

A low-angle photograph of a sailboat's sails against a clear blue sky. The sails are white and black, with the white sails being the primary focus. The rigging and ropes of the boat are visible in the lower right corner.

**IBS**  
GROUP

Annual report 2010

# Table of Contents

## 1 | To our shareholders

President's Address to Shareholders	3
IBS Group at a Glance	5
Summary of the Financial Year	6
Shares of IBS Group	10

## 2 | Management report

Business and Operating Environment	14
Business Overview and Group Structure	14
Corporate Strategy	15
Global Economic Conditions	16
IT Market Conditions	17
Research and Development	18
Consolidated Results of Operations	19
Consolidated Financial Position	29
Consolidated Liquidity and Capital Resources Overview	31
Overview of Selected Parts of the Consolidated Balance Sheet	33
Results of Operations, Financial Position, Liquidity and Capital Resources Overview of IBS Group Holding Limited (Isle of Man)	35
Subsequent Events	40
Report on Opportunities and Risks	42
Opportunities Management System	42

Risk Management System	43
Risk Report	44
Risk Reporting Relating to the Use of Financial Instruments	51
Internal Control System and Risk Management System Used in the Group's Consolidated Financial Reporting Process of IBS Group Holding Limited	53
Report on Remunerations	56
Takeover Related Disclosures	57
Corporate Governance Declaration (Declaration in accordance with Section 289a of the HGB)	60
Responsibility statement	61
Sustainability report	62
Customers	62
Employees	63
Quality Management System	64
Social Responsibility	66
Outlook	67
Economic Outlook	67
Sector and Market	68
General and Mid-term Outlook	70
Outlook for IBS Group Holding Limited	73
Basis of Our Guidance	73

# 1 | To Our Shareholders

President's Address to Shareholders	3
IBS Group at a Glance	5
Summary of the Financial Year	6
Shares of IBS Group	10

1 | To Our Shareholders

# President's Address to Shareholders

**Dear shareholders, business partners and employees** — The 2010 financial year was an important year for IBS Group, solidifying our position as a leader in Eastern European offshore software development and a forerunner in IT services sector in Russia. Past year was marked by a healthy recovery of the Group's revenues to US\$656 million, as compared with the 2008 pre-crisis levels of US\$657 million, an impressive comeback. Notably, IBS Group was able to achieve significant improvements in profitability with net income soaring 86% YoY and EBITDA margin increasing to 7.2%.

Software Development segment, represented by Luxoft, has become the key business for the Group. In 2010, Luxoft continued to position itself as the provider of choice in the complex international software outsourcing market thanks to its ability to combine unparalleled expertise in delivering high quality services with strict cost control discipline. Luxoft's growth was propelled by the major secular trends of (1) continued shift into cloud computing; (2) decline of dominant incumbents in operating systems and spread of new OSs; (3) growth in internet-enabled merchandise. Luxoft's differentiating competence of geographic diversity was reinforced in 2010 through the opening of new development centres in Poland, Singapore and the United Kingdom.

In the Russian IT Services segment, represented by IBS IT Services, the Group's management successfully capitalised on major 2010 trends: (1) the Russian



IT services market recovery; (2) rapid restoration of demand from numerous Russian customers; (3) improved visibility going forward. These trends have further fuelled an investment case for the Russian IT services sector as a growth and a value story, in which IBS Group's IT services segment is strongly positioned to capture the benefits. During the past year IBS IT Services premier position in the Russian market was yet again acknowledged by the industry experts through several awards, including "the largest

## 1 | To Our Shareholders

consulting company in Russia" (Expert RA) and "the largest IT services company in Russia" (IDC).

In November 2010, IBS Group successfully completed an upgrade of its GDR listing designation and became the first Russian company whose GDRs are listed on the Regulated Market of the Frankfurt Stock Exchange. Furthermore, in August 2010, the Group obtained a US\$20 million convertible loan from the European Bank for Reconstruction and Development as part of its efforts to diversify instruments and sources of financing and reduce borrowing costs. Both of these developments signify ongoing steps in management's efforts to increase transparency and underline importance of corporate governance within the Group.

**Anatoly Karachinsky**  
President and CEO, Chairman of the Advisory Board

Sustainable profitable growth of IBS Group in the financial year 2010 was underpinned by four main pillars in services delivery: continued enhancement of value for our customers, ongoing quality management, geographic expansion, and leverage of our sales and distribution network world-wide. Diligence, ingenuity, and extraordinary commitment of our employees provided a foundation for the Group's business success.

We thank our customers and shareholders for their confidence and cooperation. We applaud our employees and partners for their excellent performance and commitment. Our solid revenue generation pipeline for this year allows IBS Group to look into the 2011 with confidence and enthusiasm.

1 | To Our Shareholders

# IBS Group at a Glance

(US\$ million)	Years ended March 31	
	2011	2010
<b>Revenues and Earnings</b>		
Revenues	656.0	505.1
Change in %	30%	-23%
EBITDA <sup>1</sup>	47.5	34.6
in % of Revenue	7.2%	6.9%
Net income <sup>2</sup>	25.8	13.9
in % of Revenue	3.9%	2.7%
<b>Cash flow</b>		
Cash	26.5	14.6
Operating cash flow	30.0	11.0
in % of Revenues	5%	2%
<b>Balance Sheet</b>		
Total assets	415.7	355.6
Equity <sup>3</sup>	209.0	175.4
Debt <sup>4</sup>	58.2	41.9
Net debt <sup>5</sup>	31.7	27.3
<b>Key ratios</b>		
Net debt/EBITDA	0.7	0.8
Debt/EBITDA	1.2	1.2
Equity ratio <sup>6</sup>	50%	49%
Basic Earnings per share (EPS) in US\$	1.12	0.6
Diluted Earnings per share (EPS) in US\$	1.10	0.6
Return on equity (ROE) <sup>7</sup>	12%	8%
<b>Employees as of year-end</b>	<b>7 355</b>	<b>6 040</b>

<sup>1</sup> The Group's EBITDA is equal to net income/(loss) from continuing operations plus/(minus) net interest expense (income), income tax expense (benefit), impairment loss, depreciation and amortisation.

<sup>2</sup> Net Income attributable to the Group.

<sup>3</sup> Equity including non-controlling interest.

<sup>4</sup> Debt means, as at reporting date, the sum of short term debt, long term debt, including current and non-current portions, and capital lease obligations, including current and non-current portions.

<sup>5</sup> Net debt is equal to Debt minus cash and cash equivalents.

<sup>6</sup> Equity ratio is determined by dividing equity by total assets.

<sup>7</sup> Return on equity (ROE) is determined as the net income attributable to the Group divided by the shareholders' equity.

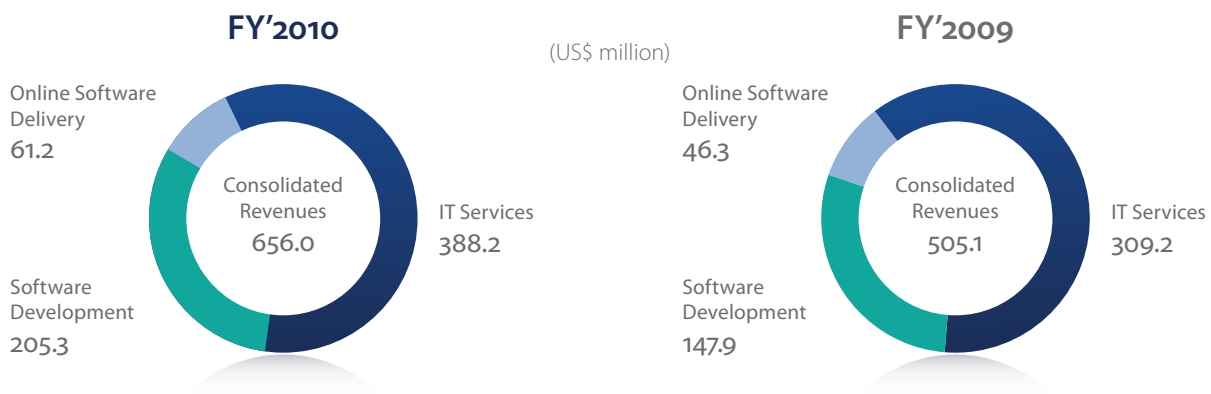
1 | To Our Shareholders

# Summary of the Financial Year

## Revenues

Consolidated revenues for the year ended 31 March 2011 (FY'2010) totalled US\$656.0 million, a 30% increase from the year ended 31 March 2010

(FY'2009: US\$505.1 million), driven by continued sales growth in all business segments.



US\$ million	FY'2010	FY'2009	Change, %
IT Services	388.2	309.2	26%
Software Development	205.3	147.9	39%
Online Software Delivery	61.2	46.3	32%
Corporate and other	1.3	1.7	
Consolidated revenues (net of intercompany sales)	656.0	505.1	30%

- The IT Services segment (IBS IT Services) demonstrated a 26% revenue growth on the back of a rapid recovery in the system integration services and the infrastructure projects.
- The Software Development segment (Luxoft) demonstrated a 39% revenue growth as a result of increasing global demand for software and applications development outsourcing.
- The Online Software Delivery segment (Softkey) demonstrated a 32% revenue growth, reflecting increasing sales of licensed software and expanding client base.

## 1 | To Our Shareholders

### Earnings

Consolidated Group's EBITDA grew by 37% to US\$47.5 million (FY'2009: US\$34.6 million). This substantial growth was contributed to by all business segments.

The EBITDA margin (EBITDA as a percentage of revenues) increased to 7.2% (FY'2009: 6.9%).

US\$ million	FY'2010	FY'2009	Change, %
IT Services	16.0	12.5	28%
EBITDA margin	4.1%	4.0%	
Software Development	38.4	24.5	57%
EBITDA margin	18.6%	16.4%	
Online Software Delivery	-1.2	-0.2	
Corporate and elimination	-5.7	-2.2	
<b>Consolidated EBITDA</b>	<b>47.5</b>	<b>34.6</b>	<b>37%</b>
EBITDA margin	7.2%	6.9%	

- EBITDA at IBS IT Services grew 28% in absolute terms, and EBITDA margin reached 4.1%.
- The Software Development segment demonstrated an EBITDA growth of 57% in

absolute terms, and EBITDA margin increased 18.6%, reflecting an increased segment profitability and the economy of scale.

US\$ million	FY'2010	FY'2009
<b>EBITDA</b>	<b>47.5</b>	<b>34.6</b>
Depreciation and amortization	18.4	17.2
Impairment loss	1.7	-
Net interest	-4.0	-2.1
Income taxes	-3.8	-2.9
Income on disposal of discontinued operations, net of tax	10.4	1.8
Noncontrolling interest	-4.2	-0.3
<b>Net income attributable to the Group</b>	<b>25.8</b>	<b>13.9</b>

We achieved excellent growth rates in earnings in FY'2010. Group net income attributable to the Group rose by 86% to US\$25.86 million.

Basic earnings per share increased by 86% to \$1.12 as compared to FY'2009: US\$0.6 per share.

## 1 | To Our Shareholders

### Balance Sheet

Total assets rose by 17% to US\$415.7 million. Shareholders' equity, including non-controlling interest, increased by 19% to US\$209 million.

(US\$ million)	31 March 2011	%	31 March 2010	%
<b>Current assets, including</b>	<b>206.7</b>	<b>50%</b>	<b>152.5</b>	<b>43%</b>
Cash	26.5	6%	14.6	4%
Trade accounts receivable	104.0	25%	78.0	22%
Inventory	32.2	8%	23.4	7%
<b>Non-current assets</b>	<b>209.0</b>	<b>50%</b>	<b>203.1</b>	<b>57%</b>
<b>Total assets</b>	<b>415.7</b>	<b>100%</b>	<b>355.6</b>	<b>100%</b>
<b>Total Liabilities, including</b>	<b>206.7</b>	<b>50%</b>	<b>180.2</b>	<b>51%</b>
Accounts payable	40.6	10%	36.0	10%
Advances received	25.7	6%	10.9	3%
Debt	58.2	14%	41.9	12%
<b>Shareholder's equity</b>	<b>209.0</b>	<b>50%</b>	<b>175.4</b>	<b>49%</b>
<b>Total liability and equity</b>	<b>415.7</b>	<b>100%</b>	<b>355.6</b>	<b>100%</b>

- The equity ratio increased to 50% (31 March 2010: 49%).
- The Group's debt increased to US\$58.2 million (31 March 2010: US\$41.9 million) mainly due to a long term loan of US\$20 million granted by the European Bank for Reconstruction and Development (the "EBRD loan").
- The net debt/ EBITDA ratio improved to 0.7 (31 March 2010: 0.8).

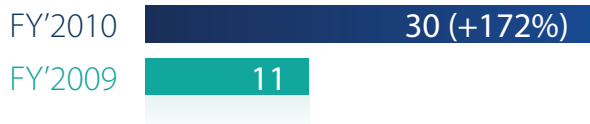
## 1 | To Our Shareholders

### Cash flow

Operating cash flow almost tripled and comprised US\$30.0 million, driven by strong earnings increase and tight working capital management.

(US\$ million)

#### Operating cash flow



- Operating cash flow as a percentage of revenue increased to 5% (FY'2009: 2%).
- Cash and cash equivalents increased to US\$26.5 million as of 31 March 2011 (31 March 2010: US\$14.6 million).

### Key profitability ratios

Per cent	FY'2010	FY'2009
Gross profit margin	34%	37%
EBITDA margin	7.2%	6.9%
Net income (attributable to the Group) margin	3.9%	2.7%

1 | To Our Shareholders

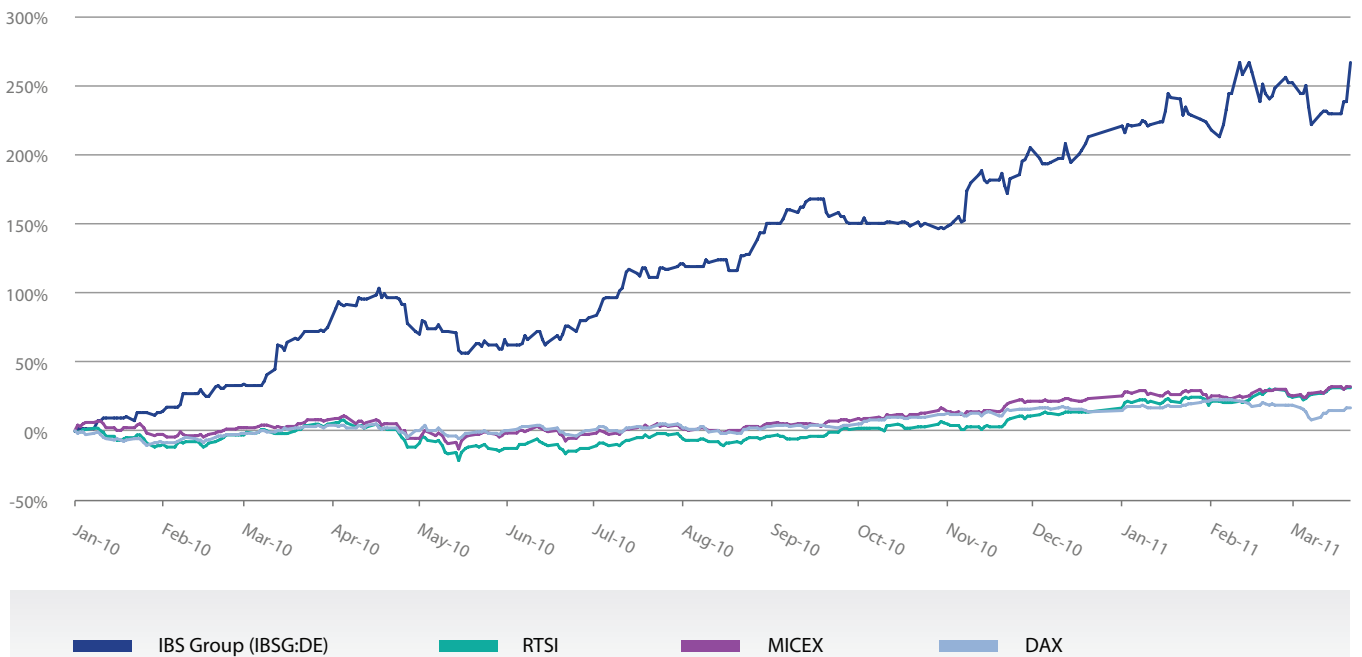
# Shares of IBS Group

## IBS Group at the Stock Markets

The overall stock markets were pretty weak in 2010 both in Russia and globally, while our Global Depository Receipts (GDRs) brought 267% stock return in January

2010 – March 2011 on the back of solid business growth and renewed focus on the capital markets.

## Relative GDR Price Performance VS. RTSI, MICEX and DAX



## 1 | To Our Shareholders

### Shareholder Structure

The share capital of IBS Group Holding Limited (the “Company”) is comprised of 24,855,244 common shares with a nominal value of £0.01 each. The Company has a GDR program established in 2005, and GDRs are currently the only listed instrument of the Company. GDRs representing the Company’s shares are listed at General Standard of the Frankfurt Stock Exchange. One GDR represents one share of the Company. In 2010, IBS Group Holding Limited admitted to trading 9,197,244 GDRs, representing 37.0% of the share capital. The equal number of underlying shares of the Company was deposited with BNY (Nominees) Limited, (UK), which facilitates the Company’s GDR

trading on the Frankfurt Stock Exchange. In total, we have nearly 100 institutional investors holding our GDRs. Most of the GDRs are owned by investors from Scandinavian countries and the UK. In general, issued GDRs represent a free-float of the Company’s capital, which is now estimated at 35% of the total shareholder capital, excluding the EBRD share pledge.

Our recent analysis of the shareholder structure identified that IBS Group has a very consistent investor base that is mostly focused on growth companies and long-term investments. This confirms our success in communicating the Group’s investment case, strategy and business performance.

### Analyst Coverage and Recommendations

IBS Group is followed by a number of investment banking institutions and research houses. Analysts provide their commentary on the Group’s strategy, financial performance, and prospects, accompanied with valuations, forecasts, and recommendations for investors. We treat the recommendations as an

important way for both institutional and private investors to discover value-creating investment stories. As of 25 July 2011, IBS Group had four “Buy” and two “Hold” recommendations from sell-side analysts that consistently cover our stock. The list below aggregates some of the available recommendations:

<b>Goldman Sachs</b>	February 2011	BUY
<b>Otkritie Investment Bank</b>	May 2011	HOLD
<b>Troika Dialog</b>	September 2010	BUY
<b>VTB Capital</b>	March 2011	BUY
<b>UniCredit</b>	April 2011	BUY
<b>Uralsib</b>	November 2010	HOLD
<b>Bank of Moscow</b>	March 2011	BUY

## 1 | To Our Shareholders

### Investor Relations

IBS Group aims to provide comprehensive, timely and open disclosure to investment community and research analysts. During the economic downturn we have intensified our communication with investors to provide a continued assessment of the Group's financial position and the state of its business operations. During 2010 we launched our quarterly trading updates to keep the investment audience updated with respect to the Group's performance and seasonal trends. Over the year, the management of the Group took part in numerous investor meetings and conference calls, attended seven investor conferences and completed several non-deal roadshows in Russia, Europe and the United States.

Focused on improving its liquidity and transparency, IBS Group upgraded its GDR listing from Open Market to General Standard of the Frankfurt Stock Exchange, becoming the first issuer, whose GDRs are to be listed on the Regulated Market in Germany. The listing underlines our commitment to high standards of the best practices in investor relations and improves accessibility and attractiveness of our GDRs to investors.

For more information about IBS Group, please contact us or visit our website at <http://www.ibsgr.com/investor-relations.aspx> to stay up-to-date with the Group's latest events and investor calendar.

## 2 | Management Report

Business and Operating Environment	14
Consolidated Results of Operations	19
Consolidated Financial Position	29
Consolidated Liquidity and Capital Resources Overview	31
Overview of Selected Parts of the Consolidated Balance Sheet	33
Results of Operations, Financial Position, Liquidity and Capital Resources Overview of IBS Group Holding Limited (Isle of Man)	35
Subsequent Events	40
Report on Opportunities and Risks	42
Risk Reporting Relating to the Use of Financial Instruments	51
Internal Control System and Risk Management System Used in the Group's Consolidated Financial Reporting Process of IBS Group Holding Limited	53
Report on Remunerations	56
Takeover Related Disclosures	57
Corporate Governance Declaration	60
Responsibility statement	61
Sustainability report	62
Outlook	67

# Business and Operating Environment

## Business Overview and Group Structure

IBS Group is a leading software development and IT services provider in Eastern Europe. Founded in Moscow, Russia, by two system engineers, Anatoly Karachinsky and Sergey Matsotsky, IBS Group expanded by now to 11 countries and ranks among the leading Eastern European IT companies. Through its two principal business segments, Software Development and IT Services, it offers a wide variety of information technology services, such as software development, IT outsourcing, business and IT consulting, business applications implementation. IBS Group has business operations in Russia, the United Kingdom, the United States of America, Ukraine, Romania, Poland, Germany, Canada, Vietnam and Singapore.

The Company's Global Depositary Receipts are listed on the Regulated Market (General Standard) at the Frankfurt Stock Exchange (Bloomberg: IBSG:GR; Reuters: IBSGq.DE). As of 31 March 2011, the Group had 69 subsidiaries and 7,355 employees, 68% of which are located in Russia.

The Group's business consists of the following three segments:

### **IT Services (IBS IT Services)**

The Group's IT Services segment provides IT services to large and medium-size Russian and CIS customers and government agencies. It designs and implements IT solutions for clients in order to increase the efficiency and transparency of their business. Through its consulting business line, the Group provides consulting services to analyse the clients' business processes and advise on the optimal IT systems design. Our management information systems business provides installation and customisation of various management information systems, including full-scale ERP systems, analytical systems, and integration solutions and services, that automate routine procedures and support business operations. Our IT infrastructure business designs, delivers and supplies computer platforms, networking equipment and data storage systems. Our IT outsourcing business provides outsourcing solutions to clients wishing to outsource all or part of their IT

## 2 | Management Report

function. For the year ended 31 March 2011, revenues generated by the IT Services segment (including intersegment revenues) totalled US\$389.8 million.

### **Software Development (Luxoft)**

The principal activity of the Group's Software Development segment is to implement complex software development projects for corporate clients, mainly in the United States and Western Europe. The Group focuses on the development of customised sophisticated software in areas requiring a tailored approach. Such services are performed by teams of programmers located at offshore development centres or on customer site. The Group delivers tailored IT solutions for various industries, including aviation, finance and banking, information technology and others. For the year

ended 31 March 2011, revenues generated by the Software Development segment (including intersegment revenues) totalled US\$206.2 million.

### **Online Software Delivery (Softkey)**

The core activities of the Group's Online Software Delivery segment include digital software commerce, internet distribution, order processing and payment handling as well as market promotion. Softkey is one of the leading online software suppliers in terms of revenues, offering an assortment of software products in Russia. For the year ended 31 March 2011, revenues generated by the Online Software Delivery segment totalled US\$61.2 million. The Group currently considers options to reduce its stake in Softkey to below 50%, bringing in a strategic partner.

## Corporate Strategy

The Group's strategic vision is to maintain a leading position in all markets of its operations by leveraging project experience, multi-industry expertise, competence in sophisticated software applications, and highly skilled human resources.

In order to realise its strategic vision, the Group intends to focus on the following elements of its strategy:

### **Maintain Leadership in the Areas of Expertise**

The Group provides industry, business process, and technology expertise to ensure project success for

our clients. In the course of our business, we have accumulated in-depth expertise and know how in certain industries and technology areas. Such expertise encompasses technology standards, best industry practices, techniques, designs, code frameworks and business software solutions specific to each client's business, processes and technology objectives. This accumulation of expertise enables us to offer and rapidly customise high quality solutions based on relevant past implementation experience, which in turn provides lower project costs and reduces risks for both customers and the Group.

## 2 | Management Report

### **Achieve Superior Growth Both Organically and Through Acquisitions**

Historically, the Group has grown both organically, by successfully launching new businesses, and through selective acquisitions. The Group intends to continue to focus primarily on organic growth by pursuing the respective growth plans for the IT Services and Software Development segments, while also continuing to identify attractive investment targets.

### **Attract the Best Talent**

The Group's overall success and recognition are based on the skills of its employees, which determines our focus on increasing staff motivation, and a constant strive for high results. The Group intends to continue to

invest heavily in attracting highly qualified personnel through provision of training and social benefits to employees at up market rates, and by further developing our in-house recruitment practices.

### **Financial Targets**

The Group's management uses the following key performance indicators to monitor business operations and performance: revenues and growth rate, EBITDA and EBITDA margin; gross margin as a percentage of revenues, net income (attributable to the Group), net income margin. The financial position and capital structure are monitored based on the following indicators: debt, net debt, debt/EBITDA, net debt/EBITDA, debt/equity, equity ratio, weighted average interest rate on debt (short term/ long term).

## **Global Economic Conditions**

In 2010, the global macro demonstrated a positive impetus with growth in economic activity worldwide at the average of nearly 4%. Overall, the economic revival was less vigorous than in the second half of 2009. While the first half of 2010 saw a continued rebound in the global economy on the back of the "quantitative easing" initiatives in Europe and the United States, the pace of growth slowed down in the second half of 2010.

Emerging markets demonstrated better dynamics than the developed economies, resulting in a robust growth. The latter struggled with weak labour markets and subdued consumer spending. Therefore, overall global recovery remained relatively modest.

The EU economies expanded slowly but failed to achieve pre-crisis levels. Recovery was based on the export trade revival and a moderate increase in consumer spending in Germany, Austria, France and the Netherlands. The banks' lending continued to drag on the performance of the non-financial sectors. Germany was notably the best performing economy led by exports and improving labour market in 2010. Central and Eastern European economies remained subdued with domestic demand still inadequate to support a strong rebound. The main factors of global growth in 2010 included a sharp rebound in commodity prices, sovereign stimulus measures and bottom-low interest rates in the developed economies.

## 2 | Management Report

US economic recovery failed to take off despite government stimulus efforts. Industrial output expanded slowly, unemployment remained persistently high and the economy continued to be supported mainly by the US consumer spending. The end of 2010 marked a recovery in the US economy to its pre-crisis level. Robust growth in Latin America was sustained throughout the year thanks to buoyant commodity prices.

The emerging economies of the Asia Pacific region, in particular China, grew at the fastest rate in 2010. Stronger domestic demand and government measures combined with traditional export orientated model led to a nearly 9% increase in the gross domestic product (GDP) of Asia Pacific region, excluding Japan. This stable and self-supporting growth

allowed the emerging economies of Asia-Pacific to surpass their pre-crisis levels by the end of 2010.

Russia emerged from the global recession with lower-than-expected unemployment and poverty levels. High oil prices helped Russia's exports and fiscal revenues, but a challenge remains to sustain reforms under conditions of natural resource windfalls. Economic policy was focused on inflation control. Russia's real output demonstrated a 4% growth in 2010, driven mainly by domestic demand and exports of natural resources. Consumption growth reached just 2.1%. Annual inflation as measured by CPI accelerated to 9.6% in January 2011 as compared to 8.8% in December 2010, but unemployment declined from 9.2% in January 2010 to 7.2% in December 2010.

## IT Market Conditions

The global IT market, including telecom services, grew by 8% in 2010 and exceeded US\$1.5 trillion in real terms, while the information and communications technology (ICT) market grew by 6% to US\$3 trillion in 2010, according to a Worldwide Black Book report by International Data Corporation ("IDC") released in February 2011. IDC maintains that in 2010 the global IT spending grew at its fastest rate since 2007, driven by increase in pent-up demand for hardware upgrades and infrastructure investment after the 2008-2009 financial crisis and global recession. IT spending on

computer systems, peripherals, storage, mobile devices and network equipment increased by 16%, the fastest growth rate for hardware investment since 1996. According to IDC, storage spending grew by 14%, servers by 9%, and PCs by 11%. IT spending grew 4% on software and 2% on IT services. The report said that the US IT market grew by 6% in 2010. The Asia-Pacific region, excluding Japan, saw 13% growth in 2010. Developing economies accounted for much of the growth in 2010 and should continue to do so in 2011.

## 2 | Management Report

### Research and Development

The Group had no material R&D projects in the years ended 31 March 2010 and 2011, except for the following:

The Group entered into an agreement with the Russian government to develop a software system, with a commitment to invest up to US\$8.4 million over three years ending 31 December 2012. As part of this agreement, the Russian government is expected to

provide up to US\$8.4 million in subsidy to the Group, subject to the Group's allocating the full subsidy amount to R&D activities at Plekhanov's University, and reporting on contractual deliverables in 2013-2017. As of 31 March 2011, the Group received US\$1.6 million in subsidies under the agreement, which were fully offset against the related research expense. Research and development costs are expensed as incurred.

2 | Management Report

# Consolidated Results of Operations

The following selected consolidated financial data and business information for the Group are taken from the audited consolidated financial statements for the years ended 31 March 2011 (FY'2010) and 2010 (FY'2009) that were prepared in accordance with the generally accepted accounting principles of the United States of America (the "US GAAP"). The

financial data selected for this section should be read together with the audited consolidated financial statements of the Group and the notes thereto.

Below is a discussion of major items of the Group's consolidated financial results for the year ended 31 March 2011.

