25)	<u>59,199,936</u>	<u>103,212,185</u>
	<u>59,297,664</u>	<u>103,309,913</u>
Total	<u>120,652,907</u>	<u>115,131,865</u>
Maturity of non-current borrowings:		
Between one to two years	<u>19,718,827</u>	70,711,093
Between two and five years	<u>39,578,837</u>	<u>32,598,820</u>
	<u>59,297,664</u>	<u>103,309,913</u>

The exposure of the Company to liquidity and currency risk in relation to borrowings is reported in Note 3 of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. Financial guarantees and other provisions

US\$

Balance at 31 December 2018

231,927,718

At 31 December 2018, the Company and O1 Group Limited have jointly and severally provided an indemnity to two non-controlling shareholders of the Company, regarding losses that might arise from each of the guarantees provided by the Company. At 31 December 2018 these indemnity liabilities were acknowledged in the amount of US\$ 36,226 thousand (2017: US\$ Nil). The amount of the indemnity was determined as the percentage of the losses from the guarantee that corresponded to their shareholdings in the Company. The corresponding charge in the statement of profit or loss and other comprehensive income is US\$ 36,226 thousand.

At 31 December 2018 the Company's provision in the amount of US\$ 195,702 thousand related to probable obligations as a result of financial guarantees provided by the Company in relation to financial liabilities issued by subsidiary companies (Notes 12 and 26). It is not expected that there will be a cash outflow in the next 12 months in relation to the above-recognized liability. The corresponding charge in the statement of profit or loss and other comprehensive income is US\$ 193,989 thousand (Note 11).

The exposure of the Company to liquidity risk in relation to provisions is reported in Note 3 of the financial statements.

23. Trade and other payables

	2018	2017
	US\$	US\$
Financial guarantees	-	4,212,000
Shareholders' current accounts - credit balances (Note 25)	221,582	6,549,305
Trade payables and accruals	1,196,104	301,216
Other creditors	-	10,509,364
Payables to own subsidiaries and other related companies (Note 25)	<u>69,198,779</u>	<u>60,764,715</u>
	<u>70,616,465</u>	<u>82,336,600</u>

The exposure of the Company to liquidity risk in relation to trade and other payables is reported in Note 3 of the financial statements.

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

24. Current tax liabilities

	2018	2017
	US\$	US\$
Corporation tax	<u>379</u>	<u>379</u>
	<u>379</u>	<u>379</u>

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For the year ended 31 December 2018

25. Related party transactions

At 31 December 2018 the Company's principal immediate shareholders were Riverstretch Trading and Investments Limited (Cyprus), Yofoura Holding Limited (Cyprus) and certain other companies which owned 70.038%, 14.410% and 15.552% of Class "A" shares respectively (31 December 2017: 70.545% of Class "A" shares were owned by Agdalia Holdings Limited (Cyprus), 18.051% by ICT Holding Ltd (Cyprus) and 11.404% of Class "A" shares were owned by certain other companies). At 31 December 2018 the owners of Class "B" shares were Riverstretch Trading and Investments Limited, Yofoura Holding Limited and certain other companies which owned 58.391%, 21.695% and 19.915% of Class "B" shares respectively (31 December 2017: 56.522% of Class "B" shares were owned by Agdalia Holdings Limited, 23.9% of Class "B" shares by ICT Holding Ltd and 7.391% of Class "B" shares by Goldman Sachs International (UK) and 12.187% by certain other companies). Refer to Note 19 for an overview of the differences in rights and obligations of "A" and "B" shareholders.

From 4 July 2018 following the Change of Control Mr. Pavel Vashchenko, citizen of the Russian Federation (the "Ultimate Controlling Shareholder"), became the ultimate controlling party of the Group (31 December 2017: the Group was ultimately controlled by Mr. Boris Mints, citizen of the Russian Federation).

During the years 2018 and 2017, a number of transactions were entered into with related parties in the normal course of business. Certain of these transactions, particularly where a broad market does not exist, were consummated at terms agreed to between the parties.

