Report on Review of Interim Financial Information

IBS IT Services PJSC and its subsidiaries

for the six months ended 30 September 2018

November 2018

Translation of the original Russian version

Report on Review of Interim Financial Information of IBS IT Services PJSC and its subsidiaries

Translation of the original Russian version

Contents

Report on Review of Interim Financial Information

Translation of the original Russian version

To the sole shareholder and Board of Directors of
IBS IT Services Public Joint-Stock Company

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of IBS IT Services PJSC and its subsidiaries, which comprise the interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of other comprehensive income for the six months ended 30 September 2018, interim condensed consolidated statement of financial position as at 30 September 2018, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months then ended, and selected explanatory notes (interim financial information). Management of IBS IT Services Public Joint-Stock Company is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.S. USTIMENKO
Partner
Ernst & Young LLC

29 November 2018

Details of the entity

Name: IBS IT Services Public Joint-Stock Company
Record made in the State Register of Legal Entities on 6 July 2017, State Registration Number 1177746672905.
Address: Russia 127434, Moscow, Dmitrovskoye shosse, 9B, 5th floor, premises XIII, office 23.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated Organization of Auditors "Russian Union of Auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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IBS IT Services PJSC

Interim condensed consolidated statement of profit or loss

for the six months ended 30 September 2018

(in thousands of Russian rubles unless otherwise stated)

		For the six months ended 30 September	
	Note	**2018 (unaudited)**	**2017 (unaudited)***
Sale of goods		7 515 081	6 131 247
Rendering of services		4 999 891	3 837 133
Total revenue	4	**12 514 972**	**9 968 380**
Cost of sales	6.7	(8 990 229)	(6 742 152)
Gross profit		**3 524 743**	**3 226 228**
Administrative expenses	6.6	(2 468 392)	(2 503 242)
Depreciation of property, plant and equipment and amortization of intangible assets	8, 9	(72 929)	(66 677)
Selling and distribution expenses		(49 729)	(43 919)
Research and development costs	6.5	(47 405)	(15 607)
Gains from reversal of provision for doubtful debt	12	-	4 811
Gains from reversal of provision for expected credit losses	12	6 478	-
Operating profit		**892 766**	**601 594**
Share in loss of an associate		-	(6 240)
Finance income	6.4	100 667	16 336
Finance expenses	6.3	(26 159)	(23 303)
Other income	6.1	17 578	46 748
Other expenses	6.2	(26 569)	(47 198)
Foreign exchange differences		15 320	(15 894)
Profit before tax		**973 603**	**572 043**
Income tax	7	(213 219)	(120 129)
Net profit		**760 384**	**451 914**
Net profit attributable to equity holders of the parent		**760 384**	**451 914**
Earnings per share			
Basic and diluted earnings for the period attributable to ordinary equity holders of the parent (RUB)		**14,54**	**8,64**

* The Group applied IFRS 15 for the first time, using a modified retrospective approach. In accordance with this approach, the comparative information is not restated.
The Group has applied IFRS 9 from 1 April, 2018. The comparative information relating to financial instruments with the scope of IFRS 9 is not restated.

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

Translation of the original Russian version

IBS IT Services PJSC

Interim condensed consolidated statement of other comprehensive income

for the six months ended 30 September 2018

(in thousands of Russian rubles)

	For the six months ended 30 September	
	2018 (unaudited)	**2017 (unaudited)**
Profit for the period	**760 384**	**451 914**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)		
Foreign exchange differences on translation of foreign operations	-	1 737
Total other comprehensive income for the period, net of tax	**-**	**1 737**
Total comprehensive income for the period, net of tax, attributable to equity holders of the parent	**760 384**	**453 651**

The financial statements were approved by the General Director of IBS IT Services PJSC on 29 November 2018.

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General Director of IBS IT Services PJSC
Svetlana Evgenyevna Balanova

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

Translation of the original Russian version

IBS IT Services PJSC

Interim condensed consolidated statement of financial position

as at 30 September 2018

(in thousands of Russian rubles)