US\$ million	FY'2010	FY'2009
<b>Revenues</b>	<b>656.0</b>	<b>505.1</b>
Cost of revenues	435.8	318.3
<b>Gross margin</b>	<b>220.2</b>	<b>186.8</b>
Selling expenses	5.2	3.2
General and administrative expenses	169.7	149.7
Other gains and losses, net	0.8	0.3
Disposal of subsidiary	-0.4	0.5
Net foreign exchange gain/ (loss)	1.8	-0.1
<b>EBITDA</b>	<b>47.5</b>	<b>34.6</b>
Goodwill impairment	1.7	-
Depreciation and amortization	18.4	17.2
Net interest	-4.0	-2.1
Income taxes	-3.8	-2.9
<b>Income from continuing operations</b>	<b>19.6</b>	<b>12.4</b>
Income from discontinued operations	10.4	1.8
Non-controlling interest	-4.2	-0.3
<b>Net income attributable to the Group</b>	<b>25.8</b>	<b>13.9</b>
Basic earnings per share in US\$	1.12	0.6
Diluted earnings per share in US\$	1.10	0.6

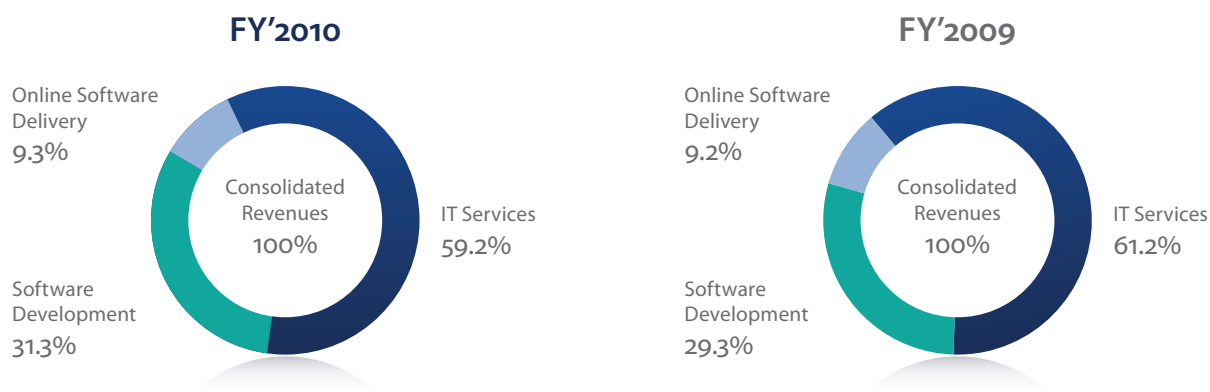
## 2 | Management Report

### Consolidated Revenues

In FY'2010, we increased the Group's sales by 30% to US\$656.0 million (FY'2009: US\$505.1 million).

The table below summarises the Group's consolidated operating revenues by segments for the years ended 31 March 2011 and 2010.

### Consolidated Revenues by Business Segments (external customers)



US\$ million	FY'2010	% of Revenue	FY'2009	% of Revenue	Change, %
IT Services	388.2	59.2%	309.2	61.2%	26%
Software Development	205.3	31.3%	147.9	29.3%	39%
Online Software Delivery	61.2	9.3%	46.3	9.2%	32%
Corporate and other	1.3	0.2%	1.7	0.3%	
Consolidated revenues	656.0	100%	505.1	100%	30%

The IT Services segment remains the largest contributor to the Group's consolidated revenues. For the year ended 31 March 2011, the operating revenues from external customers of the IT Services segment totalled US\$388.2 million, a 26% increase since FY'2009: US\$309.2 million. This increase was due to a rise in IT spending in the Russian IT market, mainly focused on systems integration and infrastructure projects with a substantial amount of hardware equipment. The segment's revenue growth consists

of a 15% increase in revenues from existing clients and an 11% increase from changes in the client base. The increase in revenue growth reflects a 24% increase, primarily in volume with a slight negative effect from pricing, and a 2% increase from currency effect. Revenues from long term construction type contracts to be recognised in subsequent periods amounted to US\$28 million as of 31 March 2011.

The Software Development segment demonstrated a 39% growth for the year ended 31 March 2011. The

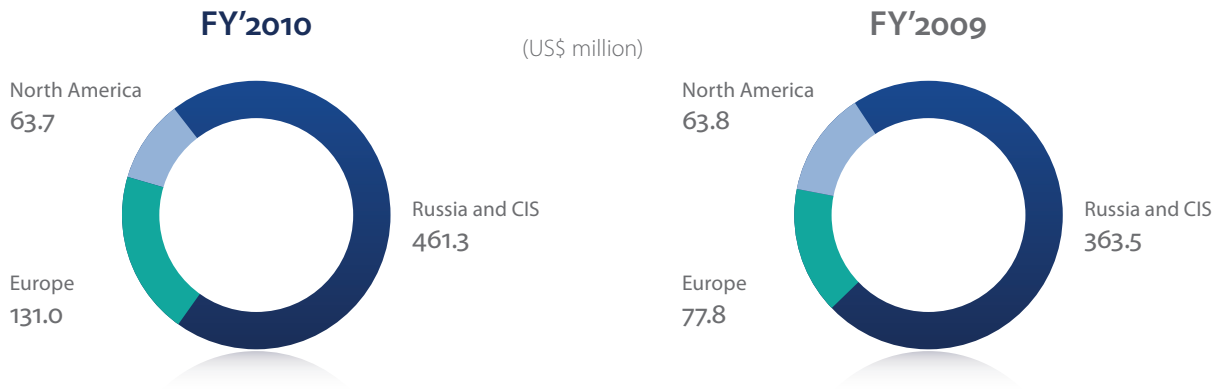
## 2 | Management Report

segment's revenues from external customers increased to US\$205.3 million for the reporting year (FY'2009: US\$147.9 million). The growth was supported by a rapid international expansion and an increased demand for high-end software development outsourcing services in the international markets. The segment's revenue growth consists of a 36% increase in revenues from existing clients and a 3% increase from changes in the client base. Revenues attributable to deals with new clients amounted to 4% as a percentage of the segment's revenue for FY'2010. The increased revenues at the Software Development segment resulted

mainly from our stable customer base. The increase in revenue growth reflects a 41% increase from volumes and prices and a 3% decrease from currency effect.

The Online Software Delivery segment was positively affected by increased software spending on the part of retail customers and showed an increase in revenues by 32% to US\$61.2 million for the year ended 31 March 2011 (FY'2009: US\$46.3 million). Higher revenue growth reflects a 24% increase from volumes and prices and an 8% increase from currency effect. The segment continued to sell software to existing and new customers throughout FY'2010.

## Consolidated Revenues by Geographies



The share of revenues generated in Russia and CIS decreased slightly and totalled 70% as a percentage of total revenues, while demonstrating a 27% increase in absolute terms.

Revenues generated in Europe increased by 68% in absolute terms, while their share as a percentage of total revenues reached 20% for FY'2010. This growth was achieved by a rapid international expansion of the Software Development segment in Europe, where

software development outsourcing is not as mature a business as in North America, and the clients are more concerned about credibility of their IT vendor than a marginal increase in price. The main increase was attributed to financial services sector clients.

Revenues generated in North America were stable both in absolute terms and in terms of the client-base, but their share in total revenues fell to 10% (FY'2009: 13%).

## 2 | Management Report

# Consolidated Revenues by Products and Services

FY'2010		(US\$ million)	FY'2009		(US\$ million)
Sales of products	Sales of services		Sales of products	Sales of services	
272.7 (42%)	383.3 (58%)		186.1 (37%)	319.0 (63%)	

**Sales of products** include sales of IT software licenses and IT hardware. A major part of the Group's operating revenues from sales of products is attributed to the Group's IT Services segment. The Group's revenues from sales of products increased by 47% mainly due to a rise in IT spending in Russia. After a sharp drop in Russian IT spending in 2008-2009 as a result of cost-cutting measures determined by economic instability, the business experienced a rapid recovery of domestic demand for IT products, especially hardware equipment.

**Sales of services** include the provision of software development, consulting and IT services to the Group's clients. Sales of services are generally characterised by substantially higher customer loyalty and higher margins. During the year ended 31 March 2011, revenues from sales of services demonstrated a 20% increase to US\$383.3million (FY'2009: US\$319.0 million), mainly due to a growth in the Software Development segment.

## Cost of Revenues

US\$million	FY'2010	FY'2009	Change, %
Cost of products sold	229.2	150.9	52%
Cost of services	206.6	167.4	23%
<b>Total cost of revenues</b>	<b>435.8</b>	<b>318.3</b>	<b>37%</b>
Total cost of revenues as a % of total revenue	66%	63%	

Cost of products sold includes purchase cost of products, primarily direct purchase cost of IT hardware, materials, other equipment and software sold, less vendor discounts; software licenses; and accrued warranty expenses.

Cost of services includes salaries and related benefits for personnel attributable to projects; subcontractor services; and other project related costs, including travel, materials, and other direct costs.

Where services are performed by subcontractors, the entire cost of subcontractors is included in cost of services whereas when services are performed by employees, approximately 50% to 80% (the utilisation rate) of salaries are included. The balance of personnel compensation and cost of office space or other associated overhead is included in the general and administrative expenses.

For the year ended 31 March 2011, cost of revenues increased to US\$435.8 million or 37%

## 2 | Management Report

compared with the previous financial year. Please

see below comments regarding gross margin as a rationale for the changes in cost of revenues.

### Gross Margin

US\$million	FY'2010	FY'2009	Change, %
Gross margin from the sales of products	43.5	35.2	23%
Gross margin from the sales of services	176.7	151.6	17%
<b>Total gross margin</b>	<b>220.2</b>	<b>186.8</b>	<b>18%</b>
Gross margin as % of sales of products	16%	19%	
Gross margin as % of sales of services	46%	48%	
Total gross margin as % of total revenue	34%	37%	

Gross margin from sales of products is defined as a difference between revenues from sales of products and cost of products sold. Gross margin from sales of services is defined as revenues from sales of services less cost of services.

The Group's gross margin as a percentage of revenues decreased to 34% for the year ended 31 March 2011 (FY'2009: 37%), as a result of an increased share of sales of products, which are

characterised by a lower gross margin comparing to a gross margin from sales of services.

Gross margin from sales of products decreased to 16% (FY'2009: 19%) mainly due to increased competitive pressure on margins in the Russian IT market.

Gross margin from sales of services decreased by about 2 percentage points, down to 46% for the year ended 31 March 2011 (FY'2009: 48%). This resulted from continuing pressure on margins and increasing labour costs.

### Consolidated Gross Margin by Business Segment

US\$ million	FY'2010	FY'2009	Change, %
IT Services	122.1	114.0	7%
as % of IT Services revenue	31%	37%	
Software Development	89.7	65.6	37%
as % of Software Development revenue	44%	44%	
Online Software Delivery	9.7	8.9	9%
as % of Online Software Delivery revenue	16%	19%	
<b>Consolidated gross margin</b>	<b>220.2</b>	<b>186.8</b>	<b>18%</b>
as % of total revenue	34%	37%	

## 2 | Management Report

Despite of lower profitability of the IT Services segment as compared to the Software Development segment, the IT Services segment remained the largest contributor to the Group's gross margin and comprised 55% of the consolidated gross margin (FY'2009: 61%). The segment's gross margin as a percentage of IT Services' revenue declined to 31% (FY'2009: 37%) as a result of a shift in the mix of revenue and competitive pressure on margins.

The Software Development segment demonstrated an increase in gross margin to US\$89.7 million (FY'2009: US\$65.6 million) with a stable 44% gross margin as a percentage of the segment's revenue.

For the year ended 31 March 2011, the Online Software Delivery gross margin increased to US\$9.7 million (FY'2009: US\$8.9 million) as a result of increased sales, while gross margin as a percentage of the segment's revenue declined to 16% (FY'2009: 19%) due to continuing pressure on margins.

## Selling Expenses

For the year ended 31 March 2011, the Group's selling expenses increased to US\$5.2 million (FY'2009: US\$3.2 million). Their ratio as a percentage of total sales increased to 0.8% (FY'2009: 0.6%) mainly due to intensified advertising and marketing

efforts. Nevertheless, selling expenses remain below the pre-crisis level, both in absolute terms and as a percentage of revenues (FY 2008: US\$6.5 million, 1.0%; FY 2007: US\$6.7 million, 1.1%).

## General and Administrative Expenses

General and administrative expenses include salaries and other personnel expenses (other than those included in the cost of revenues), office rent and maintenance, professional services, travel and other expenses. Total personnel expenses amounted to 71% (FY'2009: 74%) of total general and administrative expenses.

The Group's general and administrative expenses increased by 13% compared with the previous financial year ended 31 March 2010, and amounted to US\$169.7 million (FY'2009: US\$149.7 million). This resulted from higher payroll expenses (plus US\$9 million), mainly in the Software Development segment, and rent expenses

(plus US\$11 million) in both business segments, due to an increased number of employees and relocation to new offices. Two other factors comprised US\$3.2 million increase in professional services expenses due to listing-related fees and outsourcing of some administrative functions, offset by US\$3.6 million reduction in bad debt allowance mainly as a result of collection of some previously reserved receivables.

Special management efforts to effectively control general and administrative costs were the main reason for a decrease in such expenses as a percentage of revenues to 26% (FY'2009: 30%) as well as a percentage of consolidated gross margin to 77% (FY'2009: 80%).

## 2 | Management Report

### Net Foreign Exchange Gain/(Loss)

The Group engages in foreign exchange transactions as it has contracts nominated in US Dollars, Roubles and, to a lesser extent, Euros and British Pounds.

Re-measurement of transactions denominated in foreign currencies that are different from functional currencies of the respective subsidiaries resulted in foreign currency exchange gain/

(loss) and was recorded as income/(loss).

During the year ended 31 March 2011, foreign exchange gain comprised US\$1.8 million. This was due to the Euros appreciation affecting Luxoft's receivables, and the Roubles depreciation against US Dollars on IT Services' payables.

### EBITDA

The Group's EBITDA is equal to net income/(loss) from continuing operations plus/(minus) net interest expense (income), income tax expense (benefit), impairment loss, depreciation and amortisation.

EBITDA grew by 37% to US\$47.5 million for the year ended 31 March 2011 (FY'2009: US\$34.6 million). This substantial growth was contributed

to by all business segments. EBITDA margin increased to 7.2% in FY'2010 (FY'2009: 6.9%).

The segment's EBITDA margin is determined by dividing segment's EBITDA by segment's revenues (including intersegment revenues).

The table below summarises the Group's EBITDA by business segments.

US\$ million	FY'2010	FY'2009	Change, %
IT Services	16.0	12.5	28%
EBITDA margin	4.1%	4.0%	
Software Development	38.4	24.5	57%
EBITDA margin	18.6%	16.4%	
Online Software Delivery	-1.2	-0.2	
Corporate and elimination	-5.7	-2.2	
<b>Consolidated EBITDA</b>	<b>47.5</b>	<b>34.6</b>	<b>37%</b>
EBITDA margin	7.2%	6.9%	

The Software Development segment was the largest contributor to EBITDA for the year ended 31 March 2011, with an excellent EBITDA growth of 57%. This business segment reported US\$38.4 million in EBITDA (FY'2009: US\$24.5 million), and 18.6% EBITDA margin

(FY'2009: 16.4%), reflecting an increased profitability of software and applications development outsourcing, and economy of scale. EBITDA at IBS IT Services grew 28% in absolute terms to US\$16.0 million (FY'2009: US\$12.5 million); 4.1% EBITDA margin remained stable

## 2 | Management Report

(FY'2009: 4.0%). The Online Software Delivery segment had moderate negative EBITDA of US\$ 1.2 million (FY'2009: loss of US\$0.2 million). Corporate and other eliminations resulted in net loss of US\$5.7 million,

including US\$1.3 million in listing upgrade expenses and US\$2.0 million in additional accrued office rent expenses (FY'2009: net loss of US\$2.2 million).

### Goodwill Impairment

Goodwill impairment amounted to US\$ 1.7 million in FY'2010, and resulted primarily from underperformance of the Online Software Delivery segment (Softkey).

### Depreciation and Amortisation

Depreciation and amortisation include depreciation of property and equipment and amortisation of capitalised software costs, as well as other amortisation of intangible assets mainly identified as a result of previous acquisitions (purchase price allocation).

Depreciation and amortisation remained almost stable over the years ended 31 March 2011 and 2010, at

US\$18.4 million and US\$17.2 million in absolute terms respectively, and amounted to 3% as a percentage of the Group's sales. For the year ended 31 March 2011, depreciation amounted to US\$7.4 million and amortisation totalled US\$11.0 million (FY'2009: US\$5.9 million and US\$11.3 million respectively).

### Interest Expense, net

Interest income and interest expenses are accrued by reference to the principal amount outstanding at the applicable interest rate. Interest income is earned on the Group's cash deposits and loans provided to related parties.

The Group's net interest expense increased from US\$2.1 million to US\$4.0 million for the year ended 31 March 2011, due to lower interest income.

US\$ million	FY'2010	FY'2009	Change, %
Interest income	2.1	5.3	-60%
Interest expense	6.1	7.4	-18%
<b>Interest expense, net</b>	<b>4.0</b>	<b>2.1</b>	<b>86%</b>
Interest expense, net as % of revenue	0.6%	0.4%	

## 2 | Management Report

The Group's interest income decreased as a result of the settlement of Depo loan receivable (for details, please see below "Income on disposal of discontinued operations"). Interest expenses declined despite of a higher overall debt burden

as more favourable interest rates were negotiated with banks. Weighted-average interest rates for the banks' loans and overdrafts were at 9.7% and 12.4% as of March 31, 2011 and 2010, respectively.

### Income Tax Expense

The Group's income tax includes current and deferred income taxes. The Group's income is subject to taxation in multiple tax jurisdictions. The effective rate of income tax was 16% and 19% for the years ended 31 March 2011 and 2010, respectively, as a

result of relatively higher portion of income taxed in jurisdictions with lower tax rate legislation. The effective rate of income tax is determined by dividing income tax expense to income from continuing operations before income taxes.

### Income from Continuing Operations

During the year ended 31 March 2011, the Group earned US\$19.6 million in income from continuing operations, which comprised 3.0% of the Group's revenues for the respective period (FY'2009: 2.5%).

Despite of the business growth produced by the IT markets recovery, the Group has not yet been able to fully utilise the economy of scale.

### Income on disposal of discontinued operations, net of tax

In September 2009, the Group disposed of Depo group in order to focus entirely on its strategic markets of IT services and software development. Depo group was involved in manufacturing and distribution of Depo brand computers and servers as well as in distribution of international brands of IT products to a variety of dealers, retailers, corporate customers, systems integrators and PC assemblers in Russia. The consideration to be received by the Group amounts to US\$8.75 million in cash payable in two instalments, 30% to be paid in 2011, and

70% to be paid in 2012, at an interest rate of 12% per annum. Initially, the Group was uncertain about collectability of this receivable and recorded a 100% underlying provision. As a result of a guarantee issued in FY'2010 and subsequent debt assumption by BXA Investments Ltd., one of the shareholders of the Group, the Group revalued the collectability and recognised a related receivable with accrued interest in the total amount of US\$10.4 million as of 31 March 2011. Depo's results of operations are classified in discontinued operations in all periods presented.

## 2 | Management Report

### Net Income attributable to the Group

US\$ million	FY'2010	FY'2009	Change, %
Net Income	30.0	14.2	111%
(Income) attributable to the non-controlling interest	-4.2	-0.3	
<b>Net income attributable to the Group</b>	<b>25.8</b>	<b>13.9</b>	<b>86%</b>
Net income attributable to the Group as % of revenue	3.9%	2.7%	

There are certain non-controlling interest holders in both the IT Services and the Software Development segments of the Group. The non-controlling interests emerged as a result of an acquisition of Borlas Group and a sale of 10% stake in Luxoft Holding Inc. For the year ended 31 March 2011, net income attributable to non-controlling interest amounted to US\$4.2 million (FY'2009: net income of US\$0.3 million) due

to a strong earnings performance in the reporting year, mainly in the Software Development segment.

Net income attributable to the Group increased by 86% to US\$25.8 million (FY'2009: US\$13.9 million).

Basic earnings per share rose to \$1.12 (FY'2009: \$0.6 per share).

# Consolidated Financial Position

## Financial management policies and goals

The main focus of the Group's financing strategy is on ensuring its ongoing financial stability and flexibility. We aim to diversify financial instruments and our creditors. As of 31 March 2011, the maturity profile was characterised by a large portion of long-term financing: 60% as of 31 March 2011 versus 39% as of 31 March 2010, including current portion.

Market position, flexibility, security, credit covenants, and maturity are all taken into consideration when selecting a bank which provides financing. At the same time, we seek to optimise our financing costs. The segments of the Group use joint financing facilities and mutual guarantees. Unused credit lines under banks' credit facilities will generally provide us with a sufficient financial cushion.

## Financing

IBS Group meets its financing needs through a combination of operating cash flows generated by the business segments and short and long term debt.

Debt financing is used to cover short term cash requirements and acquisitions. Due to IT Services' business seasonality the Group has to periodically borrow funds to finance working capital and operational activity and uses borrowings and overdrafts to finance such short term liquidity gaps.

In order to secure its borrowings, the Group and its relevant subsidiaries pledged accounts receivable, shares of subsidiaries, rights to some of their bank accounts and property and equipment, provided guarantees and sureties, and ensured that there would be a sufficient turnover on specific bank accounts.

On 21 July 2010, the Group entered into a Loan Agreement with the European Bank for Reconstruction and Development (the "EBRD loan") for US\$20 million payable before 30 September 2014 and priced at

6M LIBOR plus 3% per annum (plus front-end fee and disbursements), to finance the development of new software products and technologies, as well as training and recruitment initiatives of the Group in Russia. The Group will have the right to repay its loan in full either in cash or by conversion of the total principal amount of the loan into the Group's shares calculated by certain formula, in a range of 700,000 to 900,000 shares. The loan was secured by a pledge of 1,900,000 shares of the Group issued to and held by a wholly owned subsidiary of the Group. In order to avoid conversion the Group has blocking rights till 31 August 2013, with the EBRD's blocking rights expiring near the loan maturity date. If EBRD blocks conversion, the above upfront commission and an interest will be replaced by interest at a fixed 9% interest rate for the whole period the loan remains outstanding; if the Group blocks conversion, the commission and interest will be replaced by interest at a fixed 20% interest rate for the whole period the loan remains outstanding. Neither loan, nor interest can be pre-paid.

On 21 July 2010, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to US\$10.4 million payable over 36 months and priced at 1M LIBOR plus 5% per annum to finance its payable for the acquisition of ITCN by Luxoft. The outstanding loan balance drawn by the Group amounted to US\$9.7 million at 31 March 2011. The loan was secured by a pledge of a warehouse building.

On 29 April 2010, OOO IBS Expertise entered into a credit facility agreement with CISCO SYSTEMS

FINANCE INTERNATIONAL for up to US\$3 million (\$1.9 million is drawn and outstanding at of 31 March 2011). Interest on amounts outstanding is accrued at 7.51% per annum, with maturity periods ending on 23 May 2012 for the first tranche, and 23 September 2012 for the second tranche. The purpose of the loan is to finance the purchase of Cisco equipment.

The Group's financing activities also involved refinancing of the existing short term loans.

The short term loans bear interest rates in the range of 8% to 10% per annum. Weighted-average interest rates for the banks' loans and overdrafts were 9.67% and 12.4% as of 31 March 2011 and 2010, respectively. We continue to monitor available financing options as well as the cost of such funding.

Total Group's debt amounted to US\$58.2 million as of 31 March 2011 as compared to US\$41.9 million as of March 31, 2010. Its relative weight in the balance sheet increased to 14% (31 March 2010: 12%). The Group has 81% of its debt denominated in US Dollars; the rest is in Roubles. Current debt (the short term borrowings and the current portion of long term debt) declined from US\$38.0 million as of 31 March 2010 to US\$32.2 million as of 31 March 2011. Long term debt was US\$25.5 million (31 March 2010: US\$3.9 million).

As of 31 March 2011, IBS Group and its subsidiaries were in compliance with all of the applicable, borrowing covenants. We believe that we will continue being in compliance with the agreed covenants in the current year.

# Consolidated Liquidity and Capital Resources Overview

The Group's primary source of liquidity is net cash generated from operations and short term and long term debt. Cash flow from operations is influenced by the Group's business profitability and by net working capital, especially trade accounts receivable. Cash flow can be generated from short term bank

borrowings and overdrafts. Long term funding is provided mainly by the EBRD loan and the UniCredit Bank credit facilities. IBS Group believes that its existing credit facilities, as well as operating cash flows and additional sources of short term funding, are sufficient to meet the Group's foreseeable liquidity needs.

## Dividends

A dividend for FY'2009 at US\$0.15 per ordinary share was declared in November 2010 and fully paid in January 2011. The total dividend distribution to shareholders of IBS Group Holding Limited amounted to US\$3.443 million. Following approval

by the Annual General Meeting, for FY'2010 the management and the Supervisory Board intend to propose to the Board of Directors a dividend increase by 33% to US\$0.2 per ordinary share.

## Cash flow analysis

US\$ million	FY'2010	FY'2009
Cash flow from operating activities	30.0	11.0
Cash flow from investing activities	-29.9	-6.2
Cash flow from financing activities	12.1	-16.3
Effect of exchange rate changes on cash	-0.3	0.9
Cash at the beginning of the year	14.6	25.2
Cash at the end of the year	26.5	14.6

See details in the Consolidated Statements of Cash Flows.

## Net Cash Provided by/(Used in) Operating Activities

In FY'2010, the Group generated a substantial operating cash flow of USD\$30.0 million (FY'2009: US\$11.0

million). The key drivers were the Group's good earnings performance and tight working capital management.

## Net Cash Provided by/(Used in) Investing Activities

In the year ended 31 March 2011, the Group's investing activities resulted in outflows of US\$29.9 million (FY'2009: US\$6.2 million).

Net cash used in investing activities over the years ended 31 March 2011 and 2010 was used primarily for acquisitions (US\$10.8 million), purchase of property and equipment and leasehold improvements (a total of US\$18.9 million), as well as intangible assets of US\$2.0 million.

In the year ended 31 March 2011, the Group successfully completed relocation of its IT Services personnel to a new office in Moscow. This project also included implementation of the modern communications

infrastructure and effective organisation of working space. The total project cost was US\$11.5 million, of which 78% was attributable to the year ended 31 March 2011 and included architectural design, construction, infrastructure expenses, office furniture and equipment.

For the year ended 31 March 2011, the Group paid US\$10.8 million as a last tranche for acquisition of ITC Networks Group by Luxoft. To finance this investment, in July 2010, the Group entered into a loan agreement with UniCredit Bank for US\$10.4 million payable in 36 months at 1-month LIBOR plus 5% per annum.

The Company has no other firm commitments for future investments at the moment.

## Net Cash Provided by/(Used in) Financing Activities

Net cash received from financing activities totalled US\$12.1 million for the year ended 31 March 2011 (FY'2009: net outflows of US\$16.3 million). The changes in the Group's cash flows were mainly caused by higher proceeds from long term bank loans. An increase in

proceeds was partially offset by a decrease driven by payment of dividends in FY'2010 (US\$4.4 million, including US\$1 million to non-controlling interests) and proceeds from the sale of a non-controlling interest in Luxoft (US\$10 million) in FY'2009.

# Overview of Selected Parts of the Consolidated Balance Sheet

Total assets of the Group rose by US\$60.1 million (17 %) to US\$415.7 million (31 March 2010: US\$355.6 million). The growth of the balance sheet was mainly due to current assets as a result of the expansion of existing business activities.

**Current assets** rose by 36% to US\$206.7 million (31 March 2010: US\$152.5 million). Within current assets, cash rose by 81% to US\$26.5 million (31 March 2010: US\$14.6 million), trade accounts receivable rose by 33% to US\$104.0 million (31 March 2010: US\$78.0 million) and inventories rose by 37% to US\$32.2 million (31 March 2010: US\$23.4 million). Accounts receivable amounted to 50% of current assets. The increase in inventories and accounts receivable was in line with 30% growth in sales.

**Non-current assets** totalled US\$209.0 million (31 March 2010: US\$203.1 million). The increase was mainly driven by additions to fixed assets, to a significant extent resulting from capitalisation of leasehold improvements as part of the office space expansion, recording of a US\$6 million current portion of a receivable for the

sale of Depo (see discontinued operations above), partially offset by depreciation and amortisation in FY'2010. Non-current assets also included goodwill of US\$91.3 million, mainly from the acquisitions of Borlas Group in FY'2007 and ITC Networks Group in FY'2008.

**Short term liabilities** increased by 3% to US\$167.6 million (31 March 2010: US\$162.2 million). This growth was mainly comprised of advances received that rose by 135% and amounted to 15% of current liabilities as of 31 March 2011 (31 March 2010: 7%). Accounts payable rose by 13% to US\$40.6 million (31 March 2010: US\$36.0 million). The increase in advances issued and accounts payable was due to recovery of local IT services spending and re-establishment of the Group's procurement of IT equipment used for infrastructure projects.

**Non-current liabilities** totalled US\$39.1 million as of 31 March 2011, an increase of 117% (31 March 2010: US\$18.0 million), mainly due to a rise in long term debt (the EBRD loan).

