

IBS Group Holding Limited

Separate financial statements

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

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

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Report of independent auditors

The Board of Directors and Shareholders of IBS Group Holding Limited

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

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

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

Ernst & Young LLC
Chartered Accountants
Isle of Man

July 29, 2011

IBS Group Holding Limited

Profit and loss account

Year ended March 31, 2011

(In thousands of US Dollars)

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

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

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

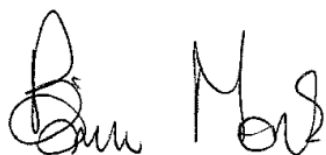
IBS Group Holding Limited

Balance sheet

Year ended March 31, 2011

(In thousands of US Dollars)

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



Director

Director

Date 29 July 2011

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

IBS Group Holding Limited
Notes to the separate financial statements
Year ended March 31, 2011
(In thousands of US Dollars)

1. Basis of presentation and significant accounting policies

1.1 Basis of presentation

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

1.2 Foreign currency translation

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

1.3 Cash and cash equivalents

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

1.4 Accounts receivable, net

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

1.5 Financial instruments

1.5.1 Initial recognition and measurement

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

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

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

IBS Group Holding Limited

Notes to the financial statements (continued)

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

1.5 Financial instruments (continued)

1.5.1 Initial recognition and measurement (continued)

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

1.5.2 Subsequent measurement

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

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

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

1.5.2.2 Loans and receivables

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

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

1.5.2.3 Available-for-sale investments

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

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

IBS Group Holding Limited

Notes to the financial statements (continued)

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

1.5 Financial instruments (continued)

1.5.3 De-recognition

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

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

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

1.5.4 Offsetting of financial instruments

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

1.5.5 Fair value of financial instruments

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

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

1.5.6 Impairment of financial assets

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

IBS Group Holding Limited

Notes to the financial statements (continued)

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

1.5 Financial instruments (continued)

1.5.6 Impairment of financial assets (continued)

1.5.6.1 Financial assets carried at amortised cost

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

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

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

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

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

1.5.6.2 Available-for-sale financial assets

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

IBS Group Holding Limited

Notes to the financial statements (continued)

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

1.6 Investments in Subsidiaries

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

1.7 Use of estimates in preparation of financial statements

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

2. Investments

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

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

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

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

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

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

IBS Group Holding Limited

Notes to the financial statements (continued)

3. Debtors

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

Amounts falling due after more than one year included above are:

	As at March 31,	
	2011	2010
Loans issued to related parties	8,547	26,793
Amounts owed by subsidiary undertakings	7,681	–
Receivable for the sale of South West Manufacturing, Inc.	3,062	–
Total	19,290	26,793

Amounts falling due within one year included above are:

	As at March 31,	
	2011	2010
Long-term loans issued to related parties – current portion	11,884	12,500
Short-term loans issued to related parties	–	5,801
Amounts owed by subsidiary undertakings	7,000	–
Receivable for the sale of South West Manufacturing, Inc.	2,141	–
Prepayments and accrued income	56	47
Total	21,081	18,348

Loans issued to related parties consisted of the following loans as of March 31:

	2011	2010
<i>Short-term loans issued:</i>		
Loan issued to Luxoft Holding Inc.	–	5,801
Total short-term loans issued to related parties	–	5,801
Loans issued to related parties:		
Long-term loan issued to Luxoft Holding Inc.	17,431	16,375
Long-term loan issued to IBS International Ltd.	3,000	–
Long-term loan issued to BXA Investments Ltd.	–	22,555
Long-term loan issued to Polypack	–	363
Total long-term loans issued	20,431	39,293
Less current portion	(11,884)	(12,500)
Non-current portion	8,547	26,793

During the year ended March 31, 2010 the Company wrote off the receivables related to subsidiaries – Max Lambor Director Ltd. in the amount of \$510, Global Web Technologies Ltd. – in the amount of \$397 and Audergem Holding B.V. in the amount of \$286. The related expense was recorded in Profit and Loss Account under “Administrative expenses”.