	Note	At 30 September 2018 (unaudited)	At 31 March 2018* (audited)**
Assets			
Non-current assets			
Property, plant and equipment	8	310 440	220 110
Goodwill		1 447 361	1 447 361
Intangible assets	9	107 698	121 955
Investment in an associate		-	1 692
Net investments in leases	10.1	1 883	5 274
Long-term receivables		23 644	-
Other non-current assets		46 347	28 241
Deferred tax assets		44 486	199 017
Total non-current assets		**1 981 859**	**2 023 650**
Current assets			
Inventories	11	1 223 852	1 385 670
Trade and other receivables	10.1, 12	5 251 077	3 380 532
Assets from contracts with customers		720 584	-
Trade and other receivables due from related parties	10.1, 18	64 650	92 284
Short-term loans receivable	10.1	111 409	7 000
Current portion of net investments in leases	10.1	6 960	5 890
VAT and other taxes receivable		163 239	100 055
Current income tax receivable		95 404	37 365
Advances issued		192 836	164 226
Derivative financial instruments	10.1, 10.4	264	904
Other current assets		109 283	55 090
Cash and cash equivalents	10.1, 13	988 981	3 523 698
Total current assets		**8 928 539**	**8 752 714**
Total assets		**10 910 398**	**10 776 364**

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

Translation of the original Russian version

IBS IT Services PJSC

Interim condensed consolidated statement of financial position (continued)

	Note	At 30 September 2018 (unaudited)	At 31 March 2018* (audited)**
Equity and liabilities			
Equity			
Share capital (52,287,100 ordinary shares)		523	523
Additional paid-in capital		4 265 508	4 265 508
Retained earnings		132 228	1 701 193
Total equity		**4 398 259**	**5 967 224**
Non-current liabilities			
Finance lease liabilities, net of current portion	10.2	38 885	9 569
Deferred revenue		5 822	8 794
Warranty provision		13 106	24 329
Total non-current liabilities		**57 813**	**42 692**
Current liabilities			
Trade payables	10.2	3 358 403	1 516 082
Trade and other payables to related parties	10.2, 18	1 024	87 292
Short-term loans and borrowings	10.2	718 724	106 969
Finance lease liabilities, current portion	10.2	17 879	14 107
Advances received		284 017	244 638
VAT and other taxes payable		558 701	370 697
Current income tax payable		2 848	4 895
Deferred revenue		55 926	160 290
Accrued liabilities	10.2, 15	1 210 387	1 971 256
Warranty provision		14 970	25 444
Net assets attributable to non-controlling participants	10.2	229 052	264 778
Derivative financial instruments	10.2, 10.4	2 395	-
Total current liabilities		**6 454 326**	**4 766 448**
Total liabilities		**6 512 139**	**4 809 140**
Total liabilities and equity		**10 910 398**	**10 776 364**

* The Group applied IFRS 15 for the first time, using a modified retrospective approach. In accordance with this approach, the comparative information is not restated.
The Group has applied IFRS 9 from 1 April, 2018. The comparative information relating to financial instruments with the scope of IFRS 9 is not restated.
** Certain amounts shown in this column do not correspond to the financial statements for the year ended 31 March 2018 because they reflect the reclassification made to ensure the comparability of the reporting data.

The financial statements were approved by the General Director of IBS IT Services PJSC on 29 November 2018.

General Director of IBS IT Services PJSC
Svetlana Evgenyevna Balanova

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

Translation of the original Russian version

IBS IT Services PJSC

Interim condensed consolidated statement of changes in equity

for the six months ended 30 September 2018

(in thousands of Russian rubles)

	Share capital	Additional paid-in capital	(Accumulated loss)/retained earnings	Foreign currency translation reserve	Total equity
Balance at 1 April 2017 (audited)	**523**	**4 265 508**	**(585 564)**	**126 842**	**3 807 309**
Profit for the period	-	-	451 914	-	**451 914**
Other comprehensive income	-	-	-	1 737	**1 737**
Total comprehensive income	**-**	**-**	**451 914**	**1 737**	**453 651**
Dividends paid to equity holders of the parent (Note 19)	-	-	(385 000)	-	**(385 000)**
Balance at 30 September 2017 (unaudited)	**523**	**4 265 508**	**(518 650)**	**128 579**	**3 875 960**
Balance at 1 April 2018 (audited)	**523**	**4 265 508**	**1 701 193**	**-**	**5 967 224**
Impact on adoption of IFRS 15 and IFRS 9 (Note 2.2)	-	-	20 651	-	20 651
Balance at 1 April 2018 after adoption of IFRS 15 and IFRS 9	**523**	**4 265 508**	**1 721 844**	**-**	**5 987 875**
Profit for the period	-	-	760 384	-	**760 384**
Total comprehensive income	**-**	**-**	**760 384**	**-**	**760 384**
Dividends paid to equity holders of the parent (Note 19)	-	-	(2 350 000)	-	**(2 350 000)**
Balance at 30 September 2018 (unaudited)	**523**	**4 265 508**	**132 228**	**-**	**4 398 259**

Translation of the original Russian version

IBS IT Services PJSC

Interim condensed consolidated statement of cash flows

for the six months ended 30 September 2018

(in thousands of Russian rubles)