## 2 | Management Report

**Shareholders' equity**, including non-controlling interest, rose by 19%, or US\$33.6 million, to US\$209.0 million (31 March 2010: US\$175.4 million) driven by the Group's earnings. The liabilities and equity side of the balance sheet showed a solid financing structure. Shareholders' equity of the Group, including non-

controlling interest, and non-current liabilities exceed all non-current assets by 119% (31 March 2010: 95%).

For the period under review, the equity ratio rose by 1% to 50% (31 March 2010: 49%).

The table below shows other **key capital ratios**:

US\$ million	FY'2010	FY'2009
Debt/total assets	14%	12%
Net debt/Equity	15%	16%
Return on equity	12%	8%
Debt/EBITDA	1,2	1,2

## Off-balance sheet financing instruments

IBS Group is not involved in any off-balance sheet transactions that may or will have a significant impact on its financial position, expenses or

income, results of operations, liquidity, investments, assets and liabilities, or capitalisation.

## Overall assessment of the business situation

As of the time of this Management Report, we continued to assess the development of the Group as positive. Operating performance in the first quarter of the current year has been in line with our expectations, with further increases in sales and proceeds. We believe that current cash position combined with

available credit facilities are sufficient to meet our present operating needs and, together with expected cash flows from operations, will support the growth of our business and provide the financial stability. Our balance sheet structure is sound and healthy.

# Results of Operations, Financial Position, Liquidity and Capital Resources Overview of IBS Group Holding Limited (Isle of Man)

IBS Group Holding Limited ("IBS GH", or "the Company") is the parent company of IBS Group. The Company was incorporated as a private company limited by shares under the laws of the Isle of Man on July 1, 1997. The Company is an investment holding company.

The Company prepares its separate financial statements in accordance with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## 2 | Management Report

### Results of Operations

Below is a discussion of the major items on the Company's profit and loss accounts for the years ended 31 March 2011 and 31 March 2010 (in US\$ million).

(US\$ million)	31 March, 2011	March 31, 2010
Administrative expenses (before exceptional items)	(1.2)	(1.9)
Listing expenses	(1.1)	-
(Loss) on ordinary activities before investment income, interest and taxation	(2.3)	(1.9)
Net gain on disposal of shares in investments	5.2	10.0
Dividend revenue	13.7	-
Interest payable	(2.2)	(2.5)
Loss on derivative financial instrument	(2.1)	-
Interest receivable	3.2	4.5
<b>Profit for the financial year attributable to members of the parent company</b>	<b>15.5</b>	<b>10.1</b>

The Company derives its revenue from dividends payable by subsidiaries and interest receivable.

For the year ended 31 March 2010, there were no distributions made by subsidiaries and no dividends accrued. For the year ended 31 March 2011, dividend revenue amounted to US\$13.7 million and consisted of dividends from the IT Services segment.

Interest receivables declined to US\$3.2 million (FY'2009: US\$4.5 million) as a result of a decrease in loans issued to related parties. Interest payable decreased to US\$2.2 million due to lower debt owed to related parties.

## 2 | Management Report

### Disposal of shares in investments

For the year ended 31 March 2010, the Company disposed of 10% share in the share capital of its subsidiary, Luxoft Holding Inc., for US\$10.0 million.

In September 2009, the Company entered into a sale and purchase agreement to transfer its 50% directly owned (excluding another 50% owned by its wholly-owned subsidiary) share ownership in Depo group (see Income on disposal of discontinued operations). Initially, the Group was uncertain about collectability of this receivable and recorded a 100% underlying provision.

As a result of a guarantee issued by BXA Investments Ltd. ("BXA"), the shareholder of the Company, in FY'2010 and subsequent debt assumption by the shareholder, the Company revaluated the collectability, recognised a related receivable and accrued interest as of 31 March 2011 in the amount of US\$5.2 million.

The gains on disposal of shares in the investments were recorded in Profit and Loss Account under "Net gain on disposal of shares in investments".

### Loss on derivative financial instrument

Loss on derivative financial instrument resulted for changes in the fair value and amortization of

deferred "day one" loss on a conversion option arising from EBRD loan agreement (see below).

### Financial position, assets and liabilities

(US\$ million)	31 March, 2011	31 March, 2010
Investments	35.8	34.8
Available for sale financial assets	24.3	-
Debtors: amounts falling due after one year	19.3	26.8
Debtors: amounts falling due within one year	21.0	18.3
Cash	1.4	-
<b>Total Assets</b>	<b>101.8</b>	<b>79.9</b>
Creditors: amounts falling due within one year	12.4	26.3
Creditors: amounts falling due after more than one year	27.6	3.9
<b>Total Liabilities</b>	<b>40.0</b>	<b>30.2</b>
Shareholders' equity	61.8	49.7

## 2 | Management Report

**Total assets** of the Company rose by US\$21.9 million (27%) to US\$101.8 million (31 March 2010: US\$79.9 million) mainly due to an increase in non-current assets.

**Current assets** (debtors amounts falling due within one year, and cash) rose to US\$22.4 million (31 March 2010: US\$18.3 million) mainly due to receivables from BXA for Depo group disposal (US\$2.1 million, as current assets) partially offset by a decrease in current receivables from subsidiaries mainly related to settlement of loans.

**Non-current assets** (investments, available for sale financial assets and debtors: amounts falling due after one year) totalled US\$79.4 million (31 March 2010: US\$61.6 million). An increase in available for sale financial assets was offset by a decrease in amounts due after one year mainly due to debt settlement under loans to BXA in the amount of US\$24.3 million as of the date of transaction, which was settled by way of 15% stock transfer in Oradell Equities, Inc. to the Company from its shareholder. Oradell Equities holds controlling stakes in NewspaperDirect, Inc., a digital media business, Medialogia, a press clipping business, and News360, a start-up news aggregator. The remaining increase mainly came from increased receivables from subsidiaries.

**Short term liabilities** (creditors: amounts falling due within one year) decreased by US\$13.9 to US\$12.4 million (31 March 2010: US\$26.3 million) as a result of payments of accounts payables and loans received from subsidiaries. Current assets exceeded the value of short term liabilities by US\$10.0 million as of 31 March 2011.

**Non-current liabilities** totalled US\$27.6 million as of 31 March 2011, an increase by US\$23.7 million due to long term loan received from

the EBRD. For details of the transaction, please see below description of the EBRD loan.

**Shareholders' equity**, rose to US\$61.8 million (31 March 2010: US\$49.7 million). This raise was driven by net income of US\$15.5 million, mainly due to the dividends received by the Company and income from the sale of Depo, partially offset by loss on derivative financial instrument and by dividends paid to shareholders.

As of 31 March 2011, the Company satisfied the solvency test which means that it is able to pay its debts as they become due in the normal course of the Company's business and the value of its assets exceeds the value of its liabilities.

The Company's **source of liquidity** is net cash generated from financing activities primarily debt and dividends received.

On 21 July 2010, the Company and UniCredit Bank (Moscow) entered into a loan agreement for up to US\$10.4 payable in 36 months at 1M LIBOR plus 5% per annum to finance its payables for on acquisition of ITC Networks by Luxoft. The outstanding loan balance drawn by the Company amounted to US\$9.7 million at March 31, 2011. The loan was secured by a pledge of the warehouse building.

On 21 July 2010, the Company entered into a loan agreement with the EBRD for US\$20.0 million payable before September 30, 2014 at 6M LIBOR plus 3% per annum (plus front-end fee and disbursements) to finance the development by the Company of new software products and software development technologies, training and recruitment initiatives of the Company in Russia. The Company will have a right to

## 2 | Management Report

repay the loan in full either in cash or by conversion of the total principal amount of the loan into a number of shares of the Company calculated by certain formula, ranging from 700,000 to 900,000 shares. Under UK GAAP (unlike US GAAP for consolidated financial statements), the conversion option was accounted for as an embedded derivative, separated and accounted for as a financial liability at fair value through profit or loss carried in the financial statements at US\$3.1 million, net of related "day one" differed loss. The loan was secured by a pledge of 1,900,000 shares of the Company. Both participants have blocking rights to avoid the principal amount of the loan conversion into shares: the Company's blocking rights expire on 31 August 2013 the EBRD's blocking rights will terminate near the loan maturity date. If the EBRD blocks conversion, the above upfront commission and an interest are replaced by interest at a fixed 9% interest rate for the whole period the loan is outstanding; if the Company blocks conversion, the commission and interest are replaced by interest at a fixed 20% interest rate for the whole period the loan is outstanding. The loan agreement has certain covenants, including

financial covenants related to debt to EBITDA and interest to EBITDA ratios, as well as cross-default provisions, and is secured by a pledge of 1,900,000 shares of the Company. The loan cannot be pre-paid.

The loan agreements contain covenants with respect to compliance with certain financial ratios and conditions. The breach of restrictive covenants gives the bank the right to accelerate repayment of indebtedness. As of 31 March 2011, the Company complied with all its borrowing covenants. We believe that we will comply with the agreed covenants in the current year.

A dividend for the year ended 31 March 2010 was declared at US\$0.15 per ordinary share in November 2010 and was fully paid in January 2011. The total dividend distribution to shareholders of IBS Group Holding Limited amounted to US\$3.443 million. Following approval by the Annual General Meeting, for the year ended 31 March 2011 the management and the Supervisory Board intend to propose to the Board of Directors a dividend increase by 33% to US\$0.2 per ordinary share.

## Risks

The Company is subject to materially the same risks as the Group. For more information, see the Risk section of the management report.

## 2 | Management Report

# Subsequent Events

The Group's management has updated its analysis of the subsequent events through 25 July 2011.

In April 2011, the Group obtained a release on the pledge of the warehouse building in favour of UniCredit Bank under the loan agreements, and secured liabilities under the loan agreement with UniCredit Bank dated 21 July 2010 by the pledge of 25% plus one share of the share capital of Luxoft Holding, Inc. (BVI).

In June 2011, the Group fully repaid the loan received from UniCredit Bank in July 2008 in compliance with the loan agreement. Following the repayment, any restrictions imposed by the loan agreement on dividend distributions to shareholders were removed.

On 28 April 2011, the Group completed the sale of OOO IBS Distribution Centre, the Company's wholly-owned subsidiary whose assets substantially consisted of a warehouse and related buildings located in Krasnogorsk, Moscow region, to companies controlled by Depo's management. Given the Group's focus on rendering IT services, this subsidiary and its assets represent non-core assets of the Group, as rental of commercial real estate and associated logistics are not essential or necessary to its core operations. The consideration to be received by the Group amounts to US\$14.3 million in cash payable in three instalments according to the

following schedule: (i) US\$1.0 million to be paid no later than ten business days after 28 April 2011; (ii) US\$6.0 million to be paid in March 2012; and (iii) US\$7.3 million to be paid in March 2013; the outstanding balance is subject to interest at the rate of 7% per annum. The first installment has already been paid.

As a result of assignments, on 28 April 2011, BXA assumed all payment obligations for companies controlled by Depo's management under Depo's sale agreement (see section "Income on Disposal of Discontinued Operations" of this report) and Distribution Centre's sale agreement (collectively, the "Relevant Agreements"), currently owed to the Company. In addition, another shareholder of the Group guarantees to the Group the performance of obligations owed by BXA to the Group. The Group's management believes this transaction have improved the position of the Group as a creditor in respect of the obligations due to it under the Relevant Agreements.

Following completion of the transaction, the BXA guarantee in respect of receivables under Depo's sale agreement was terminated on 11 May 2011.

At the request of BXA, the Group agreed to adjust to 7% per annum the original interest rate of 12% applicable to unpaid consideration owed by BXA

## 2 | Management Report

to the Group under Depo's sale agreement, in view of the improved market conditions for borrowing funds in comparable transactions. The interest rate change was effective from 29 April 2011.

On 30 June 2011, the Group received from its customer, TAIF-NK a pre-arbitration notice stating a repudiation of payment for work performed in the amount of US\$2.3 million, and a claim for completion of work and payment of penalties in the amount of US\$0.6 million. The Group does not believe this demand to be justified or subject to satisfaction, and in its turn, in July 2011, the Group sent to the customer a pre-arbitration notice claiming recovery of the indebtedness and the default interest. While the Group's management believes in a

high likelihood of recovering this debt through legal proceedings, the Group considered it prudent to make an appropriate partial provision for this account in the amount of US\$1.8 million at 31 March 2011.

In April and May 2011, the Group obtained loans in the total amount of RUR177 million with interest rates ranging from 7.04% per annum to 8.04% per annum under the credit facility agreement with ZAO Alfa Bank. In April 2011, the Group obtained loans in the total amount of RUR204 million under the credit facility agreements with ZAO Absolut Bank. Interest on amounts outstanding accrues at 3M MosPrime plus 4.25% per annum and 3M MosPrime plus 5.25% per annum.

# Report on Opportunities and Risks

The Group conducts its operations in a global economic environment, multiple vertical markets, dealing with numerous technologies. Therefore our activities are exposed to a wide variety of risks across different aspects of business. At the same time, the Group always looks for opportunities to enhance business growth and maximise shareholder value, taking advantage of dynamic and innovative nature of the IT sector.

To be able to promptly respond to risks, should any occur, the Group established risk

management procedures, which are designed to identify and analyse risks at the early stages and enable the Group to determine and take necessary steps to resist negative factors.

At the same time, there is a number of procedures in place that enables the Group to identify, explore and take lead on promising business opportunities.

We aim to follow a balanced approach to opportunities and risks.

## Opportunities Management System

The Group operates in a very dynamic and competitive sector of information technologies, and there are always opportunities to support business growth. We consider opportunities management to be as important as risk identification.

To identify new opportunities, we put in place special procedures that help us to explore both external and internal factors and options for further business development. In general terms, these procedures involve cooperation with independent market analysts

and consultants as well as activities of special in-house marketing and research divisions within each business segment. External opportunity management includes a continuous analysis of market relief, competitive landscape, new products and technologies. Within the Group, we discover new development options through ongoing collaboration between the segments, regular management meetings and feedback practices.

Identified opportunities are submitted for consideration to the Advisory Board and may

## 2 | Management Report

be established as special projects or included in operational plan for future periods.

The Group has a number of attractive opportunities to accelerate its revenue growth. Two major growth areas planned by the Group's management comprise further expansion of the global footprint and addition of new verticals within the existing business segments. Other opportunities include:

- Further penetration of IT Services and recovery of IT spending in Russia

- New technology trends
- Growing demand for software application development outsourcing services
- Outsourcing in Europe gaining momentum
- Limited competition in Eastern Europe
- Increasing importance of e-commerce

Anticipated future opportunities for IBS Group are discussed in Outlook section.

## Risk Management System

Our risk management system defines how we deal with particular risks and how to apply uniformed risk management standards across the Group. These standards are reviewed on a regular basis by the internal Audit Committee and are subject to change if necessary.

We identify risks at the level of subsidiaries or business units' management. The management is also responsible for risk quantification and probability evaluation. All identified risks are then reported at the segment and corporate level. Risks with small potential effect are dealt with by subsidiaries' or segments' management. Potentially material risks are reported directly to the Advisory Board, which then continues to monitor it and develop countermeasures.

To effectively manage the risks we classify them as "low", "high" or "medium" probability and also split them into six risk categories, including:

- Economic, regulatory and political risks
- Market risks
- Human capital risks
- Information technology risks
- Operational risks
- Legal risks

The most significant of identified risks are related to operational activities, human capital and change in economic conditions. However, there are no risks identified and assessed at the moment to prevent the Group from conducting its business on a going concern basis.

## 2 | Management Report

### Risk Report

The following section includes the risk factors identified with our risk management procedures and combined in accordance with the internal classification adopted.

#### **Economic, Regulatory and Political risks**

The Group's international business structure is subject to various risks of economic and political nature that could negatively impact our business, financial position, and cash flow.

The Group has an international business structure with operations and earnings across several geographic markets, including the United States, Canada, Europe, Asia-Pacific and various offshore jurisdictions. This international structure of operations is subject to a variety of economic and political risks associated with doing business in respective countries via international business structure. The main risks are the following:

- Regional and local economic decline or instability resulting in market uncertainty
- General economic or political conditions in each country or region
- Conflict and overlap among different tax regimes
- Possible tax constraints impeding business operations in certain countries
- Exchange rate fluctuations
- Longer payment cycles
- Regulatory constraints such as import and export restrictions, competition law regimes, legislation governing the use of the Internet, additional

requirements for development, certification, and distribution of software and services, trade restrictions, changes in tariff and freight rates and travel and communication costs

- Higher cost of doing business internationally

As the Group expands further into new regions and markets, these risks could intensify. These factors could negatively impact our operations in one or more countries or regions. As a result, our business, financial position, reputation, profit, or cash flows may be impacted.

We estimate the probability of negative impact for this risk category at medium level.

#### **The Group faces risks associated with doing business in the emerging markets**

In addition to Russia, the Group currently runs operations in Ukraine, Romania and Belarus, and a large number of customers are located in other countries within the region. The Group also conducts operations in Vietnam.

As with Russia, these countries are emerging markets subject to greater political, economic, social and legal risks than more developed markets. In particular, any downturn in these economies or any failure to grow at currently anticipated rates would have a material adverse effect on the Group's financial condition, results of operations, and prospects.

We estimate the probability of negative impact for this risk category at medium level.

## 2 | Management Report

We address these risks with appropriate measures as may be required, including, for example, the monitoring of current developments in new legislation and stock markets, organisational changes, seeking advice from economic consultants, law firms, tax advisors, and authorities in the countries concerned, and bringing legal actions when appropriate or inevitable.

### **Tax audits may lead to additional tax liabilities for the Group's companies**

Tax audits with respect to as yet unaudited tax periods or categories could lead to additional tax liabilities to be imposed on any of the companies of the Group, materially impacting the Group's operating results.

There are, in particular, risks associated with substantial changes in tax legislation in the relevant jurisdictions where the Group operates via its registered subsidiaries: (i) the new OECD oriented transfer pricing legislation in Russia, expected to be effective from 2012, with two fiscal years of transfer pricing audits holidays; (ii) the new Tax Code introduction in Ukraine; (iii) other changes in tax law provisions or their interpretation by the local tax authorities.

Another group of risks is related to tax incentives and relieves provided by local tax regulations to IT sector companies and used by the companies of the Group, including: (i) social tax relieve in Russia; (ii) special economic zone regime in Poland; (iii) VAT incentives applied to software licenses in Russia.

There is also a risk of a divergent interpretation of circumstances and tax law provisions by the responsible tax authorities when application of these incentives and relieves is audited.

We estimate the probability of negative impact for this risk at medium level.

The management takes due action steps to address these issues and ensure minimisation of negative influence: development and adaptation of related internal policies and procedures, independent consulting, government advice, incentive confirmation letters, etc.

### **Market risks**

#### **Rapid technology evolution may adversely affect the demand for some of the Group's services**

The IT industry is subject to rapid and significant changes in technology, including continual development and introduction of new products and services and evolving industry standards. Any such changes in technology could affect the size of the market, participants' market shares or the IT industry economics in general, and the Group's market share, its business, financial condition, and results of operations in particular.

Additionally, the Group's growth in recent years has been in part due to the following factors: increases in spending on IT in Russia and CIS, spending on IT services and increasingly sophisticated and complex technology. Should any of these increases or other trends from which the Group benefits fail to continue, it may have a material adverse effect on the Group's business, financial condition, and results of operations.

We estimate the probability of negative impact for this risk category at medium level.

The Group possesses technical expertise to implement the changes necessary to keep its

## 2 | Management Report

technologies, products and services current. The management closely follows current market development to identify future market trends.

### **The Group operates in competitive markets, and growing competition may adversely affect the Group's revenues and margins**

The Group's longer term growth is dependent upon competition. In IT services, the Group's operating markets are intensely competitive and are characterised by rapid changes in technology and customer requirements. The Group competes with a large number of companies which differ in size, geographical reach and resources.

In the software development market, the Group competes with leading providers of similar services on a global basis, whereas in the IT services market, the Group faces competition from both local and global players. If competitors develop or expand similar products and services in the targeted niche markets, the revenues and profitability of the Group may be affected, particularly as certain competitors may have greater financial resources.

We estimate the probability of negative impact for this risk at medium level, since there are extensive quality control systems implemented across all business segments. These systems allow us to control and maintain quality of our software and services in competitive environment.

### **Human Capital Risks**

#### **The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel**

The Group's growth and future success will depend, among other things, on its continued ability to attract, retain and motivate highly qualified sales, programming, technical, customer support, financial and accounting, marketing, promotional and managerial personnel. There is, in particular, significant competition for technical personnel with relevant expertise to perform the services the Group offers. Inability to hire and retain additional qualified personnel will impair its ability to manage and complete existing projects, to compete for new projects and to continue to expand the Group's business. Furthermore, the high attrition rate for experienced software engineers, project managers and leaders may harm the Group's growth strategy.

We estimate the probability of negative impact for this risk at medium level.

To mitigate this risk the Group takes appropriate set of actions related to:

- Recruiting and retaining sufficiently skilled technical, marketing and management personnel
- Providing adequate training and supervision of personnel to maintain the Group's high quality standards
- Preserving the Group's culture and values and its entrepreneurial environment

For detailed description of the Group's employment policies, please refer to the Employees section of the report.

#### **Wage increases in countries where development centres are located may adversely affect the Group's financial condition and results of operations**

## 2 | Management Report

The Group operates development centres in Russia, Ukraine, Romania and Vietnam where wage costs have historically been significantly lower than wage costs for comparably skilled IT professionals in the United States and Europe. However, wage increases in these countries may prevent the Group from sustaining this competitive advantage internationally and may negatively affect its profit margins. The Group may need to increase the levels of its employee compensation more rapidly than in the past to remain competitive. Unless the Group is able to continue to increase the efficiency and productivity of its employees, wage increases in the long term may adversely affect the Group's financial condition and results of operations.

We estimate the probability of negative impact for this risk at medium level.

The Group addresses this risk by opening new development centres in low wage inflation jurisdictions as well as by constantly optimising the employee efficiency and productivity.

### Operational Risks

#### **The Group's revenue stream is subject to seasonal and cyclical trends**

Historically, spending on IT products and services has been both cyclical and seasonal in nature, reflecting overall economic conditions as well as budgeting and buying patterns respectively. For example, it is an observed trend that customer spending tends to increase significantly in the fourth calendar quarter, and to decrease as the economy slows. As a result, the Group may be subject to significant variations in operating results, depending

on the overall economic conditions and, within its financial year, seasonal spending patterns.

We estimate the probability of negative impact for this risk at medium level.

To mitigate this risk, the companies of the Group plan their business activities, estimate future financial needs and attract short term working capital financing when appropriate.

#### **The Software Development segment of the Group is dependent on a limited number of customers, and the Group bears a credit risk for certain customers**

The Software Development segment of the Group is dependent upon a limited number of customers. In particular, in the year ended 31 March 2011, the Software Development segment derived 78% of its operating revenues from ten major customers, with the largest customer accounting for 31% of the segment's revenues and 10% of the Group's revenues. Although the Group has sought to enter into longer term contracts with key customers in order to mitigate this risk, there is little assurance that these customers will not choose to use other suppliers, or that their demand for products and services provided by the Group will not decline, which may result in a significant reduction in operating revenues of the Group, which may, in turn, have a material adverse effect on the Group's profitability.

Furthermore, the two largest customers' balances accounted for 9% and 8% of the total accounts receivable of the Group as of 31 March 2011. If one or several of these debtors does not pay the Group's invoices when due, this could

## 2 | Management Report

have a material adverse effect on the Group's financial condition and results of operation.

We estimate the probability of negative impact for this risk at medium level.

**To address this risk, the Group strengthens its marketing and sales activities to generate healthy new customer pipeline and works with existing customers through the ongoing initiatives of key customer's programme and customer advisory board. The Group's failure to complete fixed-price, fixed-time-frame contracts on budget and on time may adversely affect its profitability**

The Group offers a significant portion of its IT services on a fixed-price, fixed-time-frame basis, rather than on a time and materials basis. Time and materials-based contracts of the Group also involve customer acceptance, which may result in certain time and expenses not being acknowledged by customers. The Group bears the risk of cost overruns if it underestimates the amount of maintenance required following completion of a project. Such underestimates may have an adverse effect on the financial condition of the Group. If the Group fails to accurately estimate the resources and time required for a project or future rates of wage inflation, or if it fails to complete its contractual obligations within the contracted time frame, its profitability may suffer. In addition, it typically performs maintenance services on a fixed-price basis for a certain period of time after project completion and bears the risk of cost overruns, completion delays and wage inflation in connection with these projects.

We estimate the probability of negative impact for this risk at medium level.

The Group uses project management tools to monitor budget deviations to identify problems and take mitigating actions immediately. Also the Group relays on its past project experience to reduce risks associated with estimating, planning and performing fixed-price, fixed-time-frame and time and materials projects.

### Information Technology Risks

**The Group depends on a variety of information systems, and a failure of these systems may adversely impact its business**

The Group depends on a variety of information systems for its operations, including for inventory management, project management, order processing, shipping, receiving, customer relations and accounting. On certain occasions in the past the Group experienced failures or downtime of its information systems. Failure or significant downtime of information systems may prevent the Group from taking orders, printing product lists and shipping products as well as impede customer access to price and product availability information. In addition, this may disrupt the Group's IT outsourcing business. The Group also relies on the internet in its IT outsourcing and Software Development segments. The internet in general and individual web sites are known to have experienced a number of disruptions and slowdowns in the past, some of which were caused by organised attacks. Some web sites also experienced security breakdowns.

**To date, the Group's nodes or internet-connected systems have not experienced any material breakdowns or disruptions; however, there is little assurance that this will not happen in the future. If the Group were to experience a security breakdown that compromised sensitive information, this**

## 2 | Management Report

**could harm its customer relations. Disruption of its IT systems or the internet in general may impair its order processing or operations or more generally prevent customers from accessing information. It may also disrupt the Group's ability to provide services. The Group may become a victim of attack on its computer networks**

The Group's ability to operate its business depends on the ability to protect its computer systems from the intrusion of third parties that may attempt to enter its computer networks through the internet or otherwise. Third parties may attempt to gain access to the Group's computer systems and the Group cannot be certain of its ability to protect its computer systems from such attacks. If such attacks occur, some of the problems the Group may encompass include theft or destruction of data, including commercial, financial, and product information. In addition, disgruntled employees may cause similar damage to, or take similar actions with respect to, the Group's computer networks to which they have authorised or unwarranted access. If such damage is inflicted, the Group's business may suffer and its results of operations may be materially affected.

We estimate the probability of negative impact for this group of risks at medium level.

To mitigate this risk, the group maintains complex IT security system supervised by highly professional team of IT security specialists as well as uses the cutting edge cloud technology.

**Complex corporate governance laws and increasing degree of regulatory requirements in Germany and elsewhere may lead to breach of regulatory requirements**

As an entity with securities admitted to trading at General Standard of the Frankfurt Stock Exchange we are subject to German and other governance related regulatory requirements. The standards have become significantly more onerous in recent years, the rules are highly complex, and there can be no assurance that we will not be held in breach of regulatory requirements if, for example, individual employees behave fraudulently or negligently, or if we fail to comply with certain formal documentation requirements. Any related allegations of wrongdoing against us, whether merited or not, may have a material negative impact on our reputation as well as on the trading price of our GDRs.

Furthermore, the post-listing obligations arising from the admission of GDRs to trading on the regulated market will place increased demands on the Group's financial and accounting systems. The Group may need additional financial resources to appropriately develop its internal organisational and information structures. Any failure or delay in adapting organisational structures, in continuing to develop technical resources or in the recruitment of qualified employees may hinder the Group's development or lead to managerial or administrative failures, which may result in additional operational expenses and which may have a material adverse effect on the Group's business, operating results, and financial condition.

It is difficult to assess the precise potential risk, because there is a wide variety of potential non compliance scenarios. To minimise the risk we continually monitor new regulatory requirements, and seek to ensure employee awareness of the required standards by implementing internal disclosure and reporting procedures and guidelines.

## 2 | Management Report

### Legal Risks

**Defects in the Group's software products, if any, may be costly to rectify, and the Group may be held liable, and its reputation may suffer. Claims for damages and costs of legal defence may affect the overall financial position and profitability of the Group.**

Complex software, like the software the Group develops for its customers, may contain errors or defects, especially when first implemented, that may be costly to rectify. Defects or errors may also harm customers using the Group's software products and result in downtime. The Group has entered into contracts with clients under which it may be held liable for any defects related to products or services

provided a considerable time ago. Complex software may contain errors or defects, which may take years to come to light. If this happens, the Group's business and reputation may suffer significantly from potential adverse customer reaction and negative publicity. The Group may also be exposed to costs of rectifying the defects and possible claims for consequential losses.

We estimate the probability of negative impact for this risk at medium level.

We estimate this risk as minor since there are extensive quality control systems implemented across all business segments. The company holds a number of certificates assuring management quality as well as quality of business processes.

# Risk Reporting Related to the Use of Financial Instruments

## **Risk Management and Derivative Financial Instruments**

The Group operates in countries with significant political and commercial risks. Subsidiaries of the Group may be involved in claims or lawsuits in the ordinary course of business. In addition, significant tax risks exist in Russia.

For more details on risks and risk management, please refer to the relevant section of this report.

The Group's companies are generally exposed to financial risks. These include above all credit risks, liquidity risks and exposure to interest rate changes or currency risks.