IBS Group Holding Limited

Notes to the financial statements (continued)

3. Debtors (continued)

On September 1, 2009, the Company entered into a sale and purchase agreement to transfer all of its interests in the shares of South West Manufacturing, Inc. (with the main asset - "Depo") to the company controlled by Depo's management. The transaction was completed on September 4, 2009. The consideration to be received by the Company amounts to \$4,375. The Company was initially uncertain about the recoverability of the receivable for the sale of Depo and recorded a 100% provision for it. On December 10, 2010 BXA Investments Ltd ("BXA") signed a Deed of Guarantee and Indemnity, under which BXA agreed to guarantee the payment obligations to the Company for the sale of Depo shares in the amount up to the fair value of 844,929 shares of the Company held by it. Subsequent to March 31, 2011 (see Note 11), BXA assumed the related obligations due to the Company. Based on these facts, the Company reversed the reserve for the receivable for the sale of Depo and related accrued interest in the total amount of \$5,203 in the year ended March 31, 2010.

4. Creditors: amounts falling due within one year

	As at March 31,	
	2011	2010
Current installments due on loans (Note 5)	8,035	12,500
Short-term borrowings payable to IBS Systems Integration Limited (Note 9)	4,032	5,791
Trade creditors	42	7,827
Other creditors	27	-
Accruals	266	209
Total	12,402	26,327

5. Creditors: amounts falling after more than one year

	As at March 31,	
	2011	2010
Long-term debt	24,481	3,875
Financial liability, net of deferred loss (Note 10)	3,115	-
Total	27,596	3,875

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

	2011	2010
Long-term debt:		
Loan payable to UniCreditBank	13,582	16,375
Loan payable to EBRD	18,934	-
Total long-term loans	32,516	16,375
Less current installments due on loans	(8,035)	(12,500)
Non-current installments due on loans	24,481	3,875

Long-term debt, included within creditors, are analysed as follows:

	As at March 31,	
	2011	2010
Wholly repayable within five years	32,516	16,375
Not wholly repayable within five years	-	-
Total	32,516	16,375

IBS Group Holding Limited

Notes to the financial statements (continued)

5. Creditors: amounts falling after more than one year (continued)

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

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

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

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

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

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

The conversion option was accounted for as an embedded derivative, separated and accounted for as a financial liability at fair value through profit or loss (see Note 10). The aggregate fair value of the debt instrument of \$18,760 and the derivative financial liability of \$8,501 determined at the date of issuance was higher than the amount of cash received at issuance, resulting in a "day 1" loss of \$7,462, which was not recognized and deferred and will be amortised on a straight-line basis over the period of the loan agreement. Such accounting resulted from the fact that the fair value of the derivative instrument was determined based on unobservable inputs (Level 3, see Note 10).

IBS Group Holding Limited

Notes to the financial statements (continued)

6. Equity

6.1 Allotted and issued share capital

	As at March 31,	
	2011	2010
Ordinary shares (24,855,244 issued and 22,955,244 outstanding as at March 31, 2011 and 22,955,244 issued and outstanding as at March 31, 2010)	406	406
Total	406	406

6.2 Reconciliation of shareholders' funds

	Year ended March 31,	
	2011	2010
Profit for the year	15,546	10,150
Dividends	(3,443)	–
Total movements during the year	12,103	10,150
Shareholders' funds at April 1	49,741	39,591
Shareholders' funds at March 31	61,844	49,741

6.3 Reserves

	Share premium account	Profit and loss account
At April 1, 2010	33,864	15,471
Profit for the year	–	15,546
Dividends declared and paid	–	(3,443)
At March 31, 2011	33,864	27,574

7. Administrative expenses

	Year ended March 31,	
	2011	2010
Bad debt expense (Note 3)	–	1,193
Professional fees	2,145	514
Payroll	111	84
Advertising and related expenses	63	58
Other expenses	–	70
Total	2,319	1,919

8. Dividend revenue

Dividend revenue mainly consisted of dividends from IBS International Ltd, subsidiary of the Company, and recognised, when the Company's right to receive the payment is established.

IBS Group Holding Limited

Notes to the financial statements (continued)

9. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at March 31, are as follows:

Related party	Amounts owed to related party	Amounts owed from related party
Luxoft Holding Inc., a subsidiary		
2011	–	17,431
2010	–	22,176
IBS International Ltd., a subsidiary		
2011	–	17,681
2010	7,749	–
IBS Systems Integration Ltd., a subsidiary		
2011	4,032	–
2010	5,791	–
BXA Investments Ltd., a shareholder		
2011	–	–
2010	–	22,555
Polypack, an entity controlled by a shareholder		
2011	–	–
2010	–	363

The loan to BXA Investments Ltd was granted in a form of a credit line. The loan bore an interest of 11% per annum. BXA Investments Ltd. is a shareholder holding 40% of outstanding shares of the Company as at March 31, 2010, but is controlled by another shareholder of the Company. The loan was guaranteed by that another shareholder. The initial amount was payable on December 31, 2008, but was extended to December 31, 2010, and then settled.