	Note	For the six months ended 30 September 2018 (unaudited)	2017 (unaudited)
Operating activities			
Profit before tax		973 603	572 043
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	8	58 284	48 165
Amortization of intangible assets	9	14 645	18 512
Share in loss of an associate		-	6 240
Foreign exchange differences		(15 320)	15 894
Finance income	6.4	(100 667)	(16 336)
Finance expenses	6.3	26 159	23 303
Change in provision for doubtful debt and write-off of trade and other receivables		-	36 616
Change in provision for expected credit losses and write-off of trade and other receivables		35 826	-
Change in inventory impairment provision	11	17 088	20 570
Net loss/(gain) on financial instruments measured at fair value through profit or loss	6.1, 6.2	3 991	(3 556)
Loss/(gain) from disposal of property, plant and equipment and intangible assets		10	(4 281)
Other non-cash adjustments		1 422	-
Working capital adjustments:			
(Increase)/decrease in trade and other receivables, net investments in leases and advances issued		(1 856 099)	9 805
Increase in inventories		(165 755)	(1 042 138)
(Increase)/decrease in assets from contracts with customers		(552 426)	-
Increase in trade and other payables and advances received		1 945 934	567 491
(Increase)/decrease in deferred revenue		(107 336)	174 841
(Decrease)/increase in accrued liabilities and warranty provision		(782 565)	34 325
Change in other assets		(38 938)	(11 514)
Payments under foreign exchange forward contracts, net		(956)	(30 647)
Interest received		99 928	16 511
Interest paid		(15 057)	(17 599)
Income tax paid		(112 733)	(122 233)
Net cash flows (used in)/from operating activities		**(570 962)**	**296 012**

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

IBS IT Services PJSC

Interim condensed consolidated statement of cash flows (continued)

	Note	For the six months ended 30 September 2018 (unaudited)	For the six months ended 30 September 2017 (unaudited)
Investing activities			
Acquisition of property, plant and equipment		(148 957)	(72 041)
Proceeds from sale of property, plant and equipment		333	12 312
Acquisition of intangible assets		(387)	(17 831)
Proceeds from sale of intangible assets		-	27 000
Loans issued to third parties		(104 250)	-
Proceeds from loans issued to third parties		-	2 000
Loans issued to related parties		(17 000)	(2 000)
Proceeds from loans issued to related parties		17 000	63 757
Acquisition of a subsidiary, net of cash acquired		-	9 911
Net cash (used in)/from investing activities		**(253 261)**	**23 108**
Financing activities			
Proceeds from bank loans and debt instruments		2 136 149	885 121
Repayment of bank loans and debt instruments		(1 482 433)	(683 005)
Repayment of finance lease liabilities		(11 119)	(24 787)
Repayment of loans from related parties		-	(1 000)
Dividends paid to equity holders of the parent	19	(2 350 000)	(385 000)
Dividends paid to non-controlling participants	19	-	(12 900)
Other payments		(33 360)	-
Net cash used in financing activities		**(1 740 763)**	**(221 571)**
Net change in cash and cash equivalents		**(2 564 986)**	**97 549**
Net foreign exchange difference		30 269	5 793
Cash and cash equivalents at 1 April		3 523 698	1 035 100
Cash and cash equivalents at 30 September		**988 981**	**1 138 442**

Translation of the original Russian version

IBS IT Services PJSC

Selected explanatory notes to the interim condensed consolidated financial statements

for the six months ended 30 September 2018

(in thousands of Russian rubles)

1. Corporate information

The interim condensed consolidated financial statements of IBS IT Services PJSC (hereinafter, the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2018 were approved by the General Director of IBS IT Services PJSC on 29 November 2018. The Company is a public joint-stock company registered and operating in the Russian Federation. The registered office is located at Russia 127434, Moscow, Dmitrovskoye shosse, 9B, 5th floor, premises XIII, office 23.

Pursuant to the decision of the sole participant of IBS IT Services LLC dated 16 February 2017, the Company was reorganized through transformation into a joint-stock company. On 6 July 2017, IBS IT Services JCS was registered in the State Register of Legal Entities. Starting from the abovementioned date, IBS IT Services LLC discontinued its operations following the reorganization. IBS IT Services JSC is the successor of IBS IT Services LLC.

In accordance with the decision of the sole shareholder of IBS IT Services JSC dated 20 November 2017, IBS IT Services JSC changed its legal form from joint-stock company to public joint-stock company, and a relevant entry dated 1 February 2018 was made to the State Register of Legal Entities.

As at 30 September 2018, the Company was a public joint-stock company. The share capital comprised 52,287,100 registered, issued and fully paid ordinary shares with a nominal value of RUB 0.01 each. The Group's additional paid-in capital is the difference between the redemption and nominal value of participants' shares and additional capital contributions.