The following transactions were carried out with related parties:

25.1 Key management compensation (Note 8)

The remuneration of Directors who are members of key management was as follows:

	2018 US\$	2017 US\$
Directors' remuneration	<u>161,499</u>	<u>400,000</u>
	<u>161,499</u>	<u>400,000</u>

Refer to Note 20 for shares issued as part of the Company's share based payment plan.

25.2 Interest income (Note 5)

	2018 US\$	2017 US\$
Interest income from direct subsidiary companies	4,088,485	3,346,781
Interest income from indirectly held subsidiary companies	2,091,149	2,092,551
Interest income from parent companies	<u>128,952</u>	<u>281,835</u>
	<u>6,308,586</u>	<u>5,721,167</u>

25.3 Interest expense (Note 9)

	2018 US\$	2017 US\$
Interest expense from direct subsidiary companies	5,056,424	4,580,991
Interest expense from indirectly held subsidiary companies	3,078,387	4,454,219
Interest expense from parent companies	<u>-</u>	<u>26,437</u>
	<u>8,134,811</u>	<u>9,061,647</u>

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25. Related party transactions (continued)

25.4 Receivables from own subsidiaries and other related companies (Note 18)

	2018	2017
	US\$	US\$
Receivables from direct subsidiary companies	46,669,735	52,817,259
Receivables from indirectly held subsidiary companies	2,361,122	4,885,672
Receivables from prior year companies under common control (after change of control)	-	744,597
	<u>49,030,857</u>	<u>58,447,528</u>

The receivables from direct and indirectly held subsidiary companies are interest free and repayable on demand.

During the year 2018, due to implementation of IFRS 9, the receivables from direct and indirectly held subsidiary companies incurred a loss allowance of USD 22,411 thousand.

25.5 Loans to related parties (Note 17)

	2018	2017
	US\$	US\$
Loans to direct subsidiary companies	1,874,631	1,755,266
Loans to indirect held subsidiary companies	33,370,256	32,514,961
Loans to prior year companies under common control (after change of control)	-	8,364,992
	<u>35,244,887</u>	<u>42,635,219</u>

The loans to direct subsidiary companies were provided at interest rates of 5.65% to 7%, and are repayable from 30 June to 31 December 2021.

The loans to indirectly held subsidiary companies were provided at interest rates of 6% to 13.10%, and are repayable from 31 December 2020 to 30 June 2023.

The loans to prior year companies under common control (after change of control) were repaid during the year.

During the year 2018, due to implementation of IFRS 9, the loans to direct and indirectly held subsidiary companies incurred a loss allowance of USD 76,700 thousand.

25.6 Payables to subsidiaries and other related companies (Note 23)

	2018	2017
	US\$	US\$
Payables to direct subsidiary companies	22,847,496	50,396,134
Payables to indirectly held subsidiary companies	46,351,283	1,241,900
Payables to prior year companies under common control (after change of control)	-	9,126,681
	<u>69,198,779</u>	<u>60,764,715</u>

The payables to direct and indirectly held subsidiary companies are interest free and repayable on demand.

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25. Related party transactions (continued)

25.7 Loans from related parties (Note 21)

	2018 US\$	2017 US\$
Loans from direct subsidiary companies	65,954,299	57,100,866
Loans from indirectly held subsidiary companies	54,600,880	47,181,798
Loans from prior year companies under common control (after change of control)	-	10,751,473
	<u>120,555,179</u>	<u>115,034,137</u>

The loans from direct subsidiary companies were provided at interest rates of 7% to 11.35%, and are repayable from 30 June 2019 to 31 December 2024.

The loans from indirectly held subsidiary companies were provided at interest rates of 7% to 10%, and are repayable from 31 December 2019 to 10 July 2024.

The loans from prior year companies under common control (after change of control) were repaid during the year.

25.8 Receivables from shareholders (Note 18)

	2018 US\$	2017 US\$
Shareholders' current accounts - debit balances	1,349	1,349
	<u>1,349</u>	<u>1,349</u>

The shareholders' current accounts are interest free, and have no specified repayment date.