On December 10, 2010 the Company acquired 15% of shares of Oradell Equities, Inc (“Oradel”) from BXA Investments Ltd. (“BXA”), the shareholder of the Company, as a way of settlement of the loan receivable from BXA. The investment in Oradell Equities, Inc. has been included in the company’s balance sheet at the fair value as of the date of acquisition in the amount of \$24,302, which equals to the fair value of the respective outstanding receivable from BXA Investments Ltd.

The Company’s payable to IBS International Ltd as at March 31, 2010 primarily arose from expenses paid by IBS International Ltd on behalf of the Company. The Company’s receivable from IBS International as at March 31, 2011 primarily arose from dividends declared by IBS International Ltd to the Company but not yet paid and the loan granted by the Company to IBS International Ltd payable on January 31, 2010 at 10% per annum.

On October 2, 2008, the Company granted a short-term loan of \$300 to Polypack Corporation at 14% per annum and on December 31, 2008, the loan was prolonged and settled on December 31, 2010.

In July 2008, the Company granted to Luxoft International Company Ltd a loan in the amount of \$20,000 payable in 36 months at 1M LIBOR + 4.5% per annum. The loan should be repaid in full no later than July 15, 2011. The outstanding loan balance amounted to \$2,000 and \$10,000 at March 31, 2011 and 2010, respectively.

IBS Group Holding Limited

Notes to the financial statements (continued)

9. Related party transactions (continued)

In August 2009, the Company granted to Luxoft International Company Ltd a loan in the amount of \$12,500 payable in 24 months at 1M LIBOR + 7.5% per annum. The loan should be repaid in full no later than August 14, 2011. The outstanding loan balance amounted to \$1,875 and \$6,375 at March 31, 2011 and 2010, respectively.

In February 2010, Company granted to Luxoft International Company Ltd a loan in the amount of \$5,151 at 12% per annum, which should be repaid no later than March 31, 2011. The outstanding loan balance amounted to \$0 and \$5,151 at March 31, 2011 and 2010, respectively.

In July 2010, the Company granted to Luxoft International Company Ltd a loan in the amount of \$10,400 payable in 36 months at 1M LIBOR +5% per annum. The outstanding loan balance amounted to \$9,707 and \$0 at March 31, 2011 and 2010, respectively.

In September 2010, the Company granted to Luxoft International Company Ltd a loan for up to \$9,000 payable. The loan bears an interest of 12% per annum. The loan should be repaid in full no later than March 31, 2012. The outstanding loan balance amounted to \$3,800 and \$0 at March 31, 2011 and 2010, respectively.

In April 2007, the Company received from IBS Systems Integration Ltd a loan in the amount of \$1,500 at 10% per annum, which should be repaid no later than June 11, 2007, but was extended to December 31, 2010. The outstanding loan balance amounted to \$0 and \$1,500 at March 31, 2011 and 2010, respectively.

In January 2007 and in March 2008 the Company received from IBS Systems Integration Ltd loans for an aggregate amount of \$5,000. The outstanding loan balance amounted to \$0 and \$4,000 at March 31, 2011 and 2010, respectively.

In December 2010, the Company received from IBS Systems Integration Ltd a loan in the amount of \$4,000 at 7% per annum, which should be repaid no later than September 30, 2011. The outstanding loan balance amounted to \$4,032 and \$0 at March 31, 2011 and 2010, respectively.