The Group sells information technology ("IT") products and services primarily in the Russian Federation. The Group is engaged in the development of IT solutions in the area of computing and network infrastructures, implementation of business applications, information analysis systems and solutions to analyze big data and Internet of things, the development of generic and custom software, IT and business process outsourcing. Information on related party relationships of the Group is provided in Note 18.

2. Basis of preparation and changes in the Group's accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 September 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Group's interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with its annual financial statements for the years ended 31 March 2018, 31 March 2017 and 31 March 2016.

The interim condensed consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand ('000), except when otherwise indicated.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the years ended 31 March 2018, 31 March 2017 and 31 March 2016, except for the adoption of new standards effective as at 1 April 2018.

The Group applies IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* for the first time. The nature and the effect of the changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 *Revenue from Contracts with Customers* becomes effective for reporting periods beginning on or after 1 January 2018. When preparing its financial statements for the six months ended 30 September 2018, the Group applied this standard and reported major changes in its accounting polices using the modified retrospective approach with the recognition of the cumulative effect initial application on retained earnings as at the date of initial adoption, i.e. 1 April 2018. The Group applies this standard only with respect to contracts, which are not fulfilled at the date of initial application. The Group did not use any other practical expedients.

The Group recognized the cumulative effect of the adoption of IFRS 15 on retained earnings as at 1 April 2018 and disclosed the amounts of changes in each item of the consolidated financial statements that occurred in the current reporting period due to the application of this standard as compared with IAS 11 *Construction Contracts* and IAS 18 *Revenue*. Major changes occurred due to the fact that earlier for certain contracts for which revenue should be recognized over time, the Group recognized revenue upon completion of separate stages and costs related to uncompleted stages were recognized within work in progress. Starting from the current reporting period, the Group accrues revenue under such contracts over time upon their completion using the input method based on the ratio of costs actually incurred to planned costs, irrespective of the date of fulfillment and acceptance of the stage by a customer, with relevant expenses taken to cost. When accruing revenue on uncompleted stages, the Company estimates the risks of refusal to accept these or subsequent stages by a customer when calculating contract consideration. The cumulative effect of adjustments made in the consolidated statement of financial position and consolidated statement of profit or loss due to the adoption of the new IFRS 15 *Revenue from Contracts with Customers* is presented below:

	At 1 April 2018 before adjustments	**Adjustments due to adoption of IFRS 15**	**At 1 April 2018 after adjustments**
Assets			
Trade and other receivables	3 380 532	102 793	3 483 325
Inventories	1 385 670	(310 485)	1 075 185
Deferred tax assets	199 017	6 013	205 030
Assets from contracts with customers	-	177 627	177 627
Liabilities			
Net assets attributable to non-controlling participants	264 778	(44 703)	220 075
Equity			
Retained earnings	1 701 193	20 651	1 721 844

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

As required by the new revenue standard, the effect of the application of this standard on the consolidated statement of profit or loss and consolidated statement of financial position for the six months ended 30 September 2018 is presented below:

	For the six months ended 30 September 2018	Adjustments due to adoption of IFRS 15	For the six months ended 30 September 2018 without adoption of IFRS 15
Revenue			
Sale of goods	7 515 081	-	7 515 081
Rendering of services	4 999 891	584 152	4 415 739
Cost of sales	**(8 990 229)**	(192 126)	**(8 798 103)**
Gross profit	**3 524 743**	**392 026**	**3 132 717**
Profit before tax	**973 603**	**455 062**	**518 541**
Income tax	(213 219)	(99 659)	(113 560)
Net profit	**760 384**	**355 403**	**404 981**

	At 30 September 2018	Adjustments due to adoption of IFRS 15	At 30 September 2018 without adoption of IFRS 15
Assets			
Inventories	1 223 852	(190 649)	1 414 501
Deferred tax assets	44 486	(99 659)	144 145
Assets from contracts with customers	720 584	246 183	474 401
Liabilities			
Deferred revenue	61 748	(399 528)	461 276
Equity			
Retained earnings	132 228	355 403	(223 175)

In its statement of financial position as at 30 September 2018, the Group recognizes contractual obligations within advances received in the amount of RUB 284,017 thousand and within deferred revenue in the amount of RUB 61,748 thousand (including the long-term portion of RUB 5,822 thousand).

(a) Revenue recognition

Revenue is recognized when (or as) the Group satisfies its performance obligation by transferring the promised goods or services (asset) to the customer, when the customer obtains control over the asset and in the amount of consideration to which the Group expects to be entitled with high probability in exchange for transferring promised goods or services to the customer.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

The Group has concluded that it is the principal in all of its revenue arrangements since it undertakes all performance obligations under the contract arrangements, has pricing latitude and is also exposed to inventory risks. Revenue is stated net of value added tax charged to customers.