### **Credit Risk**

Credit risk relates to the possibility that business partners may fail to perform their obligations with primary and derivative financial instruments and that losses may be subsequently incurred.

The creditworthiness of all new customers is evaluated by relevant credit committees in each significant business unit, and credits are only granted after thorough examination of the customers

financial situation. The payment patterns of regular customers are analysed on an ongoing basis.

We manage the resulting risk position by a combination of diversified customer portfolio across various companies and geographic locations, careful counterparty selection and an account centric approach to key customers. We monitor receivables outstanding from the existing customers and assess the risk of default. Historically, the percentage of uncollectible accounts was relatively low.

### **Liquidity Risk**

Liquidity risk is the risk that the Group may not be in a position in the future to meet its obligations, or to meet them at a reasonable price, when they fall due.

The liquidity situation is secured by available cash and cash equivalents as well as the credit lines which the Group can draw on. The situation is monitored and managed by means of a liquidity plan with three to twelve months' planning horizon, combined with a short term liquidity forecast.

## 2 | Management Report

Moreover, excess liquidity at individual entities of the Group can be used to finance the cash needs of other group entities internally.

The Group finances its operations by a well balanced combination of short term and long term loans, providing security and guarantees, whenever possible to reduce interest rates and increase the time to maturity of the loans. For detailed description of significant loans and related covenants, please refer to Notes 8 and 9 to the Consolidated Financial Statements for the year ended 31 March 2011.

### Currency Risk

Currency risks exist in particular where receivables or liabilities are carried or will arise in the ordinary course of business in a currency other than the functional currency of the Group or its subsidiaries. Foreign currency exposure mainly relates to some cash and receivables in the Software Development segment that are denominated in euros (the functional currency of this segment is the US dollar); some cash, receivables and payables in the IT Services segment are denominated in US dollars (the functional currency is the Russian rouble).

Group's borrowings are in US dollars and Russian rubles. As of 31 March 2011, 81% of the Group's debt was in US dollars. The Group's entities mainly finance its operating businesses in their functional currencies, thus loans do not expose the Group to significant currency risks.

Some foreign exchange risks arising from euro denominated receivables in the Software Development segment are hedged against US dollar by way of forward contracts to purchase fixed amounts of related currency in exchange for euros.

### Interest Rate Risk

Interest rate risks are due to fluctuations in interest rates that may have a negative impact on the Group's net assets, financial position, and results of operations. Interest rate fluctuations lead to changes in net interest and in carrying amounts of interest-bearing assets. Our interest rate exposure is due to financing activities in US dollars and Russian roubles.

As of 31 March 2011, 36% of the Group's debt was protected against increases in interest rates by fixed rate financing arrangements. The remaining 64%, or US\$37 million, were exposed to interest rate risk as interest payments are mainly based on the prevailing LIBOR rates.

### Use of Derivative Financial Instruments

Derivative financial instruments are used by the Group to minimise the risks related to changes in exchange rates, interest rates or cash flows and a change in fair value of receivables and liabilities.

All financial derivatives as well as hedged transactions are subject to regular internal control and measurement in accordance with the directive of the Board of Directors.

At the inception of the hedge, the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge are clearly stated. In prior years, the Group incurred significant losses as a result of hedging transactions. Currently, the Group structures its hedging transactions to minimise the risk of loss to the Group. In FY'2010, the effect of hedging on the Group's financial position and results of operations was insignificant.

# Internal Control System and Risk Management System Used in the Group's Consolidated Financial Reporting Process of IBS Group Holding Limited

The main objectives behind the Group's consolidated financial reporting (hereinafter referred to as "reporting", or "financial statements", or "(financial) accounts", as the case may be) include:

- Preparation of the Group's financial statements in strict compliance with the rules and regulations set forth in the legislation and the Group's corporate policies and procedures related to the reporting process
- Reporting of performance indicators of the Group and segments/companies of the Group in the Group's financial statements
- True and fair presentation of the Group's financial position as well as its financial results in the Group's financial statements
- Setting up the reporting process that would not serve the interests of some users at the expense of others, that would exclude the possibility to affect the users' decision-making and valuation process by means of selecting and presenting data in a particular way, with a view to achieve a pre-defined result or outcome
- Providing users with additional information (details and/or comments), to ensure a comprehensive understanding of financial results and financial position of the Group

The above process objectives are determined by the management of the Group, shared and understood by the Group's employees.

The reporting process of the Group is set up as follows:

## 2 | Management Report

Segments/subsidiaries of the Group prepare their own financial statements that are used as a basis for the Group's consolidated accounts (inter-company transactions eliminated). At each reporting level (reporting unit, business segment, Group), financial data and key figures are discussed regularly and compared on a quarterly basis with the prior-year figures, the budget, and the latest forecast. These matters are also reviewed and discussed quarterly at the Advisory Board meetings and by the Audit Committee.

The following principal controls are implemented by the Group's management for the purposes of controlling material risks (including the accounts tampering risk) inherent in the Group's reporting process:

- Automated systems financial reporting
- Streamlining the reporting process of the Group
- Audit committee
- Job descriptions for key employees
- Management review process
- Uniform accounting policies
- Segregation of duties

With a view to ensure that the reporting process objectives are attained, the Group's management and employees wish to establish reliable and efficient internal controls and risk management for the process by way of:

- Regular identification and assessment of risks (including the Group's accounts tampering risk) that may prevent the achievement of process objectives

- Prompt enhancement of existing controls, or putting in place new controls to mitigate material risks
- The Group's internal controls and risk management lean towards the use of preventive and directive controls designed to pre-empt risks from occurring in the first place
- Ongoing monitoring of minor risks to enable timely decision-making with regard to risk management (if appropriate)

All departments of the Group involved in the accounting process strive to have the adequate qualifications and resources for timely and accurate financial reporting. The Group understands, that the lack of resources in finance function may lead to delays and material errors in financial reporting. Therefore, in case of resources constrains for financial reporting tasks or complex accounting issues external serviceproviders are appointed.

The Group has developed and put into effect policies and procedures (instructions and regulations) that clearly define

- the sequence and substance of actions performed for reporting purposes with due regard to separation of crucial powers in preparing, validating and approving the accounts,
- the detailed process timelines,
- individuals in charge of the process, including by segments/companies of the Group, and
- templates of financial statements, and preparation guidelines.

## 2 | Management Report

The Group's management and employees understand the importance of, and the need for reliable and efficient internal controls and risk management system for the Group's consolidated

reporting, and intend to continue designing and implementing further steps to enhance it (full process automation, stronger internal audits, etc).

## 2 | Management Report

# Report on Remunerations

Our remuneration policy is designed to provide competitive compensation to executive personnel, allowing to attract and retain the best talent.

Our executives' total compensation consists of fixed and variable elements, which are reviewed individually year over year on the basis of personal and business performance, taking into account salary inflation levels for particular regions.

Base salary reflects an employee's market value, experience, responsibility level and individual performance.

Annual bonuses represent a variable part of executive compensation and depend on achieving key performance indicators (revenue growth rate, EBITDA margin) and individual performance.

Stock option plans (SOP) were developed for top managers of the IT Services and Software Development segments. The stock option plans are realised through additional stock issues and are subject to service and certain performance conditions. For details, please, refer to Note 19 to the Consolidated Financial Statements for the year ended 31 March 2011.

# Takeover Related Disclosures

## Composition of stock

On 31 March 2011, IBS Group Holding Limited ("the Company") had 24,855,244 common shares issued and outstanding. Shares have a nominal value of £0.01 per share. Each share entitles the shareholder to one vote. Also, the Company has a GDRs program established in 2005. The GDRs representing the Company's shares are listed at General Standard of the Frankfurt Stock Exchange. One GDR represents one share of the Company.

## Restrictions applied to share voting rights or transfers

The shares of IBS Group Holding Limited are not under restrictions applied to share voting rights or transfers, except for 1.9 million share pledge under the EBRD loan. On 21 July 2010, the Company entered into a US\$20 million loan agreement with the EBRD. As a condition to disbursement, the loan had to be secured by a pledge over 1.9 million shares issued to Evesham Holdings Ltd. (and pledged to the EBRD), a wholly owned subsidiary of the Company. In addition, in a declaration dated 6 October 2010, Evesham Holdings Ltd. waived its rights to any dividends declared by

the Company so long as it is a holder of shares. The Company's shareholders do not have different voting rights. However, no voting rights will be exercised in relation to shares held by Evesham Holdings Ltd. in accordance with article 4.6 of the Articles of Association.

## Stock holdings that exceed 10% of the voting rights

The Company is aware of two direct or indirect shareholdings that exceed 10% of the voting rights. Co-founder and president of the Group, Anatoly Karachinsky (Russia) controls BXA Investments Ltd., (BVI), which owns 9,191,000 shares (representing 36.98% of the share capital) and 1,405,500 GDRs (representing 5.66% of the share capital) of the Company. Croyton Ltd., (Isle of Man), which holds 4,472,078 shares (representing 18.00% of the share capital of the Company), is the trustee of the founders. Anatoly Karachinsky and Sergey Matsotsky are beneficiaries of this trust.

In addition, 9,197,244 (37.0% of the share capital) shares of the Company are deposited with BNY (Nominees) Limited (UK), which facilitates the Company's GDR trading on the Frankfurt Stock Exchange.

## 2 | Management Report

### **Shares with special rights conferring powers of control**

IBS Group Holding Limited has no shares with special rights conferring powers of control.

### **Type of control over voting rights applying to employee shareholders who do not directly exercise their control rights**

Employee shareholders of the Company's capital stock have the same voting rights as any other shareholder of the Company. The same applies to the Advisory Board members holding shares or GDRs representing underlying shares of the Company.

### **Legal requirements and provisions in the Articles of Association concerning the appointment and dismissal of the Board members and amendment of the Articles of Association**

The Articles of Association specify that "the minimum number of directors shall be three and there shall be no maximum number. The quorum for the transaction of the business of the directors shall be two.

No person shall be appointed or reappointed a director at any general meeting unless:

- he is recommended by the directors; or
- not less than 14 nor more than 35 clear days (whereby the date of the notice as well as the day of the meeting are not counted) before the date appointed for the meeting, notice executed by a member qualified to vote at the meeting has been given to the Company of the intention to propose

that person for appointment or reappointment, stating the particulars which would, if he were so appointed or reappointed, be required to be included in the Company's register of directors together with notice executed by that person of his willingness to be appointed or reappointed.

Not less than seven and nor more than twenty-eight clear days before the date appointed for holding a general meeting notice shall be given to all who are entitled to receive notice of the meeting of any person who is recommended by the directors for appointment or reappointment as a director at the meeting or in respect of whom notice has been duly given to the Company of the intention to propose him at the meeting for appointment or reappointment as a director. The notice shall give the particulars of that person which would, if he were so appointed or reappointed, be required to be included in the Company's register of directors.

Subject to aforesaid, the Company may by Ordinary Resolution appoint a person who is willing to act to be a director either to fill a vacancy or as an additional director.

The directors may appoint a person who is willing to act to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed any number fixed by or in accordance with the Articles as the maximum number of directors. A director so appointed shall hold office only until the next following annual general meeting. If not reappointed at such annual general meeting, he shall vacate office at the conclusion thereof.

## 2 | Management Report

The office of a director shall be vacated if:

- he ceases to be a director by virtue of any provision of the Act or he becomes prohibited by law from being a director; or
- he is removed from office by Special Resolution; or
- he is removed from office by a resolution of the directors.

Neither the Memorandum nor the Articles of Association may be amended except pursuant to Special Resolution (a majority of not less than 75% of such shareholders as, being entitled so to do, vote in person or by proxy) at the general meeting at which such resolution is proposed.

The rights attaching to the Shares are set out in the Memorandum and the Articles of Association which may not be amended except pursuant to a resolution passed or requiring to be passed by Special Resolution. If at any time the Shares of the Company are divided into different classes, the rights attached to any class may only be varied by Special Resolution of the shareholders of that class."

### **Powers of the Board to issue and repurchase shares**

The Company may purchase, redeem or otherwise acquire its own Shares for any consideration, provided that the Company continues to have at least one shareholder at all times. Unless Shares are expressed to be redeemable, the Company may only purchase, redeem or otherwise acquire them pursuant to (i) an

offer to all shareholders which, if accepted, would leave the relative rights of the shareholders unaffected and which affords each shareholder a period of not less than 14 days within which to accept the offer, or (ii) an offer to one or more shareholders to which all shareholders have consented in writing and in respect of which a resolution of the directors has been passed which states that, in the opinion of the directors, the transaction benefits the remaining shareholders and the terms of the offer are fair and reasonable to the Company and the remaining shareholders. Any purchase, redemption or other acquisition of Shares by the Company is also subject to the directors being satisfied on reasonable grounds that, immediately thereafter, the Company will satisfy the solvency test.

### **Material agreements with provisions that take effect in the event of a change of control following a takeover bid**

The Company has a number of loan agreements with UniCredit Bank and the EBRD whereas change of control is treated as an event of default implying full repayment of the loan outstanding. For general description of these agreements, please refer to Note 9 to the Consolidated Financial Statements for the year ended 31 March 2011.

### **Agreements to compensate members of the Board or employees in the event of a takeover bid**

IBS Group Holding Limited has no agreements concluded with its employees or Board members concerning compensation in the event of a change of control.

# Corporate Governance Declaration (Declaration in accordance with Section 289a of the HGB)

The Group's corporate governance procedures are established in accordance with the Isle of Man Companies Act and the Memorandum and Articles of Association. All decisions of the Group are made by the Board and/or shareholders.

The Board of Directors of the Group currently consists of four members and is advised by a separate Advisory Board. The Advisory Board provides advice to the Board of Directors on all strategic and other significant decisions of the Group. President of the Group chairs the Advisory Board and oversees external communications with investors and public bodies.

The Board of Directors may, by resolution of the directors, designate one or more committees, each

consisting of one or more directors, and delegate one or more of their powers, including the power to affix the seal, to the committee. Currently, the Group has established an audit committee consisting of three members and chaired by a non-executive director.

The German Commercial Code, section 289a, requires listed companies to publish a corporate governance statement either as part of their management report or on their website. The Board of IBS Group filed the corporate governance statement on 25 July 2011, and published it on the investor website at <http://ibsgroup.com/about-ibs-group/corporate-governance/corporate-governance-statement.aspx>.

2 | Management Report

# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group

management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of material opportunities and risks associated with the expected development of the Group.



# Sustainability Report

## Customers

The Group has very diversified and consistent customer base including about 2,000 accounts worldwide. This customer base is divided between two principal business segments, IT Services and Software Development.

### IT Services Segment

The Group's IT Services segment mainly targets large and medium-size Russian companies and public agencies. With most of its clients the Group maintains ongoing relations, ensured by industry-specific sales force. The product portfolio is mostly centred around business applications and infrastructure solutions. IBS IT Services maintains its leading position with implementation, customisation and maintenance of "best-of-breed" information systems based, for example, on SAP and Oracle business platforms. This position is continually maintained through new and ongoing engagements with large corporations and public sector clients.

Customer base of IBS IT Services is significantly diversified and spans a number of industries. During FY'2010 the clients at the IT services segment

included oil and gas companies, government and public agencies, financial institutions, metal and mining companies, education sector, power and utilities companies, manufacturing corporations, and others. Our portfolio solutions mainly target large and medium enterprises and public organisations.

IBS IT Services maintains a key client programme, which focuses on the segment's largest revenue generators, starting with clients that bring at least \$1 million in revenues each. This programme has the objective of securing increased levels of business from top clients. Each key client has an account manager supported by an account team, and a top manager overseeing such relationship.

In the IT Services segment, the Group is not reliant on any particular client. Ten largest customers accounted for 29% of the segment's revenues for the year ended 31 March 2011, and no single customer accounted for more than 7%.

### Software Development Segment

The principal activity of the Group's Software Development segment represented by Luxoft is

## 2 | Management Report

implementing complex software development projects for corporate clients, mainly in the United States and Western Europe.

The Software Development segment had engagements with more than 130 customers during FY'2010 (FY'2009: 80 customers), including blue-chip investment banks and consulting companies, telecommunications, aerospace, manufacturing and product engineering corporations. Luxoft is a supplier of IT services to Deutsche Bank, UBS, Boeing, Dell, Harman-Becker and Areva, to name a few. Luxoft's prominent customers also include, inter alia, IBM, Avaya and Alcatel-Lucent. Luxoft continuously increases its number of prospects. The Company has an excellent market reputation highlighted by strong customer satisfaction and high customer retention rate, which is historically averaged at 92%. Attrition, if any, was mainly due to M&A activity or consolidation. When it did happen on the occasions, the account loss was due to customer's budget constraints or a conceptual change in R&D approach. The Software Development segment has never lost a customer for reasons of poor performance.

## Employees

As a services company directly dependent on its talent, we are committed to the best practice employment policy in each country we operate. We understand that both our success and success of our clients are in the hands of our employees, and we pursue to support their learning and development efforts.

Our human resources (HR) management code provides equal opportunities to all employees and regulates all aspects of employee relations. We offer full and fair

The Customer Advisory Board (the "CAB") was established at the Software Development segment as a principal tool to maintain and build up the key accounts. The CAB serves as a forum for key customers and Luxoft's top management to identify the most effective ways of collaboration in addressing customers' strategic goals. The CAB also helps to develop the segment's own advisory ability. The CAB members are involved in identifying and sharing the best practices in their organisation; identifying the Group's strategic problem/ enhancement areas and business priorities; discussing and challenging new ideas; identifying potential new service offerings.

The CAB members are invited by the Group and include representatives of Boeing, Deutsche Bank, Dell, UBS, IBM, and others.

In the year ended 31 March 2011, the Software Development segment derived 78% of its operating revenues from ten major customers, with the largest customer accounting for 31% of the segment's revenues and 10% of the Group's revenues.

consideration for long term loyalty, social benefits, training, career development, and promotion.

Our overall personnel management policy is focused on strengthening our recruitment function, which is essential to support growth. To achieve recruitment sustainability, we work in close cooperation with universities and run a fully functional proprietary IBS Academy. The program provides university based training with the aim of recruiting promising students at the undergraduate level. During 2010, 63 students

## 2 | Management Report

graduated from IBS Academy. The Group offers students financial incentives and additional training. We also run our own departments at the Moscow Institute of Physics and Technology and the Moscow Steel and Alloys Institute and have partnership relations with ten other education institutions. Over the last year we expanded our regional and global presence by developing regional resource centres in Russia as well as launching new development centres in Poland and Singapore.

We pay a lot of attention to employee retention. The general intent is to retain a critical mass of well trained, experienced professional staff to secure quality and industry expertise. The demand for professional staff is high on the market, and besides compensations and social benefits we improve our career management by working with professional staff to ensure they can see a career path with the Group and receive appropriate training and development to progress their careers.

### Quality Management System

The Group pays particular attention to quality of its products and services and to information security. Consequently, the Group has implemented and maintained a quality control management system. Furthermore, the Group also takes measures to ensure adequate data security controls.

For our customers that means that all software and services we provide are controlled and created within the framework of a robust quality management system that complies with industry best practices and superior quality standards.

Efficient utilisation of the available talent pool is another important aspect of IBS Group's HR policy. With our SAP based HR system, we implemented new HR and operational strategies to improve personnel utilisation. The system makes it possible for professional project managers to track and effectively manage utilisation of staff.

The total number of employees for the Group reached 7,355 as of 31 March 2011. Compared to the previous year, we expanded our global talent base by 22%, which confirms the effectiveness and scalability of our HR function. As of the end of FY'2010, we had 32% personnel outside of Russia, representing an international portion of Luxoft's talent. This number has been increasing consistently year over year, and we expect the trend to continue in subsequent years. As of 31 March 2011, Luxoft had 4,281 employees, including 1,862 or 43% in Russia; 1,635 or 38% in Ukraine; 557 or 13% in Romania. IBS IT Services employees are primarily located in Moscow.

The Group's software Quality Management System (QMS) is more than a set of processes to ensure product quality and on-time delivery. It combines program management and risk management, as well as a client satisfaction program. In addition, QMS facilitates the company's collaborative style of work. Such formal certifications are also required to enter bidding process with major clients who maintain rigorous procedures for supplier selection.

QMS is continuously enhanced through regular internal audits, project audits (each project has

## 2 | Management Report

its own quality control plan), assessment of process parameters, and client feedback.

A crucial part of QMS is our testing procedure. All projects and products are subject to independent testing. All actions that affect quality are documented and quality information is regularly collected and analysed.

In confirmation of implementation and maintenance of the said measures the Group has been issued the following certificates:

### IT Services segment

- Certificate of approval No. K 13618 is given to OOO IBS and is to certify that the quality management system of OOO IBS conforms to requirements of GOST R ISO 9001-2008 (ISO 9001:2008) and is applicable to consultancy support in the field of information technology and operations management of enterprises and companies; hardware design services; information systems and data transmission network services; delivery of hardware and software; installation and commissioning of hardware; maintenance of software and hardware; design, development, delivery, implementation (including installation, commissioning, operational testing, user instruction) and software maintenance and maintenance of software and hardware for information systems (including for information security systems, computer systems, information system management and networks, computer assisted trading system, computer assisted banking system). The certificate is valid until 30 November 2012. Similar certificates have been

issued to OOO IBS Expertise, OOO Borlas Group, OOO Expertek IBS and OOO IBS Platformix.

- Certificate of approval No. SPB0006300 is to certify that the quality management system of OOO IBS Expertise, Moscow, Russia, has been approved by Lloyd's Register Quality Assurance to the following information security management standards: BS EN ISO 9001:2008; EN ISO 9001:2008; ISO 9001:2008, and is applicable to sales, design, development, project management, consultancy and customer support (engineering, maintenance, installation, commissioning and service) in the field of computer system solutions, information security and software for installation control. The certificate is valid until 31 October 2011.
- Certificate of approval No. K 13622 is given to OOO IBS Expertise and is to certify that the quality management system of OOO IBS Expertise conforms to the requirements of GOST R ISO 9001-2008 (ISO 9001:2008) and is applicable to consultancy support in the field of information technology, including data processing centre services, product support services, telecommunication services, services on application and workstation management; e-mail system services; information transmission network services; internet technology services; services on maintenance of hardware and software. The certificate is valid until 30 November 2012.

### Software Development segment

- Certificate of approval No. GBG6006277 is to certify that the Information Security Management System of Luxoft, Moscow, the Russian Federation, has been approved by Lloyd's Register Quality Assurance to the following Information Security

## 2 | Management Report

Management Standard: ISO/IEC 27001:2005, and is applicable to Information security management activities relating to the development and maintenance of software and the establishment and operation of Delivery Centres. This is in accordance with Statement of Applicability Revision 2. The certificate is valid until 26 May 2012.

- Certificate of approval No. GBG0000342 is to certify that the Information Security Management Systems of OOO Luxoft Professional, Moscow, Russia, and OOO Luxoft Ukraine, Kiev, Ukraine, have been approved by Lloyd's Register Quality

Assurance to the following Information Security Management Standard: ISO 9001:2008, and is applicable to design, development and maintenance of software; establishing and operating of dedicated delivery centres; related management and supporting activities; consulting services. The certificate is valid until 30 April 2012.

- Confirmation of achieved CMMI Maturity Level 5 (optimizing) for Development v1.2 issued to Luxoft Aerospace Customer Delivery Centre (6th DC) on 16 November 2007.

## Social Responsibility

The Group believes that social responsibility is an important aspect which shouldn't be ignored. To the extent practicable, the Group provides support and assistance to those in need of it. Our social activities are mainly focused on medical institutions. We work in close cooperation with regional hospitals to provide

special medical equipment and help people with disabilities. Also, the Group sponsors sports and cultural events, supports schools and orphanages. The Group encourages volunteer activities among its employees who help organise various social events including fundraising activities for orphans and the elderly.

# Outlook

## Economic Outlook

Leading economic researchers expect the global economy to continue to grow in 2011, but recent economic data for advanced economies have generally remained soft, and growth forecasts across a range of advanced economies have been further downgraded. However, a recent soft patch may prove transitory with stronger growth expected in the European Union and Japan. Moreover, despite the modest outlook for advanced economies, a strong emerging markets growth should keep global growth buoyant, at 3 to 4% in 2011 and 2012, and maybe higher thereafter. Thus, researchers expect growth disparity between advanced and emerging economies to continue, with weak labour markets continuing to constrain growth in the advanced economies.

For the Euro area, researchers have revised down GDP forecast for 2011 and 2012 to around 2.0% and 1.5% respectively, partly due to lower global demand. However, the impact of fiscal and monetary tightening is the main driver for the growth moderation in 2011-2012. Despite a likely second Greek package and the extension of the EFSF, the sovereign debt crisis continues and experts expect

debt haircuts in coming years. The ECB is expected to continue with rate hikes in 2011-2012.

For the United States, the pundits believe that Fed may start rate hikes only in the second half of 2012. A reviving auto sector and a boost to consumers from stabilised energy prices should help near-term growth. A slowing first-half of 2011 has stalled the decline in unemployment. This combined with a chance of greater fiscal tightening may keep rates unchanged at least through mid-2012.

Russian GDP growth is expected to slightly accelerate to just above 4% in 2011. Capital outflow is forecast to increase this year to between US\$40 billion and US\$50 billion. Rouble is expected to further strengthen vis-à-vis US dollar as compared with 2010, however, rouble appreciation is not expected to be significant as imports account for a large share of the consumer basket. The forthcoming 2011 parliamentary and 2012 presidential elections will shape major policy decisions in Russia in this period. Inflation is also likely to start coming off in the second half of 2011 due to ruble appreciation, lower administered price increases and low real wage growth in the first half of 2011.

## 2 | Management Report

Concerns remain about inflation in 2012. Declining current account surpluses, uncertainty related to the

elections, and the higher budget spending, are all harbingers of possible inflation acceleration in 2012.

## Sector and Market

IDC's Black Book forecasts that the overall IT market may grow by 7% in 2011 to US\$1.65 trillion with another year of double-digit growth for hardware spending (10 per cent), while the software and services markets will increase by 5% and 4%, respectively. In comparison to 2010, IT spending in software and services segments is set to accelerate in 2011, as investments in new IT projects begin to make up for an inevitable deceleration in the pace of capital spending by the end of the year. IDC believes that growth will be driven primarily by rapid adoption of cloud services, mobile applications and social networking, as they transit from innovations to the mainstream now and herald a step change in the software market, IDC says. It forecasts that more than one-third of all investment in software will be for cloud services by 2014.

The report said that the US IT market will expand by another 5% in 2011, but emerging economies will lead the way and drive the overall growth of the global industry to higher levels. IT spending in developed economies of Western Europe, Japan and Canada will grow at slower rates than in developing countries, IDC said. Ongoing high levels of unemployment will dampen the ability to invest heavily in IT products and services, though companies will still spend on certain projects and services, such as cloud computing, mobile devices and business analytics software. The Asia Pacific region, excluding Japan, is expected to grow by 10% in 2011. Double-digit

growth is also forecast in Central and Eastern Europe, Latin America, and the Middle East and Africa.

IDC predicts the emerging markets will lead IT investment growth, with Brazil, China, India and Russia possibly accounting for nearly 50% of emergingmarket IT spending in 2011. China is in turn expected to lead among developing economies, and may overtake Japan as second largest IT spender globally by 2013. The emerging markets may account for a quarter of the global IT market in 2011 and for almost one third by 2014, according to IDC forecast.

### Overview of the IT Services market in Russia

The Russian IT market, according to IDC forecast, is expected to recover from a sharp drop in 2008-2009. In 2010, IT spending in Russia totalled US\$23.13 billion, reflecting year-on-year growth of 36.4%. The IT market is expected to expand 20.3% year on year in 2011 to reach US\$27.83 billion. The Russian market is forecasted to expand at a CAGR of 12.2% over the five-year forecast period to reach US\$41.06 billion in 2015.

The most dynamic growth is to be seen in the IT Services segment, which is key to the Group's IT services. IDC calculates that in 2010, spending on IT services in Russia increased almost 30% year on year in US dollar terms, to US\$4,669.54 million. Measured in roubles, the market increased 24.2% compared with the previous year. Same agency believes that the Russian IT services market will continue to recover in 2011, exhibiting year-

## 2 | Management Report

on-year growth of 24.0% in US dollar terms. Over the five-year forecast period, IDC projects spending on IT services to expand at a compound annual growth rate (CAGR) of 19.4%, to total US\$11,346.52 million in 2015.

IDC points to downside macroeconomic risks as a main factor for a possible downward revision of the IT market projections during 2011. Persisting negative developments in the world economy area pose a major risk to its predictions: high unemployment, real estate crisis and government spending curbs in response to high levels of government debt in the United States and Euro area can lead to IT spending cuts by both public and private sectors, according to IDC.

### **Overview of the Software Application Development Outsourcing Services Industry**

The region's educational system traditionally put a strong emphasis on engineering and science. In Russia alone, 50% of students major in technology, science or engineering, a significantly higher rate than in China, India, Japan or the United States. As a result, many of the CEE countries today have a workforce excelling in computer science and engineering but at significantly lower labour costs than in the United States and Western Europe. According to the Central and Eastern Europe Outsourcing Review 2010 report, the IT outsourcing and software development providers in the region (not including Russia) have increased the number of employed IT specialists to 95,000 in 2009. Romania demonstrated the highest growth of IT specialists with an increase of about 12% since 2008. Ukraine came next with over 9% growth.