IBS Group Holding Limited

Notes to the financial statements (continued)

10 Financial instruments

The carrying amounts of the Group's financial instruments and their fair values as of March 31, 2011 and 2010 and are presented by category of financial instruments in the table below:

	Category*	March 31, 2011		March 31, 2010	
		Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets					
Investments in Oradell	AFSFA	24,302	24,302	-	-
Trade and other accounts receivable	LR	19,884	19,884	-	-
Loans and interest receivable	LR	20,431	20,431	45,094	45,094
Cash and cash equivalents	LR	1,413	1,413	13	13
Total financial assets		66,030	66,030	45,107	45,107
Current		22,438	22,438	18,314	18,314
Non-current		43,592	43,592	26,793	26,793
Financial liabilities					
EBRD loan conversion option, net	FLFVPL	3,115	9,532	-	-
Loans and interest payable	FLAC	32,516	32,724	16,375	16,375
Short-term borrowings	FLAC	4,032	4,032	5,791	5,791
Short-term payables and accrued expenses	FLAC	335	335	8,036	8,036
Total financial liabilities		39,998	46,623	30,202	30,202
Current		12,402	12,402	26,327	26,327
Non-current		27,596	34,221	3,875	3,875
Total derivative financial liabilities, net		3,115	9,532	-	-
Current		-	-	-	-
Non-current		3,115	9,532	-	-

* Financial instruments used by the Group are included in one of the following categories:

- ▶ AFSFA – available-for-sale financial assets;
- ▶ LR – loans and receivables;
- ▶ FLFVPL – financial liabilities at fair value through profit or loss; or
- ▶ FLAC – financial liabilities at amortised cost.

None of the Group's investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility. If changing one or more of those assumptions to reasonably possible alternate assumptions would change fair value significantly, the effect of those changes is disclosed below.

Fair value of cash and cash equivalents, short-term time deposits, short-term accounts receivable, other current assets, short-term payables, accrued expenses and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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Notes to the financial statements (continued)

10. Financial instruments (continued)

10.1 Investments in Oradell

At March 31, 2011 the Company holds a 15% stake in Oradell (see Note 9), the Company does not participate in the operating and financial management of Oradell, the Company does not have the legal ability to appoint its candidates to the board of directors of Oradell and therefore, the Company does not exert significant influence over Oradell and, accordingly, classified the investment as an available-for-sale financial asset as part of Investments in the Balance sheet,

The fair value of the Company's available-for-sale investment in Oradell at March 31, 2011 approximates its fair value at the acquisition date and was estimated using a DCF model based on cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Company's management for strategic planning purposes. The main assumptions used in the DCF model are summarised in the table below:

	At March 31, 2011
Terminal growth	5%
Discount rate	20-30%

10.2 Financial assets classified as loans and receivables

Detailed information on short-term receivables, cash and cash equivalents and short-term time deposits is available in Notes 3-5.

10.3 EBRD loan conversion option

On July 21, 2010, the Company entered into a Loan Agreement with EBRD (see Note 5 above).

The fair value of the liability at August 31, 2010 (date of loan receipt) was calculated as a present value of the cash payments assuming conversion and the market interest rate applicable to similar non-convertible debt.

The fair value of the conversion option was estimated using the Binomial valuation technique with the following assumptions:

	At August 31, 2010	At March 31, 2011
Expected volatility, %	43.85%	35.44%
Risk-free interest rate, %	1.33%	2.24%
Expected term, years	3	2.4
Share price (USD)	18.46	33.08

The balance of financial liability is reconciled to the balance of those measurements as of March 31, 2011 as follows:

	At March 31, 2010	Recognition	Unrealised loss recognised in Profit and Loss account	At March 31, 2011
Financial liability	-	8,501	1,031	9,532
"Day 1" deferred loss	-	(7,462)	1,045	(6,417)
Financial liability, net	-	1,039	2,076	3,115

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Notes to the financial statements (continued)

10 Financial instruments (continued)

10.4 Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2011 the Company held the following financial instruments measured at fair value (the Company has no financial instruments as at March 31, 2010):

	At March 31, 2011	Level 1	Level 2	Level 3
Investments in Oradell	24,302	–	–	24,302
Total financial assets measured at fair value	24,302	–	–	24,302
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – EBRD loan conversion option	(9,532)	–	–	(9,532)
Total financial liabilities measured at fair value	(9,532)	–	–	(9,532)

11. Post balance sheet events

In June 2011, the Company fully repaid the loan received from UniCredit Bank in July 2008 in compliance with the loan agreement. Following the repayment, any restrictions imposed by the loan agreement to dividend distribution to shareholders were removed (see Note 5).

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

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Notes to the financial statements (continued)

11. Post balance sheet events (continued)

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

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

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