The Group used a practical expedient and does not adjust the promised amount of consideration for the effects of a significant financing component in contracts, if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(b) Sale of goods

Revenue from sale of IT equipment and external software is generally recognized on delivery, when control over the transferred goods is passed to the customer. The transaction price is usually fixed and does not contain variable consideration with no right of return provided.

The Group provides warranties for regular repairs for all types of goods and services sold, except for personal computers and other computer spare parts. In accordance with the contract terms, the Group does not provide extended warranties for maintenance and does not render additional services. These are assurance-type warranties, under which the obligation is recognized when the goods are sold.

The Group may provide extended warranty for the maintenance of personal computers and other computer spare parts, under which the customer is provided with a service in addition to the assurance that the goods comply with the agreed-upon specifications. These are service-type warranties. This type of warranty comprises a distinct service and gives rise to a separate performance obligation. Using the estimated price for the separate sale of the warranty, the Group allocates a portion of the transaction price to this warranty and recognizes the respective revenue during the warranty period.

(c) Rendering of services

The Group provides the following services:

- Design, development, upgrade and implementation of the customer's accounting information systems;
- Routine and post-warranty servicing, technical support of the customer's equipment, software and information systems;
- Computer and telecommunication services;
- Outsourcing of HR business processes;
- Provision of licenses to sell in-house software;
- Other services.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

Design, development, upgrade and implementation of the customer's accounting information systems

Revenue from services related to the design, development, upgrade and implementation of the customer's accounting information systems is usually recognized in the period during which the work is performed under the contract. Consideration under such contracts is usually paid based as contract deliverables are accepted by the customer in accordance with the contract terms.

Revenue is recognized by reference to the stage of completion on the basis of direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised under the contract.

If the Group is not in a position to compensate for a portion of performed works in case of a unilateral termination of the contract by a customer, the Group considers such contracts to be fulfilled at the end of the contract term and recognizes such revenue upon fulfillment of the contract and acceptance of works or services by a customer.

Routine and post-warranty servicing, maintenance of equipment, software and information systems

Upon the expiry of the standard warranty period, the customer may enter into a contract for routine and post-warranty servicing of equipment, software and information systems.

The Group's obligation is to provide the required volume of services to the customer regardless of the number of customer requests and inquiries. The Group recognizes revenue from such contracts based on elapsed time and in equal amounts over the contract period.

Computer and telecommunication services

The Group provides the following computer and telecommunication services:

- Cloud technologies;
- Data center services;
- Maintenance services.

The Group's obligation is to be ready to provide the required volume of subscription services and an unlimited volume of services billed at the actually used service unit. For such type of contracts for subscription services, the Group recognizes revenue based on the elapsed time and in equal amounts over the contract period; for billed services – based on the volume of actually used services using the cost of each provided service unit.

Outsourcing of HR business processes

The Group recognizes revenue from contracts for outsourcing of HR business processes in the amount of services used taking into account the cost of each service (work time, a number of processed transactions, etc.) in accordance with the contract terms.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

Provision of licenses to sell in-house software

When determining at which point of time revenue from the sale of software should be recognized, the Group analyzes the nature of the rights granted by the license. Generally, the Group grants the right to use the software as it is at the point of time when the license for such software is provided; the Group does not undertake any activities that significantly affect the intellectual property to which the customer has rights. Such sale of the software comprises the sale of the right-to-use license. The Group recognizes revenue from the sale of such software when the license is transferred to a customer.

(d) Contracts involving sale of goods and services

The Group enters into multiple-element sale contracts, such as supply of IT equipment and software, installation, customization, start-up and commissioning, customer personnel training, and technical support.

When analyzing these contracts, the Group determines whether the goods or services promised to a customer are classified as distinct. Goods or services are classified as distinct when:

(a) The customer can benefit from the good or service on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

If the goods or services are distinct, the Group recognizes revenue when (or as) the Group fulfills its performance obligation by transferring promised goods or services to the customer.

In order to allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the Group determines the stand-alone selling price at contract inception for distinct goods or services underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. If the goods and services are not distinct, the Group recognizes revenue under such contracts over time, as for the revenue from design, development, upgrade and implementation of the customer's accounting information systems.

