

**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

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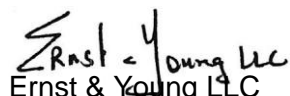
## Report of independent auditors

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> |

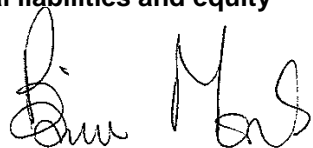
*The accompanying notes are an integral part of these consolidated financial statements*

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<br>paid-in capital | Retained<br>earnings<br>(accumulated<br>deficit) | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>shareholder's<br>equity<br>attributable to<br>the Group | Non-controlling<br>interest | Total equity      |
|--|----------------------|---------------|-------------------------------|--|--|--|-----------------------------|-------------------|
|  | Common<br>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<br>reclassified to income statement upon<br>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<br>subsidiary (Note 19)   |                      |               | 9,965                         |  |  | 9,965  | 35                          | 10,000            |
| Acquisition of non-controlling interest<br>(Note 3)  |                      |               | 2,717                         | –  | (2,865)  | (148)  | (15,857)                    | (16,005)          |
| Shares granted by subsidiaries under<br>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<br>the stock option plans (Note 19)                                       |                      |               | 3,046                         |  |  | 3,046  | 528                         | 3,574             |
| Effect of issuance of convertible loans<br>(Note 9)  |                      |               | 1,039                         |  |  | 1,039  |                             | 1,039             |
| Effect of issuance of shares under<br>subsidiary's stock option plans<br>(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<br>Consulting | Luxoft          | BFT         | Softkey         | IBS              | Learnware   | ITCN            | Total            |
|---|----------------------|-----------------|-------------|-----------------|------------------|-------------|-----------------|------------------|
| <b>Balances at<br/>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<br>purchase price<br>accounting | -                    | -               | -           | -               | -                | -           | (719)           | (719)            |
| Impairment  | -                    | -               | -           | -               | -                | -           | -               | -                |
| Translation<br>difference                           | -                    | -               | -           | 189             | 10,632           | -           | -               | 10,821           |
| <b>Balances at<br/>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<br>purchase price<br>accounting | -                    | -               | -           | -               | -                | -           | 33              | 33               |
| Impairment  | (499)                | -               | -           | (1,172)         | -                | -           | -               | (1,671)          |
| Translation<br>difference                           | -                    | -               | -           | 44              | 2,557            | -           | -               | 2,601            |
| <b>Balances at<br/>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<br>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:

|                         | 2011      | 2010      |
|-------------------------|-----------|-----------|
| Loan from UniCreditBank | \$ 13,582 | \$ 16,375 |
| Loan from Cisco         | 1,967     | -         |
| Loan from EBRD          | 18,936    | -         |
| Total long- term loans  | 34,485    | 16,375    |
| Less current portion    | (9,559)   | (12,500)  |
| Non-current portion     | \$ 24,926 | \$ 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       |
|   | \$ 885   | \$ 10,823 |
| <br><i>Due from related parties, non-current</i>      |          |           |
| Loans to BXA Investments Ltd.                         | \$ —     | \$ 22,555 |
|   | \$ —     | \$ 22,555 |
| <br><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        |
|   | \$ 2,003 | \$ 10,469 |

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<br/>ended August 31,<br/>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.