The worldwide software application development outsourcing market is to reach US\$30 billion in

2011, according to Forrester 2011 estimate. New technologies, such as cloud, mobile applications, social networks and Big Data, will further stimulate the demand for specialised IT expertise, reinforcing the general shift toward high-end IT outsourcing. Transfer of the entire business function, such as product development or network monitoring, to a qualified third-party service provider is the new trend in IT outsourcing. The main benefit is that companies can focus on their core business and key priorities, such as building sales channels and increasing customer loyalty. Vendor selection criteria are rigorous, while cost remains an important, but not a decisive factor.

New technologies begin to transform many industries. For example, automotive industry is embracing in-vehicle infotainment (IVI) products and services, while the new standards-based IVI platforms are being developed. All major car manufacturers already offer IVI systems either as an option or as standard equipment. Rear seat entertainment (RSE) systems market grows explosively and includes a substantial aftermarket portion. Energy and utilities industry is adopting new energy saving technologies, such as demand-response systems that take advantage of the latest wireless standards, e.g. ZigBee and 6LoWPAN. According to the Zpryme 2009 report, the world smart grid market is expected to grow from US\$69.3 billion in 2009 to US\$171.4 billion by 2014. The adoption of smart energy receives strong support from the governments of the majority of the developed nations. Mobile applications took the world by storm. Gartner 2010 report says that mobile apps will generate US\$7 billion in 2010, and will grow to US\$29.5 billion by 2013.

## 2 | Management Report

# General and Mid-term Outlook

This section of the Management Report contains forward-looking statements including management guidance on future sales, strategy and financial position. These expectations are based on management's view on further economic development, analyses of opportunities and risks and assessments regarding events that may affect the Group in the future. Such forward-looking statements are subject as a matter of course to risks, uncertainties, assumptions, and other factors, so that the actual results, including financial position and profitability of IBS Group, could therefore differ materially from those assumed or described in this section. Please refer to Report on Opportunities and Risks of the document.

### **Outlook and Opportunities for IT Services Segment**

Our product portfolio is mainly centred around business applications and infrastructure solutions. IBS IT Services maintains its leading position in management information systems (i.e. enterprise resource planning, "ERP") implementations, which has been our focus during the last decade. This position is consistently maintained through new and ongoing engagements with large corporations and public sector clients.

We will continue to implement, customise and maintain "best-of-breed" information systems for our clients, based, for example, on SAP and Oracle business platforms.

Based on the existing clients portfolio and continuing demand recovery scenario we expect business applications revenue to grow at a slightly faster rate than our infrastructure solutions revenue.

We have achieved significant diversification in our customer base. Management expects oil and gas and public sector to be the largest industry customer segments for our revenues in Russia, followed by finance, energy and utilities, metals and mining. We will continue to rely on our key clients programme in the years 2011-2015, to have 30 to 40 key clients generate approximately half of our revenues, and additional 50 plus key clients bring at least US\$1 million in revenues each.

Human resources remain our most valuable asset. We employ the largest Russian teams of SAP consultants and Oracle business solutions consultants. The company will continue to invest in internal training, proactive recruiting and joint education programs with top Russian universities, to address possible HR deficit.

Overall, we expect our business and revenues to grow in line with the market in FY'2011. Considering low IT services penetration in Russia we estimate top line growth of the segment at approximately 20% a year in US dollar terms for FY'2011-2012. We also aim at increasing our EBITDA margin through greater efficiency across our services delivery, and our back office.

### **Outlook and Opportunities for Software Development Segment**

Management believes that Luxoft is ideally positioned to capitalise on the new trends in technology. We have built an in-depth expertise in aerospace, automotive, banking and finance, e-commerce, energy and utilities, heavy industries and manufacturing, telecommunications, and travel and transportation industries. This enables us to offer our clients specific

## 2 | Management Report

industry solutions with clear business benefits in lieu of simply crunching the code. With nearly 80% of Luxoft's projects being green-field product development, we steer clear of high-competition commoditised IT outsourcing, targeting the high end of the market instead. Over the last five years, we continuously invested in the in-house R&D, and developed a number of product platforms and solutions for the automotive, banking, and energy and utilities sectors. The software product platforms, such as our Android-based DroidBUZZ RSE platform, allow OEMs to develop their own products quicker and more cost-efficiently by using built-in functionality and customising it for their requirements. We also developed efficient project management tools, automated testing solutions and created an expertise centre for mobile apps.

Luxoft has established presence in key locations around the world and offers the advantage of global delivery. Our strongest base is in Eastern Europe where we have large development centres in the major cities in Poland, Romania, Russia, and Ukraine. This enables us to harvest the crème de la crème of engineering talent. Luxoft Ukraine has recently received a prestigious "Offshoring Destination of the Year" award from the European Outsourcing Association. We have the largest headcount among IT outsourcing service providers in this high-potential location, which shares the same time zone with Helsinki. Our state-of-the-art delivery centre in London, UK, benefits from the top engineering talent and proximity to the clients, while our Vietnamese centre offers competitive costs.

Since its foundation in 2000, Luxoft has come a long way to become a global leader in high-end IT services for a number of business verticals. Luxoft approach was tri-fold: growing from a simple staff

augmentation to the managed delivery and business transformation models, and from the basic skills toward the comprehensive industry solutions, while expanding from its base in Russia to become a truly global company. The unrelenting focus on high quality of delivery was maintained throughout, taking precedence over all other goals, including growth. At the same time, Luxoft has consistently put efforts into building strong relationships with its clients. The combination of these prudent strategies resulted in the astonishing client retention rates and healthy growth.

Today, Luxoft built a unique niche for itself in the global software application development outsourcing services industry. We combine the deep vertical domain knowledge with the prowess to execute highly complex IT projects on a global scale. Our services portfolio includes custom applications development and maintenance, applications support, R&D and product engineering, independent QA services, IT consulting and more. We are proud to serve such global leaders as Alstom, Atmel, Avaya, Boeing, Dell, Deutsche Bank, Harman, IBM, Sabre, SITA and UBS, just to name a few. Luxoft has maintained a double-digit growth since 2002, reaching the revenue of US\$205 million in FY'2010, and employing over 4,200 people in 11 countries. We believe that the combination of our focus on developing the domain expertise, uncompromised quality, strong client relationships, and the strategic location of our delivery network, as well as unique opportunities provided by emerging technologies, growing global demand for software application development outsourcing services, and favourable competitive landscape in Eastern Europe will ensure aggressive growth in the years to come.

## 2 | Management Report

We expect the revenue of the Software Development segment to grow faster than for other segments of the Group, with an average growth rate of approximately 30% per year for FY'2011-2012. In terms of profitability, we aim to maintain segment's EBITDA margin in line with the previous periods.

### Outlook and Opportunities for Online Software Delivery Segment

The Online Software Delivery segment operates as a large net-based software applications store designed for a number of desktop and mobile platforms. Softkey has significantly increased its revenues in the last years and has emerged as one of the leading online software suppliers in terms of revenues, offering an assortment of software products in Russia and operating online stores with country domains in Ukraine, Kazakhstan, Belarus, Bulgaria, Poland, Estonia, Lithuania, Latvia, Moldova, and Israel.

The increasing importance of e-commerce provides the Group with an opportunity to expand its business in the Online Software Delivery segment as an important prospective distribution channel. The management will continue to pursue our core activities including digital software commerce, internet distribution, order processing and payment handling as well as market promotion. We also see a potential coming from the market for mobile devices. Softkey developed a special download portal and other special features for mobile devices and intends to increase its product offering for such mobile devices. In addition, the Group intends to introduce additional payment methods specifically for mobile users. This should allow the Group to widen its client base.

Generally, we expect the Online Software Delivery segment to stay the smallest part of the Group's revenues, while its growth rates stay high. For the current year we expect top line growth for the segment in line with FY'2010. At the same time, higher growth rates affect profitability of the segment, and Softkey is expected to demonstrate EBITDA margin which is lower than in the Group's core segments. In the mid-term, the management intends to find a strategic partner to bring additional value for further development of the Online Software Delivery business, and considers options to reduce our stake in Softkey's capital to below 50%.

### Consolidated revenue forecast for FY'2011

On the basis of customer orders received and the business development in the first four months of the current financial year, and estimations based on current negotiations with customers, the Group expects its consolidated revenues for the year ending 31 March 2012 to be in a range between US\$805 million and US\$820 million. The future Company business development is subject to certain risks and the achievement of this revenue goal requires, inter alia, a continuing and growing demand for software and applications development outsourcing, a continued recovery of the Russian IT services market and generally sound economic environment, including stable financial markets.

### Investments

We expect our capital expenditures to stay in line with previous years and to be spent primarily on new office equipment, computer hardware and office renovations. The Group has no plans for major acquisitions throughout FY'2011.

## 2 | Management Report

### Outlook for IBS Group Holding Limited

IBS Group Holding Limited (“the Company”) is IBS Group’s holding company involved in investment activities within information technology sector.

The Company receives investment income in the form of dividend payments made by the subsidiaries of IBS Group. Consequently the Company performance is related to financial results and cash-flows of IBS Group and depends on the established dividend payout ratio. In the medium term, we expect the Company to sustain income provided that IBS Group continues to follow its strategy and achieve its financial targets.

The Company may distribute its investment income by paying dividends to its shareholders. The Company’s dividend policy is primarily dictated by its financial and investment needs. The payment of dividends is also

affected by IBS Group’s financial results for each period. Following approval by the Annual General Meeting, the management and the Supervisory Board intend to propose to the Board of Directors a dividend increase by 33% to US\$0.2 per ordinary share for FY’2010.

The management anticipates the dividend payout ratio for FY’2011-2012 to stay in line with previous years, while in absolute terms the size of dividends will generally fluctuate depending on IBS Group’s overall performance.

The Company does not plan any significant investments in the mid-term period.

Other provisions made for IBS Group are equally applicable to IBS Group Holding Limited.

### Basis of Our Guidance

Our view on global economic development and market performance is based on market statistics and forecasts as well as economic development research available to us.

In preparing this outlook guidance, we have taken into account all events known to us at the time we prepared this management report and the consolidated financial statements.

**IBS Group Holding Limited**

Consolidated financial statements

*Years ended March 31, 2011 and 2010  
with report of independent auditors*

IBS Group Holding Limited  
Consolidated financial statements  
Years ended March 31, 2011 and 2010

**Contents**

Report of independent auditors .....	1
Consolidated financial statements	
Consolidated balance sheets .....	2
Consolidated statements of operations .....	4
Consolidated statements of shareholders' equity .....	5
Consolidated statements of cash flows .....	6
Notes to consolidated financial statements .....	7

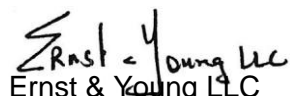
## Report of independent auditors

The Board of Directors and Shareholders of IBS Group Holding Limited

We have audited the accompanying consolidated balance sheets of IBS Group Holding Limited (the Group) as of March 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IBS Group Holding Limited at March 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

  
Ernst & Young LLC  
Douglas  
Isle of Man

July 29, 2011

IBS Group Holding Limited  
Consolidated balance sheets

*(In thousands of US Dollars)*

	March 31,	
	2011	2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 26,494	\$ 14,642
Trade accounts receivable and accrued revenue, net of allowance for doubtful accounts of \$7,823 as of March 31, 2011 and \$9,040 as of March 31, 2010	104,028	78,045
Inventory <i>(Note 4)</i>	32,159	23,396
Due from related parties <i>(Note 10)</i>	885	10,823
VAT and other taxes receivable	9,365	4,447
Assets held for sale <i>(Note 23)</i>	6,051	–
Deferred tax assets, current <i>(Note 13)</i>	4,776	5,479
Advances issued	12,371	9,748
Receivable from sale of a discontinued operation, <i>current (Note 18)</i>	4,282	–
Other current assets	6,252	5,924
<b>Total current assets</b>	<b>206,663</b>	<b>152,504</b>
<b>Non-current assets:</b>		
Property and equipment, net <i>(Note 5)</i>	31,460	27,032
Intangible assets, net <i>(Note 7)</i>	54,077	62,312
Goodwill <i>(Note 6)</i>	91,321	90,358
Due from related parties <i>(Note 10)</i>	–	22,555
Long-term investments <i>(Note 10)</i>	24,302	–
Receivable from sale of a discontinued operation, non-current <i>(Note 18)</i>	6,125	–
Deferred tax assets, non-current <i>(Note 13)</i>	399	–
Other non-current assets	1,320	870
<b>Total non-current assets</b>	<b>209,004</b>	<b>203,127</b>
<b>Total assets</b>	<b>\$ 415,667</b>	<b>\$ 355,631</b>

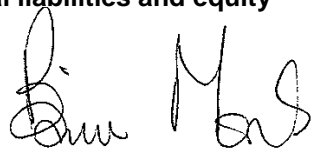
*The accompanying notes are an integral part of these consolidated financial statements*

IBS Group Holding Limited

Consolidated balance sheets (continued)

(In thousands of US Dollars)

	March 31,	
	2011	2010
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Short-term borrowings (Note 8)	\$ 22,614	\$ 25,379
Long-term debt, current portion (Note 9)	9,559	12,500
Accounts payable	40,591	36,034
Advances received	25,683	10,928
Accrued liabilities	35,409	33,458
Deferred revenue	12,276	8,818
Due to related parties (Note 10)	2,003	10,469
Capital lease obligation, current portion (Note 11)	470	99
VAT and other taxes payable	15,409	10,412
Deferred tax liability (Note 13)	497	421
Payable for acquisition (Note 3)	2,265	13,079
Other current liabilities	851	618
<b>Total current liabilities</b>	<b>167,627</b>	<b>162,215</b>
Long-term debt, non-current (Note 9)	24,926	3,875
Deferred tax liability, non current (Note 13)	10,756	13,274
Deferred revenue, non-current	447	591
Capital lease obligation, less current portion (Note 11)	615	90
Other non-current liabilities	2,335	208
<b>Total liabilities</b>	<b>206,706</b>	<b>180,253</b>
<b>Shareholders' equity (Note 12):</b>		
Share capital (GBP 0.01 per share; 24,855,244 issued and 22,955,244 outstanding as at March 31, 2011 and 22,955,244 issued and outstanding as at March 31, 2010)	406	406
Additional paid-in capital	178,819	177,023
Retained earnings (accumulated deficit)	20,948	(1,377)
Accumulated other comprehensive income (loss)	(19,624)	(23,445)
<b>Total shareholders' equity attributable to the Group</b>	<b>180,549</b>	<b>152,607</b>
<b>Non-controlling interest</b>	<b>28,412</b>	<b>22,771</b>
<b>Total equity</b>	<b>208,961</b>	<b>175,378</b>
<b>Total liabilities and equity</b>	<b>\$ 415,667</b>	<b>\$ 355,631</b>



Director

Director

Date 29 July 2011

The accompanying notes are an integral part of these consolidated financial statements

# IBS Group Holding Limited

## Consolidated statements of operations

*(In thousands of US Dollars, except share amounts)*

	<b>Years ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating revenues:</b>		
Sales of products	\$ 272,684	\$ 186,131
Sales of services	383,363	318,993
Total operating revenues	656,047	505,124
<b>Cost of revenues:</b>		
Cost of products sold	229,226	150,901
Cost of services	206,635	167,404
Total cost of revenues	435,861	318,305
<b>Gross margin</b>	220,186	186,819
<b>Operating expenses</b>		
Selling expenses	5,165	3,173
General and administrative expenses	169,688	149,741
Goodwill Impairment	1,671	–
Depreciation and amortization	18,467	17,129
<b>Operating income</b>	25,195	16,776
<b>Other income and expenses:</b>		
Interest expense, net	(3,988)	(2,140)
Other gains and losses, net	778	274
Disposal of subsidiary <i>(Note 22)</i>	(404)	497
Net foreign exchange gain/(loss)	1,797	(59)
<b>Income from continuing operations before income taxes</b>	23,378	15,348
Income tax expense <i>(Note 13)</i>	(3,828)	(2,932)
<b>Income from continuing operations</b>	19,550	12,416
Income of discontinued operations, net of tax expense of \$0 for the years ended March 31, 2011 and 2010 <i>(Note 18)</i>	–	2,240
Income/(Loss) on disposal of discontinued operations, net of tax of zero <i>(Note 18)</i>	10,407	(440)
<b>Net income</b>	\$ 29,957	\$ 14,216
Less: Net (income) attributable to the non-controlling interest	(4,189)	(355)
<b>Net income attributable to the Group</b>	\$ 25,768	\$ 13,861
<b>Basic EPS per common share (1 GDR equivalent) <i>(Note 20)</i>:</b>		
Net income from continuing operations attributable to the Group	\$ 0.67	\$ 0.53
Income from discontinued operations attributable to the Group	0.45	0.07
Net income attributable to the Group per common share	\$ 1.12	\$ 0.60
Weighted average common shares outstanding (in thousands)	22,955	22,955
<b>Diluted EPS per common share (1 GDR equivalent) <i>(Note 20)</i>:</b>		
Corrected net income from continuing operations attributable to the Group	\$ 0.65	\$ 0.53
Corrected income from discontinued operations attributable to the Group	0.45	0.07
Corrected net income attributable to the Group per common share	\$ 1.10	\$ 0.60
Corrected weighted average common shares outstanding (in thousands)	22,955	22,955

*The accompanying notes are an integral part of these consolidated financial statements*

IBS Group Holding Limited  
Consolidated statements of shareholders' equity  
(In thousands of US Dollars, except share amounts)

	Share capital		Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholder's equity attributable to the Group	Non-controlling interest	Total equity
	Common shares	Amount						
<b>Balances at March 31, 2009</b>	<b>\$ 22,955,244</b>	<b>\$ 406</b>	<b>\$ 157,471</b>	<b>\$ (15,238)</b>	<b>\$ (38,106)</b>	<b>\$ 104,533</b>	<b>\$ 33,092</b>	<b>\$ 137,625</b>
Net income for the year	–	–	–	13,861	–	13,861	355	14,216
Foreign currency translation adjustment	–	–	–	–	15,220	15,220	3,731	18,951
Foreign currency translation adjustment reclassified to income statement upon disposal of Depo (Note 18)	–	–	–	–	2,306	2,306	–	2,306
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>31,387</b>	<b>4,086</b>	<b>35,473</b>
Sales of non-controlling interest in a subsidiary (Note 19)			9,965			9,965	35	10,000
Acquisition of non-controlling interest (Note 3)			2,717	–	(2,865)	(148)	(15,857)	(16,005)
Shares granted by subsidiaries under the stock option plans (Note 19)			6,870		–	6,870	903	7,773
Disposal of subsidiary (Note 22)							519	519
Dividends to non-controlling interest							(7)	(7)
<b>Balances at March 31, 2010</b>	<b>\$ 22,955,244</b>	<b>\$ 406</b>	<b>\$ 177,023</b>	<b>\$ (1,377)</b>	<b>\$ (23,445)</b>	<b>\$ 152,607</b>	<b>\$ 22,771</b>	<b>\$ 175,378</b>
Net income for the year				25,768		25,768	4,189	29,957
Foreign currency translation adjustment					3,821	3,821	702	4,523
<b>Total comprehensive income</b>						29,589	4,891	34,480
Shares granted by subsidiaries under the stock option plans (Note 19)			3,046			3,046	528	3,574
Effect of issuance of convertible loans (Note 9)			1,039			1,039		1,039
Effect of issuance of shares under subsidiary's stock option plans (Note 19)			(2,289)			(2,289)	2,289	–
Dividends				(3,443)		(3,443)		(3,443)
Disposal of subsidiaries (Note 22)							242	242
Dividends to non-controlling interest							(2,309)	(2,309)
<b>Balances at March 31, 2011</b>	<b>\$ 22,955,244</b>	<b>\$ 406</b>	<b>\$ 178,819</b>	<b>\$ 20,948</b>	<b>\$ (19,624)</b>	<b>\$ 180,549</b>	<b>\$ 28,412</b>	<b>\$ 208,961</b>

The accompanying notes are an integral part of these consolidated financial statements

IBS Group Holding Limited  
Consolidated statements of cash flows

(In thousands of US Dollars, except share amounts)

	Years ended March 31,	
	2011	2010
<b>Operating activities</b>		
Net income from continuing operations	\$ 19,550	\$ 12,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,404	5,904
Amortization (Note 7)	11,063	11,225
Benefit from deferred taxes (Note 13)	(2,324)	(2,522)
(Gain) loss on foreign exchange	(1,797)	59
Provision for doubtful accounts	(424)	3,165
Goodwill impairment	1,671	–
Stock option expense	3,574	7,773
Disposal of subsidiaries	404	(497)
Other	186	26
Changes in operating assets and liabilities:		
Trade accounts receivable	(24,492)	(11,492)
Inventory and costs related to long-term contracts	(8,769)	(6,999)
Due to and from related parties	(493)	(1,508)
Accounts payable	2,645	4,262
Advances received	16,317	(864)
Accrued liabilities	2,002	3,696
Change in payable under foreign currency contracts		(11,598)
Deferred revenue	3,224	(1,244)
Changes in other assets and liabilities	286	(753)
<b>Net cash provided by operating activities</b>	<b>30,027</b>	<b>11,049</b>
<b>Investing activities</b>		
Purchases of property and equipment	(17,230)	(6,631)
Purchase of intangible assets	(2,045)	(821)
Short-term investments	–	761
Proceeds from disposal of property and equipment	647	357
Loans (issued)/repayment of notes	(341)	(307)
Acquisitions, net of cash acquired	(10,846)	(12,504)
Loans (issued to)/repayment from related parties	–	12,990
Disposals of subsidiaries	(159)	(2)
<b>Net cash provided by (used in) investing activities</b>	<b>(29,974)</b>	<b>(6,157)</b>
<b>Financing activities</b>		
Proceeds from bank loans and promissory notes	62,790	39,840
Repayment of bank loans and promissory notes	(63,078)	(63,534)
Proceeds from long-term debt	33,200	12,500
Repayment of long-term debt	(14,226)	(15,545)
Proceeds (repayment of) capital lease obligations	896	(186)
(Repayment of) proceeds from overdraft facilities, net	(3,003)	663
Sale of shares in a subsidiary (Note 21)	–	10,000
Dividends paid	(3,443)	–
Dividends paid to non-controlling interests	(1,003)	(7)
<b>Net cash (used in) provided by financing activities</b>	<b>12,133</b>	<b>(16,269)</b>
Effect of exchange rate changes on cash and cash equivalents	(334)	851
<b>Net increase(decrease) in cash</b>	<b>11,852</b>	<b>(10,526)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>14,642</b>	<b>25,168</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 26,494</b>	<b>\$ 14,642</b>

The accompanying notes are an integral part of these consolidated financial statements

# IBS Group Holding Limited

## Notes to consolidated financial statements

Years ended March 31, 2011 and 2010

*(In thousands of US Dollars, except share amounts)*

### **1. Description of business and environment**

IBS Group Holding Limited (“the Company”) was incorporated as a company limited by shares under the laws of the Isle of Man on July 1, 1997. The Company is an investment holding company. The Company has 69 subsidiaries in Russia, Ukraine, USA, the United Kingdom, Romania, Cyprus, Poland, the British Virgin Islands, Singapore, Vietnam, the British Virgin Islands, Germany, Switzerland, the Netherlands, Belorussia and Bahamas, collectively referred to as “Subsidiaries”. The Company and its subsidiaries are collectively referred to as the “Group”. The most significant subsidiaries include: IBS Systems Integration Limited (Cyprus), OOO IBS (Russia), OOO IBS Expertisa (Russia), OOO IBS DataFort (Russia), IBS International Limited (Bahamas), Data Enterprise Link Limited (British Virgin Islands), OOO IBS Platformix (Russia), OOO Borlas Group (Russia), Compit Technologies (Belorussia), Luxoft International Company Limited (British Virgin Islands), OOO Luxoft Professional (Russia), Luxoft USA Inc.(USA), Luxoft Consulting Inc. (USA), Luxoft UK Limited (UK), ITC Networks SRL (Romania), ZAO SoftKey (Russia), OOO Budget and Finance Technologies (Russia). Discontinued operations include Dealine Distribution Company Limited (British Virgin Islands), OAO DEPO Computers (Russia), OOO Depo Electronics (Russia), OOO Deacom (Russia), collectively – Depo (see *Note 18*).

The Group is involved in providing information technology (IT) services and products primarily to customers in the Russian Federation, the US and Europe. The broad range of services it provides includes IT consulting, design, implementation, customization, support, maintenance, outsourcing, infrastructure and software development services. The products revenue the Group generates is primarily IT equipment as well as software sold to its customers as part of its IT infrastructure solutions, or otherwise distributed. The Group conducts certain of its services under license or distribution arrangements with hardware or software vendors. The loss of these arrangements could have an adverse near-term effect on the Group’s financial position or results of operations.

### **2. Basis of presentation and significant accounting policies**

#### **Basis of presentation**

The Russian subsidiaries of the Group maintain their statutory accounting records and prepare their financial statements in Russian Rubles (“RUR”) in accordance with the requirements of the Russian accounting and tax legislation. The subsidiaries of the Group registered outside the Russian Federation maintain their accounting records in United States Dollars (“USD”), Euros (“EUR”), Pound sterling (“GBP”), Ukrainian hryvnias (“UAH”), Byelorussian rubles (“BYR”), Romanian lei (“RON”) and Polish zloty (“PLN”) in accordance with the local or statutory requirements of the jurisdictions in which they are incorporated. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”). The accompanying consolidated financial statements differ from the financial statements of the subsidiaries issued for statutory purposes since they reflect certain adjustments, not recorded in the respective statutory accounting books, which are appropriate to present the financial position, results of operations and cash flows.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 2. Basis of presentation and significant accounting policies (continued)

#### Principles of consolidation

The accompanying consolidated financial statements include the accounts of IBS Group Holding Limited (the parent company) and its wholly and majority owned subsidiaries (“Subsidiaries”, and collectively, - “the Group”), generally all companies in which the Group directly or indirectly exercises control, which generally means that the Group owns more than 50% of the voting rights in the company. Consolidation is also required when the Company is subject to a majority of the risk of loss or is entitled to receive a majority of the residual returns or both from a variable interest entity’s activities. The financial statements of Subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist. All intercompany accounts and transactions have been eliminated from the consolidated financial statements.

The non-controlling interest is reported in the Consolidated balance sheets as a separate component of equity and represents the aggregate ownership interests in the subsidiaries that are held by owners other than the Company.

The Group utilizes third parties to import goods into Russia for further resale by certain of its subsidiaries. Sale and repurchase transactions with such third parties are eliminated in a manner similar to intercompany transactions.

#### Foreign currency translation

For the majority of the Group’s subsidiaries (except for the subsidiaries of the Software Development segment) the functional currency is the local currency because the majority of their revenues, costs, property and equipment purchases, and debt and trade liabilities are either priced, incurred, payable or otherwise measured in the local currency (USD for the subsidiaries forming Software Development segment). Transactions and balances not already measured in the functional currency have been re-measured into the functional currency in accordance with the relevant provisions of ASC 830, *Foreign Currency Matters*. Monetary assets and liabilities denominated in currencies different from the functional currencies are re-measured at exchange rates prevailing on the balance sheet dates:

#### March 31, 2011:

US \$1 = 28.4290 RUR,  
US \$1 = 7.960 UAH,  
US \$1 = 3.045 BYR,  
US \$1 = 0.71 EUR,  
US \$1 = 2.823 PLN,  
US \$1 = 2.893 RON,  
US \$1 = 0.624 GBP;

#### March 31, 2010:

US \$1 = 29.3638 RUR,  
US \$1 = 7.925 UAH,  
US \$1 = 2,978 BYR,  
US \$1 = 0.74 EUR,  
US \$1 = 147.11 KZT,  
US \$1 = 3.042 RON,  
US \$1 = 0.659 GBP;

Non-monetary assets and liabilities, capital, revenues and costs are re-measured at historical exchange rates prevailing on the transaction dates.

The Group uses the US dollar as its reporting currency. Therefore, the financial statements of the Company’s subsidiaries are translated into USD in accordance with ASC 830 using the current rate method. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet dates. Shareholders’ equity was translated at the applicable historical rate. Revenue and expenses are translated at the monthly average rates of exchange. Translation gains and losses were included in accumulated other comprehensive income.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 2. Basis of presentation and significant accounting policies (continued)

#### Foreign currency translation (continued)

The RUR, UAH, BYR, are not a fully convertible currency outside the territories of countries of their operations. Related official exchange rates are determined daily by the respective countries Central Banks. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the Bank of Russia. The translation of RUR, UAH, BYR, RON, PLN - denominated assets and liabilities into USD for the purposes of these financial statements does not indicate that the Group could realize or settle, in USD, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported USD value of capital and retained earnings to its shareholders.

#### Treasury shares

Common shares of the Group owned by the Group at the balance sheet date are designated as treasury shares and are recorded at cost. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

#### Comprehensive income

ASC 220, *Comprehensive Income*, requires the reporting of comprehensive income in addition to net income. Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. Accumulated other comprehensive income includes solely foreign currency translation adjustments.

#### Cash and cash equivalents

The Group considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

#### Short-term investments

Short-term investments represent investments in time deposits with financial institutions, which have original maturity in excess of 90 days but less than twelve months. These investments are accounted for at cost, which approximate to their fair values.

#### Notes receivable

Notes receivable represent short-term loans issued and their carrying value approximate their fair values.