The Group combines contracts entered into at or near the same time with the same customer if one or more of the following criteria are met:

(a) The contracts are negotiated as a package with a single commercial objective;

(b) The amount of consideration to be paid in one contract is dependent on the price or performance of the other contract; or

(c) The goods or services promised in the contracts (or some of the goods or services promised in each of the contracts) are a single performance obligation.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

IFRS 9 Financial Instruments

The new IFRS 9 *Financial Instruments* becomes effective for reporting periods beginning on or after 1 April 2018. Retrospective application is required, except for hedge accounting, but comparative information is not compulsory. The hedge accounting requirements are applied prospectively with some limited exceptions.

The Group adopted the new standard on the established effective date and did not restate the comparative information.

(a) Classification and measurement

The adoption of classification and measurement requirements in IFRS 9 does not have any significant impact on the Group's balance sheet or equity.

The Group continues to perform fair value measurements with regard to all financial assets that are currently measured at fair value through profit or loss.

Trade accounts receivable and loans are held for collecting contractual cash flows and are expected to give rise to cash flows in the form of payments of principal and interest only.

The Group analyzed the features of contractual cash flows from these instruments and concluded that such instruments qualify to be measured at amortized cost in accordance with IFRS 9 and do not require any reclassifications.

The Group classified its unquoted equity instruments as financial assets measured at fair value through other comprehensive income.

(b) Impairment

IFRS 9 changes the accounting for financial assets impairment losses by replacing the incurred loss model with the expected credit losses (ECLs) model. In accordance with the new model, the allowance for ECLs on a financial asset is accrued before a credit loss event occurs in contrast to the incurred loss model.

The new impairment model applies to financial assets classified at amortized cost and at fair value through other comprehensive income, as well as to contractual assets in accordance with IFRS 15 *Revenue from Contracts with Customers.*

The Group uses a simplified approach with respect to trade receivables and recognizes lifetime ECLs taking into account historical and actual data adjusted for observable factors specific for certain debtors and economic conditions.

Other financial assets measured at amortized cost include loans issued (including loans to related parties). The Group applies a general approach to providing for expected credit losses for such financial assets.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

Cash and cash and equivalents of the Group are subject to low credit risk based on external credit ratings of banks and financial institutions. Therefore, the Group concluded, that the adoption of the new impairment model stipulated by IFRS 9 *Financial Instruments* does not require any additional adjustments as at 1 April 2018.

In general, IFRS 9 had no material impact on the Group's financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and impact of these changes are described below. Although these new standards and amendments were applied for the first time in the six months ended 30 September 2018, they did not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and impact of each new standard or amendment are described below.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The Interpretation has no impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are not applicable to the Group.

Amendments to IFRS 2 Classification and Measurement of Share-based Payments

The IASB issued amendments to IFRS 2 *Share-based Payments*, which cover the following three aspects: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; classification of share-based payment transactions with a net settlement feature for withholding tax obligations; accounting where a modification to the terms and conditions of a share-based payment transaction changes the classification from cash-settled to equity-settled. When adopting the amendments, entities do not have to restate data for the prior periods; however, retrospective application is possible if the entity applies all three aspects and if other criteria are met.

2. Basis of preparation and changes in the Group's accounting policies (continued)

2.2 New standards, interpretations and amendments applied for the first time (continued)

The Group is not involved in share-based payment transactions providing for net settlements for withholding tax obligations and has not modified the terms and conditions of share-based payment transactions.

These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts − Amendments to IFRS 4

These amendments eliminate concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments are not applicable to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that venture capital or similar organizations should decide to measure investments in associates and joint ventures at fair value through profit or loss, separately for each investment at initial recognition. If the entity, that is not an investment entity itself, has an interest in an associate or joint venture that are investment entities, when applying the equity method such entity can retain the fair value measurement applied by its associate or joint venture, that are investment entities, to its interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose.

These amendments are not applicable to the Group.

3. Segment information

For management purposes, the Group is divided in business units, according to the nature of the products and services provided, and comprises the following four reporting segments:

- Corporate solutions and business applications;
- Integration of ready-to-go solutions;
- Solutions for regional and municipal authorities;
- Other segments.

3. Segment information (continued)

The Group’s segments are represented by business units with separate management procedures, focus on different customers and product specialization.

The segment of corporate solutions and business applications focuses on complex projects for major Russian and international companies and governmental entities.

The segment of integration of ready-to-go solutions focuses on ready-to-go solutions in the area of infrastructure integration.

The segment of solutions for regional and municipal authorities offers ready-to-go solutions for public finance and fiscal and budgetary management in the Russian constituent regions.

Other segments include the provision of cloud solutions and rendering services by the Data Processing Center.

No operating segments have been combined to form the above reportable operating segments.

As required by the Charter and other regulatory documents of IBS IT Services PJSC, the General Director and Board of Directors monitor the operating results of each business unit separately for the purpose of making decisions on resource allocation and performance assessment.