25.9 Shareholders' current accounts - credit balances (Note 23)

	2018 US\$	2017 US\$
Amounts owed to shareholders	221,582	6,549,305
	<u>221,582</u>	<u>6,549,305</u>

The shareholders' current accounts are interest free, and have no specified repayment date.

25.10 Other income

	2018 US\$	2017 US\$
Income from recharge of expenses to subsidiary companies (Note 6)	431,890	719,398
	<u>431,890</u>	<u>719,398</u>

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25. Related party transactions (continued)

25.11 Acquisition and disposal of investments from/to related parties

Details regarding the acquisition and disposal of investments from/to related parties are disclosed in Notes 7 and 14.

26. Contingent liabilities and financial guarantees

O1 Group Limited as the borrower under USD 175 million borrowing has defaulted on its obligations. The borrowing is guaranteed by the Company and secured by all shares of its subsidiary in Ratado Holding Limited ("Ratado"). In order to avoid seizure of "Ratado" shares by the Creditors and as a Guarantor under the borrowing, during the year 2018 the obligation was transferred to Ratado and Ratado acknowledged the liability in full, started to service the debt and is going to repay the facility in full on its maturity in April 2020 if not prolonged.

In relation to a USD 20 million facility agreement between one of the non controlling shareholders of the Company (the "Shareholder") and Public Joint Stock Company Promsvyazbank (the "Bank"), the Company guaranteed the performance of the Shareholder in respect to this facility. This guarantee was released during 2019 due to the loan repayment.

At 31 December 2018 the Company guaranteed liabilities of a previous joint venture of the Group in the amount of USD 20,088 thousand (31 December 2017: USD 20,241 thousand). The Company was indemnified by a guarantee issued by Cesium Limited for 49.9% of the guaranteed liability which amounts to USD 10,024 thousand (31 December 2017: USD 10,100 thousand). As a result, the total exposure of the Company in relation to this guarantee is USD 10,064 thousand (31 December 2017: USD 10,141 thousand).

At 31 December 2018 and 31 December 2017 the Company guaranteed liabilities of Moonshard Limited (former Margo S.a.r.l.) in relation to a loan from AO Unicredit Bank for the amount up to USD 75 million. This guarantee was released during 2019 as the loan was refinanced.

At 31 December 2018 and 31 December 2017 the Company guaranteed liabilities of O1 Properties Finance PLC to Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities PLC, Raiffeisen Bank International AG and VTB Capital PLC in relation to USD 350 million Eurobonds listed on the Irish Stock Exchange. The Eurobonds are due to be redeemed on 2021.

At 31 December 2018 and 31 December 2017 the Company guaranteed the liabilities of a company controlled by the the Ultimate Controlling Shareholder in relation to MOEX USD bonds of nominal value USD 335,000 thousand and USD 150,000 thousand that were later converted to EUR. Also, at 31 December 2018 and 31 December 2017 the Company guaranteed the liabilities of same company in relation to MOEX Rouble bonds of nominal value RUB 15,000 million.

At 31 December 2018 the loss allowance per IFRS 9 relating to these financial guarantees described above was USD 195,702 thousand with corresponding charge in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of USD 193,989 thousand for the year ended 31 December 2018. Refer to Note 22.

For indemnity that was provided to two non-controlling shareholders refer to Note 22.

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27. Contingencies, Commitments and Operating Environment

Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Given that Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2017 and 2018 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Company is at this stage difficult to determine.

Tax Contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and/or the overall operations of the Company.

The Company is incorporated outside of Russia. The tax liabilities of the Company is determined on the assumption that it is not subject to Russian profits tax, because it does not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Company.