#### Accounts receivable, net

Accounts receivable are shown at their net realizable value, which approximates their fair value. Allowances for doubtful accounts are made for specific accounts in which collectability is doubtful, as well as overall allowance based on, the aging of account receivable, historical write-offs and current conditions.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 2. Basis of presentation and significant accounting policies (continued)

#### Inventory

Goods for resale are stated at the lower of cost or net realizable value. Cost is determined on a weighted-average basis. The Group periodically assesses its inventories for obsolete and slow-moving stock and makes allowances.

Work-in-progress includes costs related to uncompleted contract stages. Costs include cost of equipment and other direct costs such as professional compensation (payroll and related benefits), subcontracting, travel, materials and other.

#### Property and equipment

Property and equipment are carried at cost. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives for property and equipment are as follows:

Buildings	25 years
Motor vehicles, furniture and fixtures	5 years
Exhibition and demonstration equipment	3-4 years
Assets under capital lease	3 years
Computers and office equipment	3 years
Leasehold improvements	according to lease contracts

Upon disposition of an asset, its accumulated depreciation is deducted from the original cost, and any gain or loss is reflected in income. Maintenance and repairs are charged to expense as incurred. Applicable interest cost incurred during the construction of new facilities is capitalized as one of the elements of the cost and is depreciated over the assets' estimated useful lives, although such amounts were not significant for capitalization during the years ended March 31, 2011 and 2010.

#### Intangible assets

Intangible assets, principally software and acquired contract-based customer relationships, partnership agreements, software and brand are amortized on a straight-line basis over their estimated useful lives.

The Group also capitalizes payments made to third party suppliers to acquire rights to use land. These payments are accounted for as intangible assets and are amortized on a straight-line basis over the estimated useful life of respective rights of 48 years.

#### Goodwill

Goodwill represents an excess of the cost of business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed for impairment annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with ASC 350, *Intangibles – Goodwill and Other*, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 2. Basis of presentation and significant accounting policies (continued)

#### Software costs

Under the provisions of the American Institute of Certified Public Accountants Statement of ASC 350, *Intangibles- Goodwill and Other*, the Group capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and the Group's management has authorized further funding of the project which it deems probable to be completed and used to perform the function intended. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Capitalized software development costs are amortized using the straight-line method over the expected life of the software (generally 3 to 5 years).

#### Research and development costs

Research and development costs are expensed as incurred.

#### Long-lived assets

In accordance with ASC 360, *Property, Plant, and Equipment*, and ASC 205, *Presentation of Financial Statements*, long-lived assets to be held and used by the Group, including intangible assets that are subject to amortization, are reviewed to determine whether an event or change in circumstances indicates that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Group bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Group determines whether impairment has occurred through the use of an undiscounted cash flows analysis of assets at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using discounted cash flow analysis or other valuation techniques.

No impairment expense related to long-lived assets was recognized during the years ending March 31, 2011 and 2010.

#### Income taxes

The Group computes and records income tax expense in accordance with ASC 740, *Income Taxes*, and related guidance. Under the asset and liability method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities at each reporting date, and are measured using the enacted tax rates and laws that will be in effect when differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion of the deferred tax assets will not be realized. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries of the Group that are essentially permanent in duration is \$6,218 and \$5,431 at March 31, 2011 and 2010, respectively. The Company and its subsidiaries file separate tax returns and, therefore, actual taxes and deferred taxes are estimated on a separate basis.

**2. Basis of presentation and significant accounting policies (continued)**

**Income taxes (continued)**

On April 1, 2008, the Group adopted ASC 740-10, *Income Taxes/Overall*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with ASC 740, *Income Taxes*. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Group believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. However, the Group cannot predict with certainty the interpretations or positions that tax authorities may take regarding specific tax returns filed by the Group and, even if the Group believes its tax positions are correct, may determine to make settlement payments in order to avoid the costs of disputing particular positions taken.

**Revenue recognition**

*IT services*

Revenue under the time and materials and fixed price contracts where the Group designs/redesigns, builds and implements new or enhanced IT systems applications and related processes for its clients is accounted for using the percentage of completion method in accordance with the provisions of ACC 605-35, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Progress towards completion under such contracts is measured based on the customer acceptance of contractually required specific contract stages. As of March 31, 2011 and 2010, amounts billed to customers in advance of contract stages completion or not yet billed, respectively, were classified as deferred revenue or accrued revenue and included in current liabilities or accounts receivable, respectively, based on their nature. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated loss is charged to income.

Revenues related to all other services, including technology infrastructure, offshore programming, outsourcing, services provided under a fixed fee or time and materials contracts are recognized in the period in which the services are performed. Maintenance revenue is recognized on a straight-line basis over the contract or expected service period.

*Product revenue*

The Group recognizes revenues and the related cost of revenues upon the shipment and installation of IT products and software, net of applicable provisions for discounts and allowances, and fulfillment of all other substantial obligations. Provisions for warranty are estimated and accrued at the time of sale based on history of past warranty repairs and are expected to reverse in up to three years period. Revenues from a separately-priced extended warranty (as compared to standard warranty terms) are deferred and amortized to revenue ratably over the term of the warranty. Warranty liabilities included in accrued liabilities at March 31, 2011 and 2010 amounted to \$1,195 and \$1,183, respectively. Amounts of the aggregate reductions in the warranty liability representing costs of the actual warranty repairs for the years ended March 31, 2011 and 2010 were approximately \$762 and \$344, respectively. Total deferred revenues related to extended warranty at March 31, 2011 and 2010 amounted to \$95 and \$536, respectively. Shipping and handling costs are included in cost of goods sold when billed to customers.

**2. Basis of presentation and significant accounting policies (continued)**

**Revenue recognition (continued)**

*Multiple elements*

The Group also derives revenue from multiple-element contracts. It follows the provisions of ASC 985-605, *Software Revenue Recognition*, as it relates to multiple-element arrangements involving software. If the undelivered elements are not critical to the functionality of delivered elements, revenue related to delivered elements is recognized upon their delivery and installation, if any. Revenue related to delivered elements is measured at its fair value or, if it is unavailable for certain types of arrangements, based on a residual value after deducting the fair value of the undelivered elements from the total arrangement consideration (based on a vendor-specific objective evidence of fair value ("VSOE") for arrangements involving software). If undelivered elements, including post-contract customer support, are critical to the functionality of the delivered elements or if the evidence supporting the fair value is not available, revenue from such contracts is deferred and recognized only when all elements are delivered or over the period of post-contract customer support, generally not exceeding two years.

As it relates to non-software arrangements, starting April 1, 2010 the Company follows the provisions of ASU 2009-13, Revenue Recognition, codified in ASC 605-25, *Revenue Recognition – Multiple Element Arrangement*. The Group follows the principles similar to the above, but uses vendor specific evidence of selling price (VSOE), third-party evidence of selling price (TPE), or best estimate of selling price, as the basis for allocation of multiple element arrangement's considerations.

Revenues are stated net of any value-added taxes ("VAT") charged to customers.

**Business combinations**

The Group accounts for its business acquisitions under the purchase method. The total cost of an acquisition is allocated to the underlying assets, including intangible assets acquired, and liabilities assumed based on their respective estimated fair values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, intangible and other asset lives and market multiples, among other items. The results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition.

**Changes in ownership interests of subsidiaries**

Starting April 1, 2009 upon adoption of ASC 810-10 (see below) after control is obtained, changes in ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

**Advertising**

The Group expenses the cost of advertising as incurred. Advertising expenses for the years ended March 31, 2011 and 2010 were \$4,624 and \$2,756, net of reimbursement of \$719 and \$570, respectively, and are classified as selling expenses.

## 2. Basis of presentation and significant accounting policies (continued)

### Pension and social fund contributions

The Group's subsidiaries registered in Russia, Ukraine, UK, Belorussia, Poland and Romania contribute to the pension and social funds. The contributions amounted to approximately \$12,661 and \$10,801 for the years ended March 31, 2011 and 2010, respectively, and are expensed as incurred.

### Concentration of credit risk

Financial instruments that potentially subject the Group to concentration of credit risk consist primarily of cash and cash equivalents, notes and trade accounts receivable. The Group deposits available cash with international financial institutions and local financial institutions in Russia. Deposit insurance is not offered by Russian financial institutions. To manage this credit risk, the Group's management periodically reviews the creditworthiness of the banks in which it deposits cash.

The carrying values of cash and cash equivalents and notes and trade accounts receivable approximate their fair values because of their high liquidity, and indicate the maximum amount of potential credit risk. The concentrations of credit risk associated with trade and other receivables are limited due to their dispersion across various companies and geographic locations and ongoing procedures to monitor the creditworthiness of customers and other debtors. The Group generally does not require collateral to extend credit to its customers. As at March 31, 2011, the two largest customer's balances accounted for 9% and 8% of the total Group's accounts receivable. As at March 31, 2010, the two largest customer's balances accounted for 18% and 11% of the total Group's accounts receivable. There was one customer, which accounted for 9.7% and 8.5 % of the Group's revenue in the years ended March 31, 2011 and 2010, respectively.

### Use of estimates in preparation of financial statements

The preparation of these consolidated financial statements, in conformity with US generally accepted accounting principles, requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Fair value of financial instruments

The fair value of financial instruments, including cash and cash equivalents, short-term borrowings, which are included in current assets and liabilities, accounts receivable and accounts payable approximates the carrying value of these items due to the short-term nature of these amounts.

### Fair value measurement

The Group follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, and considers the following three levels of inputs to measure the fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 2. Basis of presentation and significant accounting policies (continued)

#### Fair value measurement (continued)

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

In particular, the Group used Level 3 inputs when determining the fair value of the ITCN operating segment for the purposes of determining the goodwill impairment (see *Note 6*), value of shares issued under stock option plans of Luxoft Holding Inc. and IBS SI (*Note 19*).

#### Stock-based compensation

The Group accounts for stock-based compensation plans in accordance with ASC 718-10, *Compensation – Stock Compensation – Overall*. Under ASC 718-10, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the income statement. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and is required to be recognized over the period during which the employees are required to provide services in exchange for the equity instruments (see *Note 19*).

The Group recognizes compensation cost for an award with service conditions on a straight-line basis over the requisite service period for the entire award.

#### Recent accounting pronouncements

##### *Transfers of financial assets; consolidation of variable interest entities*

In June 2009, the FASB issued ASC 860, *Transfers and Servicing*, and ASC 810, *Consolidation*. ASC 860 is a revision to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity”, changes the requirements for derecognizing financial assets, and requires additional disclosures. ASC 810 is a revision ASC 810-10, *Consolidation of Variable Interest Entities, Consolidation-Overall* and changes how a company determines when variable interest entities should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. ASC 810 shall be effective as of the beginning of an enterprise’s first annual reporting period that begins after November 15, 2009. The Group adopted ASC 860 and ASC 810 for its annual reporting period beginning after April 1, 2010. The adoption of ASC 860 and ASC 810 did not have an effect on the Group’s financial position, results of operations and cash flows.

**2. Basis of presentation and significant accounting policies (continued)**

**Recent accounting pronouncements (continued)**

*Revenue recognition for multiple-element arrangements – hardware systems products and hardware systems related services (nonsoftware arrangements)* In October 2009, FASB issued ASU 2009-13, *Revenue Recognition*, codified in ASC 605-25, *Revenue Recognition – Multiple Element Arrangement*. ASU 2009-13 eliminates the use of the residual method of allocation and requires use of the relative-selling price method. ASU 2009-13 expands the disclosures required for multiple-element revenue arrangements. ASU 2009-13 is effective for both interim and annual periods as of the beginning of reporting entity's first annual reporting period that begins after June 15, 2010 with earlier application permitted for full annual periods. The Company adopted ASU 2009-13 since the April 1, 2010 by means of prospective application of its provisions. No changes in the units of accounting occurred as a result of the adoption of ASU 2009-13, no material changes in the pattern and timing of revenue recognition took place. The Company uses vendor specific evidence of selling price (VSOE), third-party evidence of selling price (TPE), or best estimate of selling price, as the basis for allocation of multiple element arrangement's considerations. The adoption of the ASU 2009-13 has not materially affected the financial statements in the period after the initial adoption, as the fair value of elements from multiple arrangements approximates their VSOE values.

In October 2009, the FASB issued guidance which amends the scope of existing software revenue recognition accounting (Accounting Standards Update 2009-14, Software (Topic 985) - Certain Revenue Arrangements that Include Software Elements (ASU 2009-14)).

Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance must be adopted in the same period that the company adopts the amended accounting for arrangements with multiple deliverables described in the preceding paragraph.

The Group adopted ASU 2009-13 and ASU 2009-14 for its annual reporting period beginning from April 1, 2010. The adoption of the new standard did not have a material effect on the Group's consolidated financial statements.

*Fair Value measurements and disclosures*

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures* (Topic 820): *Measuring Liabilities at Fair Value* ("ASU 2009-05") that amends Subtopic 820-10, *Fair Value Measurements and Disclosures, Overall* of Topic 820, of the FASB Codification. ASU 2009-05 provides clarification that in circumstances in which a quoted price in active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an assets, or any other technique consistent with the principles of Topic 820, such as present value technique. ASU 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. Early application is permitted if financial statements for prior period have not been issued. The Company adopted ASU 2009-05 from January 1, 2010. Adoption of ASU 2009-05 did not have a material impact on the Company's consolidated financial position and results of operations.

**2. Basis of presentation and significant accounting policies (continued)**

**Recent accounting pronouncements (continued)**

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements* (“ASU 2010-06”) that amends Topic 820, *Fair Value Measurements and Disclosures*, of the FASB Codification. ASU 2010-06 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-06 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Company adopted ASU 2010-06 from January 1, 2010, except for the disclosures about activity in Level 3 fair value measurements that is to be adopted from April 1, 2011. Adoption of ASU 2010-06 did not have a material impact on the Company’s consolidated financial position and results of operations.

*Derivatives and Hedging*

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging* (Topic 815): *Scope Exception Related to Embedded Credit Derivatives* (“ASU 2010-11”) that amends Topic 815, *Derivatives and Hedging*, of the FASB Codification. ASU 2010-11 clarifies that scope exception for embedded credit derivative features relates to the transfer of credit risk in the form of subordination of one financial instrument to another. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each first fiscal quarter beginning after issuance of ASU 2010-11. The Company adopted ASU 2010-11 from July 1, 2010. Adoption of ASU 2010-11 did not have a material impact on the Company's consolidated financial position and results of operations.

**Recent accounting pronouncements not yet adopted**

*Disclosures about receivables:*

In July 2010, the FASB issued ASU 2010-20, *Receivables* (Topic 310): *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (“ASU 2010-20”) that amends Topic 310, *Receivables*, of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide additional disclosures to facilitate financial statement users’ evaluation of the following: 1) the nature of credit risk inherent in the entity’s portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 also introduces a new terminology, in particular, the term financial receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. Issued in January 2011 ASU 2011-01 deferred effective date for other disclosure requirement. The Group will adopt ASU 2010-20 effective requirements from April 1, 2011. Adoption of ASU 2010-20 is not expected to have a material impact on the Group's consolidated financial position and results of operations.

**2. Basis of presentation and significant accounting policies (continued)**

**Recent accounting pronouncements not yet adopted (continued)**

*Goodwill Impairment*

In December 2010, The FASB issued ASU 2010-28, *Intangibles—Goodwill and Other* (Topic 350): *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28) that amends Topic 350, *Intangibles—Goodwill and Other*, of the FASB codification. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Group will adopt ASU 2010-28 from April 1, 2011. The Group does not expect ASU 2010-28 to have a material impact on the Group's consolidated financial position and results of operations.

*Disclosure of supplementary proforma information for business combinations*

In December 2010, The FASB issued ASU 2010-29, *Business Combinations* (Topic 805): *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29) that amends Topic 805, *Business Combinations*, of the FASB codification. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. ASU 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt ASU 2010-29 for business combinations occurring on or after April 1, 2011. The effect of adoption of ASU 2010-29 may have a material impact on the Group's disclosures in the consolidated financial statements if it has significant business combinations in future.

**Reclassifications**

Certain reclassifications as of March 31, 2010 were made to conform to presentation as of March 31, 2011. The overall effect of such reclassifications is not significant.

**3. Businesses combinations**

***Acquisition of 8.56% of IBS SI common stock***

On December 30, 2009, SouthEast Integration Inc. (SEI), the 100% Group's subsidiary, acquired 8.56% of common shares of IBS System Integration (Cyprus) from Warrant Group Ltd. (Warrant) in exchange for the loan from Warrant with a book value of US \$16 million. As a result of the transaction, SEI increased the interest of the Group in common stock of IBS System Integration Limited (IBS SI) up to 85.59% (see *Note 10*). The difference between the book value of the minority interest and the Warrant loans was recorded to equity.

On September 9, 2010, IBS SI issued 333 new shares pursuant to the Stock-Based Compensation plan (see *Note 19*). As a result of the above, the share of the Group in IBS SI decreased from 85.59% to 84.47% and the share of Warrant decreased from 14.41% to 14.22%.

On March 31, 2011, IBS SI issued 246 new shares pursuant to the Stock-Based Compensation plan additionally. As a result of the above, the share of the Group in IBS SI decreased from 84.47% to 83.66% and the share of Warrant decreased from 14.22% to 14.09%.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 4. Inventory

Inventories consisted of the following as of March 31:

	2011	2010
Goods for resale	\$ 15,274	\$ 13,087
Goods in transit	827	869
	16,101	13,956
Cost related to long-term contracts	16,058	9,440
	\$ 32,159	\$ 23,396

### 5. Property and equipment

Property and Equipment consisted of the following as of March 31:

	2011	2010
Land	\$ 5,277	\$ 5,277
Buildings	5,206	14,777
Motor vehicles, furniture and fixtures	8,222	6,121
Exhibition and demonstration equipment	1,610	1,697
Assets under capital lease	1,445	347
Capitalized software	3,131	2,436
Leasehold improvements	6,310	-
Computers and office equipment	22,045	19,309
<b>Total cost</b>	<b>53,246</b>	<b>49,964</b>
Accumulated depreciation:		
Land	\$ -	\$ -
Buildings	(1,053)	(4,847)
Motor vehicles, furniture and fixtures	(3,193)	(4,292)
Exhibition and demonstration equipment	(1,237)	(1,341)
Assets under capital lease	(155)	(69)
Capitalized software	(1,986)	(1,101)
Leasehold improvements	(709)	-
Computers and office equipment	(15,716)	(15,023)
<b>Total accumulated depreciation</b>	<b>(24,049)</b>	<b>(26,673)</b>
Assets under construction	2,263	3,741
<b>Property, plant and equipment</b>	<b>\$ 31,460</b>	<b>\$ 27,032</b>

At March 31, 2011 and 2010, the Group has included in property and equipment capitalized leases in the amount of \$1,445 and \$347, respectively, with associated accumulated depreciation of \$155 and \$69, respectively. Depreciation of assets recorded under capital leases is included in depreciation expenses for the years ended March 31, 2011 and 2010. Leasehold improvements depreciated during 7 years according lease contract terms.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 6. Impairment of goodwill and long-lived assets

#### *Goodwill*

The changes in the carrying amount of goodwill for the years ended March 31, 2011 and 2010 are presented below by each operating segment:

	Luxoft Consulting	Luxoft	BFT	Softkey	IBS	Learnware	ITCN	Total
<b>Balances at March 31, 2009</b>	<b>\$ 499</b>	<b>\$ 2,385</b>	<b>\$ -</b>	<b>\$ 939</b>	<b>\$ 67,142</b>	<b>\$ -</b>	<b>\$ 9,291</b>	<b>\$ 80,256</b>
Finalization of the purchase price accounting	-	-	-	-	-	-	(719)	(719)
Impairment	-	-	-	-	-	-	-	-
Translation difference	-	-	-	189	10,632	-	-	10,821
<b>Balances at March 31, 2010</b>	<b>\$ 499</b>	<b>\$ 2,385</b>	<b>\$ -</b>	<b>\$ 1,128</b>	<b>\$ 77,774</b>	<b>\$ -</b>	<b>\$ 8,572</b>	<b>\$ 90,358</b>
Finalization of the purchase price accounting	-	-	-	-	-	-	33	33
Impairment	(499)	-	-	(1,172)	-	-	-	(1,671)
Translation difference	-	-	-	44	2,557	-	-	2,601
<b>Balances at March 31, 2011</b>	<b>\$ -</b>	<b>\$ 2,385</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 80,331</b>	<b>\$ -</b>	<b>\$ 8,605</b>	<b>\$ 91,321</b>

Under provisions of ASC 350, goodwill is tested annually for impairment as of March 31 or upon the occurrence of certain events or substantive changes in circumstances. In performing the first step ("Step 1") of the goodwill impairment test in accordance with ASC 350, the Group compared the net book values of its reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, the Group employed a Discounted Cash Flow ("DCF") analysis. Determining estimated fair values requires the application of significant judgment.

The basis for the Group's cash flow assumptions includes forecasted revenue, operating costs and other relevant factors, including estimated capital expenditures. Assumptions under this method have been adjusted to reflect increased risk due to current economic volatility. The results of this Step 1 process indicated that there was a potential impairment of goodwill in the Softkey and Luxoft Consulting.

As a result, the second step ("Step 2") of the goodwill impairment test was performed for these reporting units. The implied fair value of goodwill determined in the Step 2 analyses was determined by allocating the fair value of the reporting units to all its assets and liabilities (including any unrecognized intangible assets and related deferred taxes) as if the reporting unit had been acquired in a business combination. As a result, the Group determined that goodwill arising from the acquisition of a controlling interest in Softkey and Luxoft Consulting was impaired, and recorded an impairment charge of \$1,671 as of March 31, 2011.

No impairment of goodwill has occurred as at March 31, 2010. Accumulated goodwill impairment charges amount to \$1,671 at March 31, 2011 and zero at March 31, 2010.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 7. Intangible assets

Intangible assets consisted of the following as of March 31:

	Weighted-average useful lives	2011	2010
Land lease rights	48 years	\$ –	\$ 436
Internally developed software	5 years	9,424	7,865
Trade name	6 years	1,243	1,200
Websites	6 years	819	677
Contract-based customer relationships	7.7 years	26,830	26,466
Partner relationships	9 years	49,034	47,473
Brand	5 years	6,162	5,966
Other	4 years	1,408	955
<b>Total cost</b>		<b>94,920</b>	<b>91,038</b>
Accumulated amortization:			
Land lease rights		\$ –	\$ (104)
Internally developed software		(5,388)	(4,017)
Trade name		(859)	(635)
Websites		(496)	(370)
Contract-based customer relationships		(10,227)	(7,062)
Partner relationships		(18,615)	(12,747)
Brand		(4,211)	(2,883)
Other		(1,047)	(908)
<b>Total accumulated amortization</b>		<b>(40,843)</b>	<b>(28,726)</b>
<b>Total intangible assets</b>		<b>\$ 54,077</b>	<b>\$ 62,312</b>

Amortization expense for intangible assets for the years ended March 31, 2011 and 2010 was \$11,063 and \$11,225, respectively. Amortization expense for the succeeding five years is expected to be as follows: year ended March 31, 2012 — \$10,963, March 31, 2013 — \$9,570, March 31, 2014 — \$8,801, March 31, 2015 — \$8,540 and March 31, 2016 — \$8,280.

### 8. Short-term borrowings

Short-term borrowings consisted of the following loans as of March 31:

	2011	2010
Loan from OAO MDM Bank	\$ –	\$ 8,000
Loan from OAO Bank VTB	–	8,200
Loans from Amsterdam Trade Bank N.V.	5,320	3,820
Loan from ZAO Absolut Bank	1,477	–
Loan from ZAO Alfa Bank	7,387	–
Loan from ZAO Uralsib	1,366	–
Loan from Amsterdam Trade Bank N.V. (Overdraft)	–	1,046
Loan from OAO Rosbank (Overdraft)	–	291
Loan from Deutsche Bank (Overdraft)	–	1,623
Loan from VTB (Austria) AG	2,600	–
Ardent Overseas Inc	1,681	149
Other	2,783	2,250
	<b>\$ 22,614</b>	<b>\$ 25,379</b>

The above loans have short-term maturities, bear interest ranging from 8% per annum to 10% per annum. Weighted-average interest rates for the banks' loan and overdrafts are 9.67%, and 12.4% for the year ended March 31, 2011 and 2010, respectively. All loans are guaranteed by the Group's subsidiaries.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 8. Short-term borrowings (continued)

On August 1, 2005, Luxoft USA entered into a credit facility agreement with Amsterdam Trade Bank, N.V. for up to \$10,000 (\$3,820 is drawn and outstanding at March 31, 2010). Interest on amounts outstanding is accrued at 12% per annum). On July 16, 2010, in replacement of the above credit facility agreement Luxoft USA entered into a new credit facility agreement with Amsterdam Trade Bank, N.V. for up to \$10,000 (\$5,320 is drawn and outstanding at March 31, 2011). Interest on amounts outstanding is accrued at 10% per annum. The loan taken under the above credit facility was secured by a conditional assignment of rights to receivables under certain sales contracts with the customers of Luxoft.

On September 27, 2010, Luxoft USA entered into a loan agreement with VTB Bank (Austria) AG for up to \$10,000 (\$2,600 is drawn and outstanding at March 31, 2011) with the interest rate of 3M LIBOR+9.5% per annum and maturity period from August 04, 2011 to April 4, 2012. The loan is secured by a conditional assignment of rights to receivables under certain sales contracts with the customers of Luxoft USA and Luxoft International.

### 9. Long-term debt

Long-term debt consisted of the following as of March 31:

	<b>2011</b>	<b>2010</b>
Loan from UniCreditBank	\$ 13,582	\$ 16,375
Loan from Cisco	1,967	-
Loan from EBRD	18,936	-
Total long- term loans	<b>34,485</b>	16,375
Less current portion	<b>(9,559)</b>	(12,500)
Non-current portion	<b>\$ 24,926</b>	\$ 3,875

In July 2008, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$20 million payable in 36 months at 1M LIBOR+4.5% per annum and a guarantee for up to \$30 million payable in 27 months for acquisition of ITC Networks SRL by Luxoft. The outstanding loan balance drawn by the Group amounted to \$2,000 and \$10,000 at March 31, 2011 and 2010, respectively. The loan also imposes restrictions on dividends distribution to shareholders (only 40% of earnings are allowed to be distributed).

In July 2009, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$12,500 payable in 24 months at 1M LIBOR+7.5% per annum to finance its payable for on acquisition of ITCN by Luxoft. The outstanding loan balance drawn by the Group amounted to \$1,875 and \$6,375 at March 31, 2011 and March 31, 2010, respectively.

The above loans were secured by a pledge of 25% plus one share of the share capital of Luxoft Holding, Inc. (BVI), 95% of the share capital of ITC Networks SRL (Romania) and a pledge of the warehouse building with a net book value of \$5,595.

On July 21, 2010, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$10,400 payable in 36 months at 1M LIBOR+5% per annum to finance its payable for on acquisition of ITCN by Luxoft. The outstanding loan balance drawn by the Group amounted to \$9,707 at March 31, 2011. The loan was secured by the pledge of the warehouse building.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 9. Long-term debt (continued)

The loan agreements with UniCredit Bank contain covenants with respect to compliance with certain financial ratios and conditions. The breach of restrictive covenants gives the bank the right to accelerate repayment of indebtedness.

On April 29, 2010 OOO IBS Expertisa, LLC entered into a credit facility agreement with CISCO SYSTEMS FINANCE INTERNATIONAL for up to \$3,000 (\$1,966.8 is drawn and outstanding at March 31, 2011). Interest on amounts outstanding is accrued at 7.51% per annum with maturity periods till May 23, 2012 for the first tranche and till September 23, 2012 for the second tranche. The purpose of the loan is to finance purchase of Cisco equipment.

On July 21, 2010, the Group entered into a Loan Agreement with the European Bank for Reconstruction and Development (EBRD loan) for \$20,000 payable before September 30, 2014 at 6M LIBOR+3% per annum (plus front-end fee and disbursements) to finance the development by the Group of new software products and software development technologies, training and recruitment initiatives of the Group in Russia. The Group will have a right to repay the loan in full either in cash or by conversion of the total principal amount of the loan into a number of shares of the Group calculated by certain formula, ranging from 700,000 to 900,000 shares. This loan is accounted for as debt convertible instrument, resulting in \$19 million allocated to a liability instrument and \$1 million allocated to equity instrument. The amount allocated to equity component is deducted from the amount of the loan as a discount and is amortized to interest expense over the period of the loan using the effective interest rate method. The loan was secured by a pledge of 1,900,000 shares of the Group issued to and held by a wholly-owned subsidiary of the Group. Both participants have blocking rights to avoid the principal amount of the loan conversion into shares: the Company – till August 31, 2013, EBRD – near the loan maturity date. If EBRD blocks the conversion, the above upfront commission and an interest rate is replaced by a fixed 9% interest rate for the whole period the loan is outstanding; if the Company blocks the conversion, the commission and interest are replaced by a fixed 20% interest for the whole period the loan is outstanding. The loan agreement has certain covenants, including financial covenants related to debt to EBITDA and interest to EBITDA ratios, as well as cross-default provisions. The loan or interest cannot be pre-paid.