The key segment performance indicator communicated to the General Director and Board of Directors is operating income before depreciation, amortization and impairment of property, plant and equipment and intangible assets (OIBDA). Net profit is analyzed by management at the Group level. Segment reporting and performance indicators are based on the International Financial Reporting Standards.

OIBDA of a segment is calculated as revenue of the respective segment less operating expenses (less depreciation, amortization and impairment of property, plant and equipment and intangible assets), including corporate expenses of the Group allocated to the respective segment.

According to IFRS, OIBDA is not a financial performance indicator. The algorithm for calculating OIBDA applied by the Group can differ from that used by other companies. Therefore, it cannot be used to measure one company against another or as an alternative measure of the Group’s operating performance as promulgated under IFRS. OIBDA should not be considered as a direct or alternative measure of liquidity, such as operating cash flows, and should be considered together with the Group’s financial liabilities. OIBDA may not reflect historical operating performance of the Group and is not intended to forecast potential future results of the Group. The Group believes that OIBDA is useful for the users of the consolidated financial statements, as it is an indicator of stability and performance of the Group’s current business operations, including the Group’s ability to finance discretionary expenses, such as capital expenditure, acquisition costs, and other investments, as well as the Group’s borrowing and debt servicing abilities.

Assets and liabilities are not allocated to operating segments and are not subject to analysis by a body responsible for operating decision-making.

Prices in transactions between operating segments that are entered into primarily in the normal course of business are determined on an arm’s length basis in a manner similar to transactions with third parties.

3. Segment information (continued)

Intersegment revenues are not included for consolidation purposes and are recorded in column "Adjustments and eliminations". All other adjustments and eliminations are included in reconciliations provided below.

For the six months ended 30 September 2018	Corporate solutions and business applications	Integration of ready-to-go solutions	Solutions for regional and municipal authorities	Other segments	Adjustments and eliminations	Consolidated
Revenue						
Sales to external customers	5 779 204	5 744 614	869 571	121 583	-	12 514 972
Intersegment sales	31 299	4 172	975	45 716	(82 162)	-
Revenue – total	**5 810 503**	**5 748 786**	**870 546**	**167 299**	**(82 162)**	**12 514 972**
Financial results						
OIBDA	744 345	135 823	51 319	34 208	-	965 695
Net profit	**-**	**-**	**-**	**-**	**-**	**760 384**

For the six months ended 30 September 2017	Corporate solutions and business applications	Integration of ready-to-go solutions	Solutions for regional and municipal authorities	Other segments	Adjustments and eliminations	Consolidated
Revenue						
Sales to external customers	4 757 925	4 330 306	769 270	110 879	-	9 968 380
Intersegment sales	31 670	5 554	36 289	37 944	(111 457)	-
Revenue – total	**4 789 595**	**4 335 860**	**805 559**	**148 823**	**(111 457)**	**9 968 380**
Financial results						
OIBDA	462 878	142 581	31 119	31 693	-	668 271
Net profit	**-**	**-**	**-**	**-**	**-**	**451 914**

Adjustments and eliminations

Current taxes and deferred taxes are not allocated to those segments as they are also managed on a group basis.

Gains and losses from remeasurement of assets at fair value are not taken to separate segments and are recorded at the level of the Group.

Fair value of acquisitions, gains and losses from remeasurement of intangible assets identified as a result of acquisition and goodwill impairment are allocated to operating segments.

3. Segment information (continued)

Adjustments and eliminations (continued)

Inter-segment revenue is eliminated in consolidation.

OIBDA reconciliation	For the six months ended 30 September 2018	2017
Segment OIBDA	**965 695**	**668 271**
Group OIBDA	**965 695**	**668 271**
Depreciation of property, plant and equipment and amortization of intangible assets	(72 929)	(66 677)
Share in loss of an associate	-	(6 240)
Finance income	100 667	16 336
Finance expenses	(26 159)	(23 303)
Other income	17 578	46 748
Other expenses	(26 569)	(47 198)
Foreign exchange differences	15 320	(15 894)
Profit before tax	**973 603**	**572 043**

The Group renders services primarily in the Russian Federation.

Seasonality

The Group's operating performance is subject to seasonality, which is mainly due to the customers' budget planning processes. The Group's revenue tends to increase in Q4 of each calendar year. This is attributed to the fact that, since the planning and budgeting cycle in the Russian Federation has an annual nature, orders from the government and usually from businesses are usually closed by the end of a calendar year. Thus, the Group's operating results may not necessarily be balanced throughout the year.