Certain changes into Russian Tax Code that came into force starting 1 January 2015, which introduced the following concepts: (i) the "controlled foreign companies rules" (the "CFC Rules"). Under the Russian CFC Rules, in certain circumstances, undistributed profits of foreign companies and non-corporate structures (e.g., trusts, funds or partnerships) domiciled in foreign jurisdictions, which are ultimately owned and/ or controlled by Russian tax residents (legal entities and individuals), shall be subject to taxation in Russia; (ii) the concept of tax residency for legal entities. Under this concept a legal entity may be recognized as Russian tax resident if such entity is in fact managed from Russia. When an entity is recognized as Russian tax resident it is obligated to register, calculate tax on its world wide income and comply with other tax-related rules established for Russian entities; (iii) the concept of "beneficial ownership". Under the Federal Law, a beneficial owner is defined as a person holding directly, through its direct and/or indirect participation in other organizations or otherwise, the right to own, use or dispose of income, or the person on whose behalf another person is authorized to use and/or dispose of such income.

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27. Contingencies, Commitments and Operating Environment (continued)

As Russian tax legislation does not provide definitive guidance in certain areas, the Company adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Company. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and/or the overall operations of the Company.

Cyprus economy

The Cyprus Government exited its economic adjustment programme in March 2016 and began to record significant economic growth due to the government's fiscal consolidation efforts. Remarkable is the achievement of the positive rate of change of GDP the last twelve (12) successive quarters. The economy recorded remarkable performance in 2018. GDP increased by 3.9% compared to 4.5% for 2017. The growth was mainly driven by tourism, trade, shipping and construction industry.

The sovereign risk ratings of the Cyprus government improved considerably. In October 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

The unemployment rate dropped to an average of 8.4% in 2018 from 11% in 2017 and contributed to strong private consumption growth.

According to the forecasts of the European Commission, the economic growth will continue; a growth in GDP of 3.3% is expected for 2019 and 2.7% for 2020.

Also, the Cyprus government took additional steps for strengthening of foreclosure and insolvency framework as well as the securitisation on non-performing loans. These steps aim to the decrease of non-performing loans' index.

Public debt remains a challenge currently being at the level of 105% of the GDP up from 96% in 2017. However, its underlying dynamics remain stable and it is expected to decline significantly in coming years. The debt ratio will decline to 98% in 2019 and to 91% in 2020 according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018).

28. Significant events after the reporting period

During 2019 the Company entered into a suretyship agreement with third party bank as lender, as security for the obligations of Limited Liability Company "FENIX" under an agreement on opening of a non renewable credit line with a limit of to 335,000,000 Rubles to be entered into by Fenix as borrower and the Bank as lender.

In addition, during 2019 the guarantee provided to the non-controlling shareholder of the Company in relation to a USD 20 million facility agreement was released (Note 26).

On 28 March 2019 the Company guaranteed liabilities of O1 Properties Management to third party bank for total amount of USD 24 million.

In April 2019 Riverstretch Trading & Investments Limited and the Company signed a "Funded Participation Agreement" according to which the Company funded its parent company's participation in a syndicated loan facility guaranteed by the Company and fully provided in its subsidiary's financial statements. The total amount of the parent's participation which has been assigned in favour of the Company, is USD 53 million. The Company's share in the above participation amounts to USD 43 million.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. Significant events after the reporting period (continued)

In April 2019 in relation to a facility agreement between one of the Company's subsidiary and third party bank, the Company guaranteed the performance of the respective subsidiary in respect to this facility in the amount of EUR 10 million (or its equivalent in any other currency or currencies).

On 25 April 2019, the Company received a USD 16 million borrowing from a third party bank. The facility agreement has a three year term.

On 19 June 2019, the maturity of the loan due to direct subsidiary company Ratado Holding Limited of US\$ 46,730 thousand as at 31 December 2018 was extended to 31 December 2024.

On 21 June 2019, the maturity of the loan due to indirectly held subsidiary Levisoma Trading Limited of US\$ 13,945 thousand as at 31 December 2018 was extended to 28 February 2025.

On 30 August 2019 the Company acquired 100% share capital of Gardin Limited from Thabit Holdings Limited for a total consideration of EUR 1,000.

There were no other material subsequent events which have an impact on the understanding of the financial statements of the Company.