Below is a breakdown of the loan balance as of March 31, 2011:

Principal amount	\$ 20,000
Unamortized discount	(1,064)
	<b>\$ 18,936</b>

The maturities of the long term debt are as follows:

<b>March 31</b>	<b>Original contractual maturities</b>
2011	\$ 9,559
2012	5,989
2013	–
2014	20,000
	<b>\$ 35,548</b>
Unamortized discount	(1,064)
<b>Total</b>	<b>\$ 34,485</b>

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 10. Related party transactions

The following table provides the balances with related parties as at March 31, 2011 and 2010:

	2011	2010
<i>Due from related parties, current</i>		
Loans and receivables from Depo	\$ -	\$ 9,905
Loans to Polypack	-	364
Receivables from Industrial Technology Networks, Inc.	417	25
Receivables from OAO Holding Company "AK Bars"	-	120
Receivables from NPD	47	60
Receivables from ORADELL	-	4
Receivables from Softkey Poland	137	112
Receivables from Severstal- Infocom	86	66
Other	17	47
Loans to employees and officers	181	120
	<b>\$ 885</b>	<b>\$ 10,823</b>
<i>Due from related parties, non-current</i>		
Loans to BXA Investments Ltd.	\$ -	\$ 22,555
	<b>\$ -</b>	<b>\$ 22,555</b>
<i>Due to related parties, current</i>		
Loans from Gipermetod	\$ 12	\$ 90
Loans and payable to Depo	-	9,248
Industrial Technology Networks, Inc.	496	162
OAO Holding Company "AK Bars"	-	240
Severstal-Infocom	32	32
Loans from Admiral Group Ltd.	-	583
Dividends to non-controlling shareholders	1,306	
Loans from employees	157	84
Other	-	30
	<b>\$ 2,003</b>	<b>\$ 10,469</b>

The Group granted to BXA Investments Ltd several loans (BXA loans). The loans bear interest of 11% per annum. BXA Investments Ltd. is a shareholder holding 40% of the outstanding shares of the Company as at March 31, 2010 and 2009 and 0.05% as at March 31, 2008, but is controlled by another shareholder of the Group. The loan in the amount of \$12,500 is guaranteed by that other shareholder. The initial amount was payable on December 31, 2008, but was extended to December 31, 2010. On October 2, 2008, IBS International Limited granted a short-term loan of \$300 to Polypack Corporation at 14% per annum and on December 31, 2008, the loan was prolonged till December 31, 2010 (Polypack loans).

On December 10, 2010, BXA and the Group settled the BXA loans, including Polypack loan, by way of transfer of 15% of shares of Oradell Equities, Inc. BVI ("Oradell") to the Group from BXA. On the date of the transaction the total debt of BXA amounted \$24,300. The Group's management concluded that the fair value of the 15% interest in Oradell was equal to the fair value of the BXA loans at the date of transaction. Oradell holds controlling stakes in two businesses engaged in on-line newspaper distribution. Oradell controls NewspaperDirect, Inc., a Delaware corporation ("ND"), a digital media business, OAO Medialogia ("Medialogia"), a press clipping business, and OOO News360, a startup news aggregator. The Group has not estimated the fair value of its investment in Oradell at March 31, 2010, because it was not practicable as it has not identified events or changes in circumstances since the date of acquisition that may have a significant adverse effect on the fair value of the investment.

BXA provided a guarantee to the Group in respect of the receivables under a sale and purchase agreement of the Depo's shares (see Note 23) provided that, the aggregate amount of such guarantee shall not exceed in any case the fair market value of the portion of shares of the Company held by BXA equal to 844,929 shares of the Company.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 10. Related party transactions (continued)

As at March 31, 2011, IBS SI has outstanding dividends of \$1,306 payable to Warrant Group Ltd. that were fully paid till April 7, 2011.

On February 27, 2009, OOO Depo Computers (part of Depo operating segment) entered into a loan agreement with OOO IBS for \$23 million at 14% per annum. The outstanding principal amount of the loan as at March 31, 2010 amounted to \$9,750, which was prolonged till September 30, 2010, and settled on September 27, 2010.

Dealine Distribution Company Limited (BVI) (part of Depo operating segment) granted to Group's subsidiaries loans. The outstanding loans as at March 31, 2009 amounted to \$7,300, bear interest at 14% per annum, and mature on September 30, 2010. On March 31, 2011, all debt under the above agreements including accrued interests was settled.

In the ordinary course of business, the Group enters into service sales and purchase contracts with, Softkey Poland, LuxLabs Ltd., Industrial Technology Networks, Inc, Oradell, NewspaperDirect and some other legal entities controlled by the same shareholder. The volumes of transactions with these entities were immaterial in the years ended March 31, 2011 and 2010.

### 11. Capital lease obligations

Certain of the Group's subsidiaries lease computer and office equipment under capital leases expiring at various dates through 2010. Interest rates on the capital leases range from approximately 16.7% to 22.5%. Interest expense on capital lease obligations for the years ended March 31, 2011 and 2010 comprised \$102 and \$43, respectively.

Future minimum lease payments under capital leases for fiscal years ending March 31 are as follows:

2012	576
2013	527
2014	147
<b>Total minimum payments</b>	<b>1,250</b>
Less amount representing interest	(165)
<b>Total capital lease obligations</b>	<b>1,085</b>
Less current portion	(470)
<b>Capital lease obligations, less current portion</b>	<b>\$ 615</b>

### 12. Shareholders' equity

The share capital of the Company represents 27,000,000 ordinary shares authorized, 22,955,244 shares issued and outstanding with a nominal value of £0.01 at March 31, 2010.

On July 23, 2010, the Company has re-registered as a company incorporated under the Companies Act 2006, Isle of Man law (the Act 2006). According to the Act 2006 there is no requirement for authorized share capital and the Group does not have an authorized capital after the re-registration. The capital maintenance requirement was replaced by a solvency test. A company satisfies the solvency test if:

- (i) it is able to pay its debts as they become due in the normal course of its business; and
- (ii) the value of its assets exceeds the value of its liabilities.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 12. Shareholders' equity (continued)

Provided that the solvency test has been satisfied, dividends may be paid and shares redeemed or purchased out of any capital or profits of the company.

On August 12, 2010, the Company issued 1,900,000 shares for nominal consideration in favor of 100% owned subsidiary Evesham Holdings Limited which would serve as the security provider in accordance with the terms of the EBRD loan agreement. These shares are not considered outstanding. As a result of the transaction, the shares issued increased to 24,855,244 shares.

### 13. Income taxes

The Group's income is subject to taxation under the tax jurisdictions having different tax rates: the Isle of Man – 0%, British Virgin Islands - 0%, Russian Federation – 20%, Ukraine – 25%, Belorussia – 26.28%, Romania – 16%, Poland – 19%, United States of America – 35%, UK – 28%, Canada – 35% and Cyprus – 10%.

The Group is subject to Isle of Man corporate income tax at the standard rate of 0%. The distributable profits charge is not applicable as the ultimate parent is not resident in the Isle of Man.

Income tax (expense) benefit consisted of the following for the years ended March 31:

	<b>2011</b>	<b>2010</b>
Current income taxes		
Russian Federation	\$ (4,012)	\$ (4,410)
Ukraine	(354)	(205)
Belorussia	(59)	(19)
Romania	(1,172)	(599)
Isle of Man	–	–
USA	(223)	(143)
Cyprus	(236)	(62)
UK	(74)	(16)
Germany	(3)	–
Singapore	(16)	–
Switzerland	(3)	–
<b>Total current income taxes</b>	<b>\$ (6,152)</b>	<b>\$ (5,454)</b>
Deferred taxes		
Russian Federation	\$ 2,198	\$ 2,522
Ukraine	126	
Total deferred tax benefit	2,324	2,522
<b>Total income tax expense</b>	<b>\$ (3,828)</b>	<b>\$ (2,932)</b>

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 13. Income taxes (continued)

The reconciliation between the income tax expenses reported in the accompanying consolidated financial statements and income before taxes applicable to the Group's income is provided below:

	<b>Years ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Income tax (expense) benefit computed on income before taxes and minority interest at statutory tax rates applicable in the Company's tax jurisdiction (0% for Isle of Man)	\$ -	\$ -
Different tax rates of subsidiaries	(1,288)	(669)
Accrued tax claims	(340)	-
Taxes on distribution of earnings of subsidiaries	(76)	(48)
Tax effect of non-deductible expenses at applicable tax rates	(1,662)	(874)
Change in tax rate	-	-
Uncertain tax positions	-	(300)
Change in valuation allowance	(462)	(1,041)
<b>Income tax (expense) benefit reported in accompanying consolidated financial statements</b>	<b>\$ (3,828)</b>	<b>\$ (2,932)</b>

The deferred tax balances were calculated by applying the presently enacted statutory tax rates applicable to legal entities in other taxable jurisdictions to the temporary differences between the tax basis of assets and liabilities of these subsidiaries. The following table summarizes major components of the Group's deferred tax assets and liabilities at March 31:

	<b>2011</b>	<b>2010</b>
<b>Deferred tax assets:</b>		
Accrued operating and interest expenses	\$ 2,562	\$ 4,204
Accounts receivable	1,989	923
Deferred revenue	2,412	1,837
Loans	70	109
Loss carryforward	688	619
Capital leases payable	221	19
Other	98	202
<b>Total deferred tax assets</b>	<b>8,040</b>	<b>7,913</b>
<b>Valuation allowance</b>	<b>(688)</b>	<b>(1,041)</b>
<b>Total deferred tax assets after valuation allowance</b>	<b>7,352</b>	<b>6,872</b>
<b>Deferred tax liabilities:</b>		
Accounts receivable and revenue accruals	(865)	(670)
Inventory and deferred cost of revenue	(755)	(696)
Tax on undistributed earnings of subsidiaries	(397)	(321)
Property and equipment	(1,456)	(1,701)
Intangible assets	(9,957)	(11,700)
<b>Total deferred tax liabilities</b>	<b>(13,430)</b>	<b>(15,088)</b>
<b>Net deferred tax asset, current</b>	<b>4,776</b>	<b>5,479</b>
<b>Net deferred tax asset, non-current</b>	<b>399</b>	<b>-</b>
<b>Net deferred tax liability, current</b>	<b>(497)</b>	<b>(421)</b>
<b>Net deferred tax liability, non-current</b>	<b>(10,756)</b>	<b>(13,274)</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ (6,078)</b>	<b>\$ (8,216)</b>

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 13. Income taxes (continued)

For financial reporting purposes, valuation allowance was recorded to reflect management's best estimate of realization of deferred tax assets related to tax loss carryforwards of certain loss-making subsidiaries of the Group. Valuation allowances are provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on expectations of future taxable income and reversals of the various taxable temporary differences.

#### Uncertain tax positions

The aggregate changes in the balance of gross unrecognized tax benefits, excluding interest and penalties, were as follows:

<b>Closing balance as at March 31, 2009</b>		<b>557</b>
Changes in balances related to tax positions taken during current period		300
<b>Closing balance as at March 31, 2010</b>	<b>\$</b>	<b>857</b>
Changes in balances related to tax positions taken during current period		–
<b>Closing balance as at March 31, 2011</b>	<b>\$</b>	<b>857</b>

The resolution of \$857 and \$857 at March 31, 2011 and 2010, respectively, of the uncertain positions above might affect the effective tax rate.

For the years presented the Group recognized interest and penalties within the provision for taxes in the consolidated statements of operations. In the years ended March 31, 2011 and 2010, the Group recognized tax expense of \$0 and \$0, respectively, related to tax interest and penalties. As of March 31, 2011 and 2010 the Group recorded \$0 of accrued interest and penalties related to unrecognized tax benefits.

Although the timing of resolution and/or closure on audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, we are unable to estimate the range of possible adjustments to the balance of gross unrecognized tax benefits in the next 12 months.

### 14. Supplemental disclosures of cash flows information

	Years ended March 31,	
	2011	2010
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for income tax	\$ 5,145	\$ 4,588
Cash paid for interest	5,944	6,601
Purchase of fixed assets funded by obligations under capital lease	1,280	–

### 15. Commitments and contingencies

The Group leases office space and several warehouse premises. Total rent expense incurred under operating leases in the years ended March 31, 2011 and 2010 was \$20,234 and \$15,359, respectively. Minimal lease payments under non-cancellable operating lease contracts related to the year ended March 31, 2012 amount to \$20,486.

## 15. Commitments and contingencies (continued)

### Legal proceedings

In the ordinary course of business, the Group may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Group operates. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

### Operating environment of the group

A significant portion of the Group's business operations relate to the Russian market. Russia continues economic reforms and development of its legal tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

### Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of audit. Under certain circumstances audits may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable.

**15. Commitments and contingencies (continued)**

The Group structures some of its operations in offshore jurisdictions, which results in lower effective income tax rates and may lead to related income and non-income material tax risks. In prior years, to stay competitive on the Russian market, the Group used to organize its commercial activities to minimize its tax liabilities

As of March 31, 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. However, due to the above reasons, it is at least reasonably possible that relevant governmental authorities in Russia may attempt to assess additional income and non-income taxes, inclusive of custom duties, against the Group or certain subsidiaries, as well as to claim the imported inventory. The extent of potential assessments and the ultimate success thereof are not currently estimable. In addition, imported inventory owned or stored by the Group may be also subject to confiscation by the relevant governmental authorities. Management will vigorously defend its positions if such claims are assessed.

The Group's operations and financial position will continue to be affected by Russian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect could have a severe impact on the Group's operations or its financial position in Russia.

**16. Government grant**

The Group entered into an agreement with the Russian government (Ministry of Education) to develop a software system, and committed to invest into this product up to \$8.4 million over 3 years ending December 31, 2012. As part of this agreement, the Russian government is expected to provide up to \$8.4 million in subsidy to the Group, subject to the Group's allocating the full subsidy amount to research and development work at Plekhanov's University, and reporting on contractual deliverables in 2013-2017. As of 31 March 2011, the Group received \$1.6 million in subsidies under the above agreement, which were fully offset against the related research expense.

**17. Segment information**

ASC 280, *Disclosure about Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision group in deciding how to allocate resources and in assessing performance.

The Group's reportable segments are IT Services, Software Development and Online Software Delivery.

**17. Segment information (continued)**

The IT Services segment has several operating units. IBS and Borlas operating units are involved in providing a broad range of complex integrated IT solutions, including technology consulting, infrastructure solutions, design, implementation, support and maintenance. IBS-Platformix operating unit is primarily involved in provision of replicable infrastructure integration solutions. IBS DataFort operating unit provides replicable outsourcing solutions. BFT serves customers of the public sector by combining budgeting automation systems with the broad portfolio of IT solutions. IT Services segment provides services and sell products to a variety of Russian and international corporate customers and the Russian government. In the IT Services segment, the Group is not reliant on any particular client with sales over 5%. Ten largest customers account for 29% of the segment's revenues in the year ended March 31, 2011 and two customers accounted for more than 5%.

The Software Development segment is involved in the outsourcing of software development and support to large international and some Russian corporate customers. Software Development Segment is primarily a technology solution provider. Its services range from the design and development of custom software applications to the maintenance and improvement of existing software. Such services are performed both in dedicated offshore centers, in offshore project teams and on customer sites. This segment has a limited number of key customers (10 international customers, account for about 78% for the year ended March 31, 2011 and about 76% of its revenues for the years ended March 31, 2010, respectively), which are engaged in long-term recurring projects.

The Online Software Delivery deals with software procurement and distribution over the Internet. The main idea is to use the Internet and proprietary e-commerce solutions to provide both software vendors and users with a transparent, cost-effective and convenient model of software downloading as an alternative to conventional retail or postal delivery. Softkey's core businesses include digital software commerce, online trading and development of e-commerce solutions, i. e. for order processing and payment handling.

The Group's management evaluates performance of the segments based on both revenue and net income. Due to homogeneity of products sold by each segment, it is impracticable to present the information on segment revenues by product. Most of the revenue of IT Services and Online Software Delivery segment is derived from Russia, while a majority of Software Development revenues are derived from international customers, mainly in the US and Europe. Transfers between segments are included in the adjustments to reconcile segment to consolidated results.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 17. Segment information (continued)

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended March 31, 2011 and 2010 is as follows:

	For the year ended March 31, 2011				
	IT Services	Software Development	Online Software Delivery	Corporate, Other and Eliminations	Total
Revenues from external customers	\$ 388,173	\$ 205,300	\$ 61,224	\$ 1,350	\$ 656,047
Intersegment revenues	1,648	866	21	(2,535)	–
Depreciation and amortization	10,344	6,549	343	1,231	18,467
Interest income (expense)	359	(3,523)	16	(840)	(3,988)
Income tax benefit (expense)	(2,242)	(1,979)	(1)	394	(3,828)
Net income (loss) from continuing operations	3,740	25,883	(1,507)	(8,566)	19,550
Identifiable assets	271,186	99,439	6,509	38,533	415,667

	For the year ended March 31, 2010				
	IT Services	Software Development	Online Software Delivery	Corporate, Other and Eliminations	Total
Revenues from external customers	\$ 309,214	\$ 147,870	\$ 46,317	\$ 1,723	\$ 505,124
Intersegment revenues	1,442	1,129	180	(2,751)	–
Depreciation and amortization	10,622	5,509	295	703	17,129
Interest income (expense)	1,881	(3,176)	15	(860)	(2,140)
Income tax benefit (expense)	(1,967)	(872)	(174)	81	(2,932)
Net income (loss) from continuing operations	1,837	14,930	(700)	(3,651)	12,416
Identifiable assets	256,596	84,173	7,997	6,865	355,631

### 18. Discontinued operations

In November 2008, the Group decided to dispose of its Depo operating segment in order to focus entirely on its strategic markets of IT services and outsourcing, software development and implementation. The Depo operating segment is involved in manufacturing and distribution of Depo brand computers and servers as well as the distribution of international brands of IT products to a variety of dealers, retailers, corporate customers, system integrators and PC assemblers in Russia. The main entities of the segment includes Dealine Distribution Company Limited (British Virgin Islands), OAO DEPO Computers (Russia), OOO Depo Electronics (Russia), OOO Deacom (Russia) (collectively, the "Depo").

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 18. Discontinued operations (continued)

On September 1, 2009, the Group entered into a sale and purchase agreement to transfer all of its interests in the shares of Depo (Depo sale agreement) to the companies controlled by Depo's management. The transaction was completed on September 4, 2009. Due to proximity to the transaction date, the Group elected to present the results of operations of Depo till August 31, 2009. The consideration to be received by the Group amounts to \$8,750 in cash payable in two installments according to the schedule: 30% of the consideration shall be paid in 2011 and 70% of the consideration shall be paid in 2012.

The Group was initially uncertain about the recoverability of the receivable for the sale of Depo and recorded a 100% provision for that. On December 10, 2010, BXA signed a Deed of Guarantee and Indemnity, under which BXA agreed to guarantee the payment obligations to the Group for the sale of Depo shares in the amount up to the fair value of 844,929 shares of the Group held by it. Subsequent to March 31, 2011 (see *Note 23*), BXA assumed the related obligations due to the Group. Based on these facts, the Group reversed the reserve for the receivable for the sale of Depo and related accrued interest in the total amount of \$10,407.

The results of operations of the Depo are classified in discontinued operations in all periods presented. Revenues, pretax income and net income of Depo for the 5 months ended August 31, 2009 were as follows:

	<b>Five month period ended August 31, 2009</b>
Revenue	\$ 48,381
Pre-tax income	2,240
Income tax (expense) benefit	-
<b>Net income from discontinued operations</b>	<b>\$ 2,240</b>

Assets and liabilities of discontinued operations, classified as such on the balance sheet, at August 31, 2009 were as follows:

	<b>August 31, 2009</b>
Cash and cash equivalents	\$ 1,378
Accounts receivable and other current assets	27,851
Inventory	17,471
Property and equipment, net	575
Other long-lived assets	25
<b>Total assets of discontinued operations</b>	<b>\$ 47,300</b>
Accounts payable and accrued expenses	\$ 18,737
Loans payable	27,026
Other current liabilities	3,403
<b>Total liabilities of discontinued operations</b>	<b>\$ 49,166</b>

The cumulative translation adjustment related to Depo of \$2,306 was recorded with the loss from discontinued operations upon disposal, resulting in a net loss from disposal of Depo of \$440 during the year ended March 31, 2010.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 19. Stock-based compensation

On March 25, 2010, the Board of Directors adopted a stock option plan for the employees and managers (hereinafter – “participants”) of Luxoft Holding Inc. and its associated companies (hereinafter referred to as “Luxoft companies”) up to 8% and granted 7.8% of the outstanding shares of Luxoft Holding Inc. to the participants. This stock option plan is realized through the additional stock issue. The options granted above vest as follows: 39,930 - on March 31, 2010, 6,095 - on March 31, 2011, 6,163- on March 31, 2012, 15,960 - on March 31, 2013, subject to service condition and 16,451 - on March 31, 2013 subject to certain performance conditions, namely revenue and earnings before interest, taxes, depreciation and amortization (EBITDA) of Luxoft companies for 2012 fiscal year.

The price for share is estimated assuming the fair value of the 100% of equity of Luxoft of \$228.5 million on the date of grant. The fair value of the Luxoft companies was measured using discounted cash flow method. The major assumptions for the valuation of the shares granted were as follows: share price (see above), expected dividend yield of 25%, risk free interest rate - 4.49%. The amount of expenses for the years ended March 31, 2011 and March 31, 2010 included in the accompanying statement of operations in connection with the stock option plan of Luxoft Holding Inc. were \$1.31 million and \$4.91 million, respectively.

On March 24, 2010, the Board of Directors adopted a stock option plan for the employees and managers (hereinafter – “participants”) of IBS System Integration Limited and its associated companies (hereinafter referred to as “IBS SI companies”) and granted 5% of the outstanding shares of IBS SI to the participants. This stock option plan is realized through the additional stock issue. The options granted above vest as follows: 333 - on March 31, 2010, 246 - on March 31, 2011, 215 - on March 31, 2012, 371 - on March 31, 2013, subject to service condition.

The price for share of IBS SI is estimated 306,989 dollars per share assuming the fair value of the 100% equity of IBS SI of \$405.5 million on the date of grant. The fair value of the IBS SI companies was measured using discounted cash flow method. The major assumptions for the valuation of the shares granted were the following: share price (see above), expected dividend yield of 25%, risk free interest rate – 4.49%. The amount of expenses for the year ended March 31, 2011 and March 31, 2010 included in the accompanying income statement in connection with the stock option plan of IBS SI were \$2.26 million and \$2.86 million, respectively.

The following table summarizes number of options for two years:

	<u>Luxoft Holding</u>	<u>IBS SI</u>
<b>Outstanding at March 31, 2011</b>	<b>84,599</b>	<b>1,165</b>
Exercisable at March 31, 2010	39,930	333
Granted shares	6,095	246
<b>Exercisable at March 31, 2011</b>	<b>46,025</b>	<b>579</b>

As a result of the issuance of shares under the above plans, the share of the Group at March 31, 2011 compared to March 31, 2010 in Luxoft and IBS decreased from 86.54% to 86.04% and from 84.47% to 83.66%, respectively.

The total compensation cost related to unvested share-based compensation awards is \$8.4 million at March 31, 2011.

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 20. Earnings per share

Net income per common share for all periods presented has been determined in accordance with ASC 260, *Earnings per Share*, by dividing income available to common shareholders of the Group by the weighted average number of common shares outstanding during the period. The Group has a simple capital structure, with only common stock and options of two subsidiaries of the Group outstanding at March 31, 2010. Net income per share of common stock was equal to net income per GDR equivalent as each GDR is equivalent to one share of common stock.

Stock options issued by subsidiaries in the year ended March 31, 2010 (*Note 19*) do not have a material effect on the diluted EPS since they were issued at the end of the reporting period.

However, as described in *Note 19* securities issued by consolidated subsidiary that allow employees or third parties to obtain the subsidiaries common stock may also affect the EPS of the Group in future periods. Such securities have no impact on basic EPS of the Group.

The following table sets forth the computation of basic and diluted earnings per share (1 GDR equivalent):

	<b>Years ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(In thousands US dollars, except share amounts)	
<b>Basic EPS:</b>		
Numerator:		
Net income (loss) from continued operations attributable to the Group	\$ 15,361	\$ 12,061
Income (loss) from discontinued operations	10,407	1,800
<b>Net income (loss) attributable to the Group</b>	<b>\$ 25,768</b>	<b>\$ 13,861</b>
Denominator:		
Weighted average number of common shares outstanding (in thousands)	22,955	22,955
<b>Basic EPS:</b>		
Net income from continued operations attributable to the Group	0.67	0.53
Discontinued operations attributable to the Group	0.45	0.07
<b>Net income attributable to the Group</b>	<b>\$ 1.12</b>	<b>\$ 0.60</b>
<b>Diluted EPS:</b>		
Numerator:		
Stock option plans	(607)	
Net income (loss) from continued operations attributable to the Group	\$ 14,754	\$ 12,061
Income (loss) from discontinued operations	10,407	1,800
<b>Net income (loss) attributable to the Group</b>	<b>\$ 25,161</b>	<b>\$ 13,861</b>
Denominator:		
Corrected weighted average number of common shares outstanding (in thousands)	22,955	22,955
<b>Diluted EPS:</b>		
Corrected net income from continued operations attributable to the Group	0.65	0.53
Corrected discontinued operations attributable to the Group	0.45	0.07
<b>Corrected net income attributable to the Group</b>	<b>\$ 1.10</b>	<b>\$ 0.60</b>

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 20. Earnings per share (continued)

The shares that would be issued if EBRD loan was converted into the shares of the Group were not included into diluted EPS computation for the year ended March 31, 2011 as they were anti-dilutive because of the effect of interest expense elimination for the respective year then ended if conversion was assumed.

### 21. Sale of shares in Luxoft

On April 10, 2009, the Group entered into an agreement for the sale of 10% of issued capital of Luxoft Holding Inc. (BVI), a consolidated subsidiary comprised of all entities that form the software development segment. The consideration in the amount of \$10,000 in cash was received by the Group in May 2009. The transfer of shares and other conditions was completed on May 15, 2009.

### 22. Disposal of subsidiaries

On March 3, 2010 the Group disposed of its subsidiary TOO "Borlas-Eltal" (Kazakhstan). The gain on disposal amounted to \$497.

During the year ended March 31, 2011 the Group disposed of the following subsidiaries:

- ▶ Belsoft Borlas (Byelorussia) disposed on February 21, 2011. The loss on disposal amounted to \$82;
- ▶ Borlas Ukraine disposed on March 14, 2011. The gain on disposal amounted to \$236;
- ▶ OC Consulting (Ukraine) disposed on March 2, 2011. The loss on disposal amounted to \$292;
- ▶ Borlas Ekaterinburg disposed on March 16, 2011. The gain on disposal amounted to \$48;
- ▶ IBS Kazan disposed on March 28, 2011. The loss on disposal amounted to \$65;
- ▶ IT Kazakhstan disposed on May 17, 2010. The gain on disposal amounted to \$164;
- ▶ ZAO Borlas disposed on December 21, 2010. The loss on disposal amounted to \$413.

### 23. Subsequent events

The Company has updated its analysis of the subsequent events through July 29, 2011, the date the financial statements were issued.

In April 2011, the Group obtained a release of the pledge of the warehouse building in favour of UniCredit Bank under the loan agreements (*Note 9*) and secured liabilities under the loan agreement with UniCredit Bank dated July 21, 2010 by the pledge of 25% plus one share of the share capital of Luxoft Holding, Inc. (BVI).

In June 2011, the Group fully repaid the loan received from UniCredit Bank in July 2008 in compliance with the loan agreement. Following the repayment, any restrictions imposed by the loan agreement to dividend distribution to shareholders were removed (see *Note 8*).

# IBS Group Holding Limited

## Notes to consolidated financial statements (continued)

### 23. Subsequent events (continued)

On April 28, 2011, the Group completed the sale to the companies controlled by Depo's management of OOO IBS Distribution Center, the Company's wholly-owned subsidiary whose assets substantially consisted of a warehouse and related buildings located in Krasnogorsk, Moscow region. This subsidiary and its assets represent non-core assets of the Group given its focus on rendering IT services, as rental of commercial real estate and associated logistics are not essential or necessary to the core business activities of the Group. The consideration to be received by the Group amounts to \$14,300 in cash payable in three installments according to the following schedule: (i) \$1,000 no later than ten business days after 28 April 2011; (ii) \$6,000 shall be paid in March 2012; and (iii) \$7,300 shall be paid in March 2013; with unpaid consideration subject to interest at the rate of 7% per annum. The first instalment has been received.

As a result of assignments, on April 28, 2011, BXA assumed all of the payment obligations of the companies controlled by Depo's management under Depo's sale agreement (*Note 18*) and Distribution Center's sale agreement (collectively, the "Relevant Agreements"), currently owed to the Company. In addition, another shareholder of the Group guarantees to the Group the performance of the obligations owed by BXA to the Group. The Group's management believes that this transaction improved the position of the Group as a creditor in respect of the obligations due to it under the Relevant Agreements.

Following completion of the transaction the BXA guarantee in respect of the receivables under Depo's sale agreement was terminated on May 11, 2011.

At the request of BXA, the Company agreed to adjust to 7% per annum the original interest rate of 12% applicable to unpaid consideration owed by BXA to the Group under Depo's sale agreement, in view of the improved market conditions for borrowing funds in comparable transactions. The interest rate change was effective from April 29, 2011.

#### *Claim*

On June 30, 2011, the Group received from its customer, TAIF-NK a pre-arbitration notice stating a repudiation of payment for work performed in the amount of \$2,255 and a claim for completion of work and payment of penalties in the amount of \$657. The Group does not believe this demand to be justified or subject to satisfaction, and in its turn, in July 2011, the Group sent to the customer a pre-arbitration notice claiming recovery of the indebtedness and the default interest. While the Group's management believes in a high likelihood of recovering this debt through legal proceedings, the Group considered it prudent to make an appropriate partial provision for this account in the amount of \$1,764 at March 31, 2011.

#### *Short-Term Borrowings*

In April 2011 and May 2011, OOO IBS Expertisa within the credit facility agreement with ZAO Alfa Bank obtained loans in the total amount of 177,000,000 RUR with the interest ranging from 7.04% per annum to 8.04% per annum.

In April 2011, OOO IBS Expertisa within the credit facility agreements with ZAO Absolut Bank obtained loans in the total amount of 204,000,000 RUR. Interest on amounts outstanding is accrued at 3M MosPrime + 4.25% per annum and 3M MosPrime + 5.25% per annum.

All above loans are short-term and will be settled within one fiscal year ended March 31, 2012.

**IBS Group Holding Limited**

Separate financial statements

*Year ended March 31, 2011  
with Report of Independent Auditors*

IBS Group Holding Limited  
Separate financial statements  
Year ended March 31, 2011

**Contents**

Report of independent auditors .....	1
Profit and loss account .....	2
Balance sheet .....	3
Notes to the separate financial statements.....	4

## Report of independent auditors

The Board of Directors and Shareholders of IBS Group Holding Limited

We have audited the financial statements of IBS Group Holding Limited for the year ended March 31, 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

### ***Respective responsibilities of directors and auditor***

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### ***Opinion on financial statements***

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the company's/group's affairs as at March 31, 2011 and of its profit for the year then ended; and
- ▶ have been properly prepared in accordance with United Kingdom Accounting Standards.

A handwritten signature in black ink that reads 'Ernst & Young LLC'.

Ernst & Young LLC  
Chartered Accountants  
Isle of Man

July 29, 2011

IBS Group Holding Limited

Profit and loss account

Year ended March 31, 2011

(In thousands of US Dollars)

	Notes	For the year ended March 31,	
		2011	2010
Administrative expenses:	7	(2,319)	(1,919)
Before exceptional items		(1,197)	(1,919)
Listing expenses		(1,122)	–
<b>Loss on ordinary activities before investment income, interest and taxation</b>		<b>(2,319)</b>	<b>(1,919)</b>
Net gain on disposal of shares in investments	2,3	5,203	10,000
Dividend revenue	8	13,694	41
Loss on derivative financial instrument	10	(2,076)	–
Interest payable		(2,225)	(2,462)
Interest receivable		3,269	4,490
<b>Profit for the financial year</b>		<b>15,546</b>	<b>10,150</b>

There are no recognized gains or losses other than the profit for the year of \$15,546  
(For the year ended March 31, 2010: \$10,150).

*The accompanying notes are an integral part of these financial statements.*

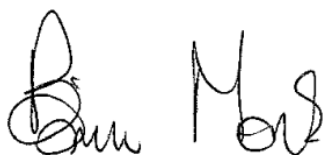
IBS Group Holding Limited

Balance sheet

Year ended March 31, 2011

(In thousands of US Dollars)

	Notes	As at March 31,	
		2011	2010
<b>Fixed assets</b>			
Investments in subsidiaries	2	35,756	34,789
Available-for-sale financial assets	9, 10	24,302	–
<b>Current assets</b>			
Debtors: amounts falling due within one year	3	21,081	18,348
Cash at bank and in hand		1,413	13
<b>Current assets</b>		<b>22,494</b>	<b>18,361</b>
Creditors: amounts falling due within one year	4	(12,402)	(26,327)
Net current assets		10,092	(7,966)
Debtors: amounts falling due after one year	3	19,290	26,793
Creditors: amounts falling due after more than one year	5	(27,596)	(3,875)
<b>Net assets</b>		<b>61,844</b>	<b>49,741</b>
<b>Capital and reserves</b>			
Called up share capital	6	406	406
Share premium account	6	33,864	33,864
Profit and loss account	6	27,574	15,471
		<b>61,844</b>	<b>49,741</b>



Director

Director

Date 29 July 2011

The accompanying notes are an integral part of these financial statements.

IBS Group Holding Limited  
Notes to the separate financial statements

Year ended March 31, 2011

*(In thousands of US Dollars)*

**1. Basis of presentation and significant accounting policies**

**1.1 Basis of presentation**

The separate financial statements of IBS Group Holding Limited (the parent company) have been prepared under the historical cost convention and in accordance with United Kingdom accounting standards. These separate financial statements comprise the parent company only and not the consolidated accounts of IBS Group Holding Limited as a group.

**1.2 Foreign currency translation**

The functional currency of the Company is the US dollar. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet dates (March 31, 2011: US \$1 = 28.429 RUR, US \$1 = 0.7103 EUR; March 31, 2010: US \$1 = 29.3638 RUR, US \$1 = 0.7396 EUR) while non-monetary assets and liabilities, capital, revenues and costs are translated at historical exchange rates prevailing on the transaction dates. All differences are taken to the profit and loss account.

**1.3 Cash and cash equivalents**

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

**1.4 Accounts receivable, net**

Accounts receivable are shown at their net realizable value, which approximates their fair value. Allowances for doubtful accounts are made for specific accounts in which collectability is doubtful, as well as overall allowance based on, the aging of account receivable, historical write-offs and current conditions.

**1.5 Financial instruments**

**1.5.1 Initial recognition and measurement**

Financial assets within the scope of FRS 26 *Financial Instruments: Recognition and Measurement* are classified as loans, receivables or available-for-sale investments, as appropriate.

Financial liabilities within the scope of FRS 26 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate.

The Company determines the classification of its financial assets and liabilities at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 1. Basis of presentation and significant accounting policies (continued)

#### 1.5 Financial instruments (continued)

##### 1.5.1 Initial recognition and measurement (continued)

The Company's financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables. The Company's financial liabilities include trade and other payables, loans and borrowings, and other financial liability for conversion option arising from the loan agreement with EBRD (see Note 5).

##### 1.5.2 Subsequent measurement

The subsequent measurement of financial instruments depends on their classification. The Company classifies its financial assets and liabilities into the categories below in accordance with FRS 26 *Financial Instruments: Recognition and Measurement*, as follows:

###### 1.5.2.1 Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit and loss are carried in the statement of financial position at fair value. The changes in their fair value are recognised in the profit and loss under "(Gain)/Loss on derivative financial instrument"

###### 1.5.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, interest bearing loans and borrowings and other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit and loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Finance costs' in the profit and loss.

###### 1.5.2.3 Available-for-sale investments

Available-for-sale investments includes the Group's equity investments which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under 'Impairment losses' and removed from the available-for-sale reserve.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### **1. Basis of presentation and significant accounting policies (continued)**

#### **1.5 Financial instruments (continued)**

##### **1.5.3 De-recognition**

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is de-recognised where:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company de-recognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

##### **1.5.4 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### **1.5.5 Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 10.

##### **1.5.6 Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 1. Basis of presentation and significant accounting policies (continued)

#### 1.5 Financial instruments (continued)

##### 1.5.6 Impairment of financial assets (continued)

###### 1.5.6.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (loans and receivables), evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original EIR.

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. Credit is only granted to customers after a review of credit history. The Company maintains an allowance for doubtful accounts to reserve for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, the Company analyses its historical collection experience and current economic trends. If the historical data the Company uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to 'Bad debt expense' in 'Selling, general and administrative expenses'.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

###### 1.5.6.2 Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence of impairment of the Group's available-for-sale equity investments would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in earnings – is removed from other comprehensive income and recognised in earnings. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 1. Basis of presentation and significant accounting policies (continued)

#### 1.6 Investments in Subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

#### 1.7 Use of estimates in preparation of financial statements

The preparation of these financial statements, in conformity with UK Accounting Standards, requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes during the reporting period. Actual results could differ from those estimates.

### 2. Investments

	Subsidiary undertakings			Total
	Luxoft Holding, Inc.	South East Integration Limited	Audergem Holding Limited	
Cost:				
At April 1, 2010	34,574	184	31	34,789
Additions	–	967	–	967
<b>At March 31, 2011</b>	<b>34,574</b>	<b>1,151</b>	<b>31</b>	<b>35,756</b>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
IBS International Ltd.	Bahamas	Ordinary shares	99%	Holding entity
Luxoft Holding Inc.	British Virgin Islands	Ordinary shares	86.54%	Holding entity
Audergem Holding B.V.	Netherlands	Ordinary shares	100%	Dormant company
Nanuet Capital Inc.	British Virgin Islands	Ordinary shares	100%	Dormant company
North West Distribution Inc.	British Virgin Islands	Ordinary shares	100%	Dormant company
Global Web Technologies Ltd.	British Virgin Islands	Ordinary shares	100%	Dormant company
South East Integration Inc.	British Virgin Islands	Ordinary shares	100%	Holding entity
United Networkers Corporation	British Virgin Islands	Ordinary shares	99%	Dormant company
IBS Directors Ltd.	British Virgin Islands	Ordinary shares	100%	Holding entity
Evesham Holdings Ltd.	Isle of Man	Ordinary shares	100%	Dormant company
Max Lambor Director Ltd.	British Virgin Islands	Ordinary shares	100%	Holding entity

On April 10, 2009 the Company disposed of 10 shares in Luxoft Holding Inc. with a carrying amount of 0 for \$10,000, and realized a respective gain of \$10,000.

The gain on disposal of shares recorded in Profit and Loss Account under “*Net gain on disposal of shares in investments*”.

During the year ended March 31, 2011 the Company made a cash contribution to South East Integration Inc. in the amount of \$967.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 3. Debtors

	As at March 31,	
	2011	2010
Loans issued to related parties	20,431	45,094
Amounts owed by subsidiary undertakings	14,681	–
Receivable for the sale of South West Manufacturing, Inc.	5,203	–
Prepayments and accrued income	56	47
<b>Total</b>	<b>40,371</b>	<b>45,141</b>

Amounts falling due after more than one year included above are:

	As at March 31,	
	2011	2010
Loans issued to related parties	8,547	26,793
Amounts owed by subsidiary undertakings	7,681	–
Receivable for the sale of South West Manufacturing, Inc.	3,062	–
<b>Total</b>	<b>19,290</b>	<b>26,793</b>

Amounts falling due within one year included above are:

	As at March 31,	
	2011	2010
Long-term loans issued to related parties – current portion	11,884	12,500
Short-term loans issued to related parties	–	5,801
Amounts owed by subsidiary undertakings	7,000	–
Receivable for the sale of South West Manufacturing, Inc.	2,141	–
Prepayments and accrued income	56	47
<b>Total</b>	<b>21,081</b>	<b>18,348</b>

Loans issued to related parties consisted of the following loans as of March 31:

	2011	2010
<i>Short-term loans issued:</i>		
Loan issued to Luxoft Holding Inc.	–	5,801
<b>Total short-term loans issued to related parties</b>	<b>–</b>	<b>5,801</b>
 Loans issued to related parties:		
Long-term loan issued to Luxoft Holding Inc.	17,431	16,375
Long-term loan issued to IBS International Ltd.	3,000	–
Long-term loan issued to BXA Investments Ltd.	–	22,555
Long-term loan issued to Polypack	–	363
<b>Total long-term loans issued</b>	<b>20,431</b>	<b>39,293</b>
Less current portion	(11,884)	(12,500)
<b>Non-current portion</b>	<b>8,547</b>	<b>26,793</b>

During the year ended March 31, 2010 the Company wrote off the receivables related to subsidiaries – Max Lambor Director Ltd. in the amount of \$510, Global Web Technologies Ltd. – in the amount of \$397 and Audergem Holding B.V. in the amount of \$286. The related expense was recorded in Profit and Loss Account under “Administrative expenses”.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 3. Debtors (continued)

On September 1, 2009, the Company entered into a sale and purchase agreement to transfer all of its interests in the shares of South West Manufacturing, Inc. (with the main asset - "Depo") to the company controlled by Depo's management. The transaction was completed on September 4, 2009. The consideration to be received by the Company amounts to \$4,375. The Company was initially uncertain about the recoverability of the receivable for the sale of Depo and recorded a 100% provision for it. On December 10, 2010 BXA Investments Ltd ("BXA") signed a Deed of Guarantee and Indemnity, under which BXA agreed to guarantee the payment obligations to the Company for the sale of Depo shares in the amount up to the fair value of 844,929 shares of the Company held by it. Subsequent to March 31, 2011 (see Note 11), BXA assumed the related obligations due to the Company. Based on these facts, the Company reversed the reserve for the receivable for the sale of Depo and related accrued interest in the total amount of \$5,203 in the year ended March 31, 2010.

### 4. Creditors: amounts falling due within one year

	As at March 31,	
	2011	2010
Current installments due on loans (Note 5)	8,035	12,500
Short-term borrowings payable to IBS Systems Integration Limited (Note 9)	4,032	5,791
Trade creditors	42	7,827
Other creditors	27	-
Accruals	266	209
<b>Total</b>	<b>12,402</b>	<b>26,327</b>

### 5. Creditors: amounts falling after more than one year

	As at March 31,	
	2011	2010
Long-term debt	24,481	3,875
Financial liability, net of deferred loss (Note 10)	3,115	-
<b>Total</b>	<b>27,596</b>	<b>3,875</b>

Long-term debt consisted of the following as of March 31:

	2011	2010
Long-term debt:		
Loan payable to UniCreditBank	13,582	16,375
Loan payable to EBRD	18,934	-
<b>Total long-term loans</b>	<b>32,516</b>	<b>16,375</b>
Less current installments due on loans	(8,035)	(12,500)
<b>Non-current installments due on loans</b>	<b>24,481</b>	<b>3,875</b>

Long-term debt, included within creditors, are analysed as follows:

	As at March 31,	
	2011	2010
Wholly repayable within five years	32,516	16,375
Not wholly repayable within five years	-	-
<b>Total</b>	<b>32,516</b>	<b>16,375</b>

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 5. Creditors: amounts falling after more than one year (continued)

In July 2008, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$20 million payable in 36 months at 1M LIBOR+4.5% per annum and a guarantee for up to \$30 million payable in 27 months for acquisition of ITC Networks SRL by Luxoft. The outstanding loan balance drawn by the Group amounted to \$2,000 and \$10,000 at March 31, 2011 and 2010, respectively. The loan also imposes restrictions on dividends distribution to shareholders (only 40% of earnings are allowed to be distributed).

In July 2009, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$12,500 payable in 24 months at 1M LIBOR+7.5% per annum to finance its payable for on acquisition of ITCN by Luxoft. The outstanding loan balance drawn by the Group amounted to \$ 1,875 and \$6,375 at March 31, 2011 and March 31, 2010, respectively.

The above loans were secured by a pledge of 25% plus one share of the share capital of Luxoft Holding, Inc. (BVI), 95% of the share capital of ITC Networks SRL (Romania) and a pledge of the warehouse building with a net book value of \$5,595.

On July 21, 2010, IBS Group Holding and UniCredit Bank (Moscow) entered into a loan agreement for up to \$10,400 payable in 36 months at 1M LIBOR+5% per annum to finance its payable for on acquisition of ITCN by Luxoft. The outstanding loan balance drawn by the Group amounted to \$9,707 at March 31, 2011. The loan was secured by the pledge of the warehouse building.

The loan agreements with UniCredit Bank contain covenants with respect to compliance with certain financial ratios and conditions. The breach of restrictive covenants gives the bank the right to accelerate repayment of indebtedness

On July 21, 2010, the Group entered into a Loan Agreement with the European Bank for Reconstruction and Development (EBRD loan) for \$20,000 payable before September 30, 2014 at 6M LIBOR+3% per annum (plus front-end fee and disbursements) to finance the development by the Group of new software products and software development technologies, training and recruitment initiatives of the Group in Russia. The Group will have a right to repay the loan in full either in cash or by conversion of the total principal amount of the loan into a number of shares of the Group calculated by certain formula, ranging from 700,000 to 900,000 shares. The loan was secured by a pledge of 1,900,000 shares of the Group issued to and held by a wholly-owned subsidiary of the Group. Both participants have blocking rights to avoid the principal amount of the loan conversion into shares: the Company – till August 31, 2013, EBRD – near the loan maturity date. If EBRD blocks the conversion, the above upfront commission and an interest rate is replaced by a fixed 9% interest rate for the whole period the loan is outstanding; if the Company blocks the conversion, the commission and interest are replaced by a fixed 20% interest for the whole period the loan is outstanding. The loan agreement has certain covenants, including financial covenants related to debt to EBITDA and interest to EBITDA ratios, as well as cross-default provisions. The loan or interest cannot be pre-paid.

The conversion option was accounted for as an embedded derivative, separated and accounted for as a financial liability at fair value through profit or loss (see Note 10). The aggregate fair value of the debt instrument of \$18,760 and the derivative financial liability of \$8,501 determined at the date of issuance was higher than the amount of cash received at issuance, resulting in a "day 1" loss of \$7,462, which was not recognized and deferred and will be amortised on a straight-line basis over the period of the loan agreement. Such accounting resulted from the fact that the fair value of the derivative instrument was determined based on unobservable inputs (Level 3, see Note 10).

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 6. Equity

#### 6.1 Allotted and issued share capital

	As at March 31,	
	2011	2010
Ordinary shares (24,855,244 issued and 22,955,244 outstanding as at March 31, 2011 and 22,955,244 issued and outstanding as at March 31, 2010)	406	406
<b>Total</b>	<b>406</b>	<b>406</b>

#### 6.2 Reconciliation of shareholders' funds

	Year ended March 31,	
	2011	2010
Profit for the year	15,546	10,150
Dividends	(3,443)	–
<b>Total movements during the year</b>	<b>12,103</b>	<b>10,150</b>
Shareholders' funds at April 1	49,741	39,591
<b>Shareholders' funds at March 31</b>	<b>61,844</b>	<b>49,741</b>

#### 6.3 Reserves

	Share premium account	Profit and loss account
At April 1, 2010	33,864	15,471
Profit for the year	–	15,546
Dividends declared and paid	–	(3,443)
<b>At March 31, 2011</b>	<b>33,864</b>	<b>27,574</b>

### 7. Administrative expenses

	Year ended March 31,	
	2011	2010
Bad debt expense (Note 3)	–	1,193
Professional fees	2,145	514
Payroll	111	84
Advertising and related expenses	63	58
Other expenses	–	70
<b>Total</b>	<b>2,319</b>	<b>1,919</b>

### 8. Dividend revenue

Dividend revenue mainly consisted of dividends from IBS International Ltd, subsidiary of the Company, and recognised, when the Company's right to receive the payment is established.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 9. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at March 31, are as follows:

Related party	Amounts owed to related party	Amounts owed from related party
Luxoft Holding Inc., a subsidiary		
2011	–	17,431
2010	–	22,176
IBS International Ltd., a subsidiary		
2011	–	17,681
2010	7,749	–
IBS Systems Integration Ltd., a subsidiary		
2011	4,032	–
2010	5,791	–
BXA Investments Ltd., a shareholder		
2011	–	–
2010	–	22,555
Polypack, an entity controlled by a shareholder		
2011	–	–
2010	–	363

The loan to BXA Investments Ltd was granted in a form of a credit line. The loan bore an interest of 11% per annum. BXA Investments Ltd. is a shareholder holding 40% of outstanding shares of the Company as at March 31, 2010, but is controlled by another shareholder of the Company. The loan was guaranteed by that another shareholder. The initial amount was payable on December 31, 2008, but was extended to December 31, 2010, and then settled.

On December 10, 2010 the Company acquired 15% of shares of Oradell Equities, Inc (“Oradel”) from BXA Investments Ltd. (“BXA”), the shareholder of the Company, as a way of settlement of the loan receivable from BXA. The investment in Oradell Equities, Inc. has been included in the company’s balance sheet at the fair value as of the date of acquisition in the amount of \$24,302, which equals to the fair value of the respective outstanding receivable from BXA Investments Ltd.

The Company’s payable to IBS International Ltd as at March 31, 2010 primarily arose from expenses paid by IBS International Ltd on behalf of the Company. The Company’s receivable from IBS International as at March 31, 2011 primarily arose from dividends declared by IBS International Ltd to the Company but not yet paid and the loan granted by the Company to IBS International Ltd payable on January 31, 2010 at 10% per annum.

On October 2, 2008, the Company granted a short-term loan of \$300 to Polypack Corporation at 14% per annum and on December 31, 2008, the loan was prolonged and settled on December 31, 2010.

In July 2008, the Company granted to Luxoft International Company Ltd a loan in the amount of \$20,000 payable in 36 months at 1M LIBOR + 4.5% per annum. The loan should be repaid in full no later than July 15, 2011. The outstanding loan balance amounted to \$2,000 and \$10,000 at March 31, 2011 and 2010, respectively.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 9. Related party transactions (continued)

In August 2009, the Company granted to Luxoft International Company Ltd a loan in the amount of \$12,500 payable in 24 months at 1M LIBOR + 7.5% per annum. The loan should be repaid in full no later than August 14, 2011. The outstanding loan balance amounted to \$1,875 and \$6,375 at March 31, 2011 and 2010, respectively.

In February 2010, Company granted to Luxoft International Company Ltd a loan in the amount of \$5,151 at 12% per annum, which should be repaid no later than March 31, 2011. The outstanding loan balance amounted to \$0 and \$5,151 at March 31, 2011 and 2010, respectively.

In July 2010, the Company granted to Luxoft International Company Ltd a loan in the amount of \$10,400 payable in 36 months at 1M LIBOR +5% per annum. The outstanding loan balance amounted to \$9,707 and \$0 at March 31, 2011 and 2010, respectively.

In September 2010, the Company granted to Luxoft International Company Ltd a loan for up to \$9,000 payable. The loan bears an interest of 12% per annum. The loan should be repaid in full no later than March 31, 2012. The outstanding loan balance amounted to \$3,800 and \$0 at March 31, 2011 and 2010, respectively.

In April 2007, the Company received from IBS Systems Integration Ltd a loan in the amount of \$1,500 at 10% per annum, which should be repaid no later than June 11, 2007, but was extended to December 31, 2010. The outstanding loan balance amounted to \$0 and \$1,500 at March 31, 2011 and 2010, respectively.

In January 2007 and in March 2008 the Company received from IBS Systems Integration Ltd loans for an aggregate amount of \$5,000. The outstanding loan balance amounted to \$0 and \$4,000 at March 31, 2011 and 2010, respectively.

In December 2010, the Company received from IBS Systems Integration Ltd a loan in the amount of \$4,000 at 7% per annum, which should be repaid no later than September 30, 2011. The outstanding loan balance amounted to \$4,032 and \$0 at March 31, 2011 and 2010, respectively.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 10 Financial instruments

The carrying amounts of the Group's financial instruments and their fair values as of March 31, 2011 and 2010 and are presented by category of financial instruments in the table below:

	Category*	March 31, 2011		March 31, 2010	
		Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Financial assets</b>					
Investments in Oradell	AFSFA	24,302	24,302	-	-
Trade and other accounts receivable	LR	19,884	19,884	-	-
Loans and interest receivable	LR	20,431	20,431	45,094	45,094
Cash and cash equivalents	LR	1,413	1,413	13	13
<b>Total financial assets</b>		<b>66,030</b>	<b>66,030</b>	<b>45,107</b>	<b>45,107</b>
Current		22,438	22,438	18,314	18,314
Non-current		43,592	43,592	26,793	26,793
<b>Financial liabilities</b>					
EBRD loan conversion option, net	FLFVPL	3,115	9,532	-	-
Loans and interest payable	FLAC	32,516	32,724	16,375	16,375
Short-term borrowings	FLAC	4,032	4,032	5,791	5,791
Short-term payables and accrued expenses	FLAC	335	335	8,036	8,036
<b>Total financial liabilities</b>		<b>39,998</b>	<b>46,623</b>	<b>30,202</b>	<b>30,202</b>
Current		12,402	12,402	26,327	26,327
Non-current		27,596	34,221	3,875	3,875
<b>Total derivative financial liabilities, net</b>		<b>3,115</b>	<b>9,532</b>	-	-
Current		-	-	-	-
Non-current		3,115	9,532	-	-

\* Financial instruments used by the Group are included in one of the following categories:

- ▶ AFSFA – available-for-sale financial assets;
- ▶ LR – loans and receivables;
- ▶ FLFVPL – financial liabilities at fair value through profit or loss; or
- ▶ FLAC – financial liabilities at amortised cost.

None of the Group's investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility. If changing one or more of those assumptions to reasonably possible alternate assumptions would change fair value significantly, the effect of those changes is disclosed below.

Fair value of cash and cash equivalents, short-term time deposits, short-term accounts receivable, other current assets, short-term payables, accrued expenses and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### 10.1 Investments in Oradell

At March 31, 2011 the Company holds a 15% stake in Oradell (see Note 9), the Company does not participate in the operating and financial management of Oradell, the Company does not have the legal ability to appoint its candidates to the board of directors of Oradell and therefore, the Company does not exert significant influence over Oradell and, accordingly, classified the investment as an available-for-sale financial asset as part of Investments in the Balance sheet,

The fair value of the Company's available-for-sale investment in Oradell at March 31, 2011 approximates its fair value at the acquisition date and was estimated using a DCF model based on cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Company's management for strategic planning purposes. The main assumptions used in the DCF model are summarised in the table below:

	<b>At March 31, 2011</b>
Terminal growth	5%
Discount rate	20-30%

#### 10.2 Financial assets classified as loans and receivables

Detailed information on short-term receivables, cash and cash equivalents and short-term time deposits is available in Notes 3-5.

#### 10.3 EBRD loan conversion option

On July 21, 2010, the Company entered into a Loan Agreement with EBRD (see Note 5 above).

The fair value of the liability at August 31, 2010 (date of loan receipt) was calculated as a present value of the cash payments assuming conversion and the market interest rate applicable to similar non-convertible debt.

The fair value of the conversion option was estimated using the Binomial valuation technique with the following assumptions:

	<b>At August 31, 2010</b>	<b>At March 31, 2011</b>
Expected volatility, %	43.85%	35.44%
Risk-free interest rate, %	1.33%	2.24%
Expected term, years	3	2.4
Share price (USD)	18.46	33.08

The balance of financial liability is reconciled to the balance of those measurements as of March 31, 2011 as follows:

	<b>At March 31, 2010</b>	<b>Recognition</b>	<b>Unrealised loss recognised in Profit and Loss account</b>	<b>At March 31, 2011</b>
Financial liability	-	8,501	1,031	9,532
"Day 1" deferred loss	-	(7,462)	1,045	(6,417)
Financial liability, net	-	1,039	2,076	3,115

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### 10 Financial instruments (continued)

#### 10.4 Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2011 the Company held the following financial instruments measured at fair value (the Company has no financial instruments as at March 31, 2010):

	At March 31, 2011	Level 1	Level 2	Level 3
Investments in Oradell	24,302	–	–	24,302
Total financial assets measured at fair value	24,302	–	–	24,302
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – EBRD loan conversion option	(9,532)	–	–	(9,532)
Total financial liabilities measured at fair value	(9,532)	–	–	(9,532)

#### 11. Post balance sheet events

In June 2011, the Company fully repaid the loan received from UniCredit Bank in July 2008 in compliance with the loan agreement. Following the repayment, any restrictions imposed by the loan agreement to dividend distribution to shareholders were removed (see Note 5).

On April 28, 2011, the Company and its subsidiaries (collectively “the Group”) completed the sale to the companies controlled by Depo’s management of OOO IBS Distribution Center, the Company’s wholly-owned subsidiary whose assets substantially consisted of a warehouse and related buildings located in Krasnogorsk, Moscow region. This subsidiary and its assets represent non-core assets of the Group given its focus on rendering IT services, as rental of commercial real estate and associated logistics are not essential or necessary to the core business activities of the Group. The consideration to be received by the Group amounts to \$14,300 in cash payable in three installments according to the following schedule: (i) \$1,000 no later than ten business days after 28 April 2011; (ii) \$6,000 shall be paid in March 2012; and (iii) \$7,300 shall be paid in March 2013; with unpaid consideration subject to interest at the rate of 7% per annum. The first instalment has been received.

# IBS Group Holding Limited

## Notes to the financial statements (continued)

### **11. Post balance sheet events (continued)**

As a result of assignments, on April 28, 2011, BXA assumed all of the payment obligations of the companies controlled by Depo's management under Depo's sale agreement and Distribution Center's sale agreement (collectively, the "Relevant Agreements"), currently owed to the Company. In addition, another shareholder of the Group guarantees to the Company the performance of the obligations owed by BXA to the Group. The Company's management believes that this transaction improved the position of the Company as a creditor in respect of the obligations due to it under the Relevant Agreements.

Following completion of the transaction the BXA guarantee in respect of the receivables under Depo's sale agreement was terminated on May 11, 2011.

At the request of BXA, the Company agreed to adjust to 7% per annum the original interest rate of 12% applicable to unpaid consideration owed by BXA to the Group under Depo's sale agreement, in view of the improved market conditions for borrowing funds in comparable transactions. The interest rate change was effective from April 29, 2011.