For the six months ended 30 September 2018, the Group's revenue recognized from the sale of goods and rendering of services to one customer amounted to 16% of its total revenue. This revenue is included in segments "Corporate solutions and business applications" and "Integration of ready-to-go solutions".

For the six months ended 30 September 2017, the Group's revenue recognized from the sale of goods and rendering of services to two customers exceeded 10% of its total revenue. Revenue generated by those customers amounted to 14% and 12%, respectively. This revenue is included in segments "Corporate solutions and business applications" and "Integration of ready-to-go solutions".

4. Revenue from contracts with customers

The Group presents revenue from contracts with customers by key segment or type of contract, since such presentation is the most indicative in terms of how economic factors influence the nature, amount, timing and uncertainty of revenue and cash flows.

Information on the respective categories and types of contracts is presented below (by key segment):

For the six months ended 30 September 2018	Corporate solutions and business applications	Integration of ready-to-go solutions	Solutions for regional and municipal authorities	Other segments	Adjustments and eliminations	Consolidated
Type of contract						
Sale of goods	2 147 722	5 370 250	205	744	(3 840)	7 515 081
Rendering of services	3 662 781	378 536	870 341	166 555	(78 322)	4 999 891
Revenue – total	**5 810 503**	**5 748 786**	**870 546**	**167 299**	**(82 162)**	**12 514 972**

5. Equity

The Group manages its capital structure and makes adjustments to it in accordance with changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

In order to achieve capital management objectives, the Group's management ensures that the Group meets all financial covenants for interest-bearing loans and borrowings, including debt burden requirements. There were no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period. The Group is not subject to external requirements regarding equity.

In accordance with its capital management policy, the Group monitors financial ratios of net debt to OIBDA and total debt to OIBDA. To manage its equity, the Group does not introduce any formal policies regarding the debt-to-equity ratio.

For the six months ended 30 September 2018, total debt to OIBDA amounted to 0.80. The net debt to OIBDA ratio was negative, which indicates that the amount on the Group's accounts exceeded its total debt. Net debt to OIBDA and total debt to OIBDA are important measures to assess the capital structure in light of the need to maintain a strong credit rating.

	At 30 September 2018	At 31 March 2018
Interest-bearing loans, overdrafts and borrowings	718 724	106 969
Finance lease liabilities	56 764	23 676
Total debt	**775 488**	**130 645**
Cash and cash equivalents	(988 981)	(3 523 698)
Net debt	(213 493)	**(3 393 053)**
OIBDA	965 695	3 510 148
Debt ratio	0,80	0,04

6. Other income/expenses

6.1 Other income

	For the six months ended 30 September	
	2018	**2017**
Fines and penalties received	9 992	10 770
Net gain on financial instruments measured at fair value through profit or loss	5 506	31 350
Income on disposal of property, plant and equipment and other assets	-	4 281
Other income	2 080	347
Total other income	**17 578**	**46 748**

Net gain on financial instruments measured at fair value through profit or loss relates to foreign currency forward contracts, which do not meet hedge accounting criteria.

6.2 Other expenses

	For the six months ended 30 September	
	2018	**2017**
Net loss on financial instruments measured at fair value through profit or loss	9 497	27 794
Charity expenses	7 825	9 424
State duties	155	477
Other expenses	9 092	9 503
Total other expenses	**26 569**	**47 198**

Net loss on financial instruments measured at fair value through profit or loss relates to foreign currency forward contracts, which do not meet hedge accounting criteria.

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risks arising from expected purchases and sales in foreign currency in the course of its operating activities.

6.3 Finance expenses

	For the six months ended 30 September	
	2018	**2017**
Net profit attributable to non-controlling participants (Note 19)	8 976	3 991
Interest on loans and borrowings	15 528	16 958
Finance expenses under finance lease and hire purchase agreements	1 655	1 932
Interest on loans received from related parties	-	422
Total finance expenses	**26 159**	**23 303**

6. Other income/expenses (continued)

6.4 Finance income

	For the six months ended 30 September	
	2018	**2017**
Interest income on deposits and % on external loans/borrowings	98 807	12 998
Interest income on loans issued to related parties and other borrowings	459	2 789
Other finance income	1 401	549
Total finance income	**100 667**	**16 336**

6.5 Research and development costs

In the segments “Corporate solutions and business applications” and “Solutions for regional and municipal authorities,” research and development are performed primarily in the following areas:

- Development of a high-level platform to promptly create corporate applications PR EVM IK ISKU;
- Development of new methods and instruments to manage property in the budget sector as part of the “Institutional Development of the Research and Development Sector” subprogram.

6.6 Administrative expenses

	For the six months ended 30 September	
	2018	**2017**
Payroll and staff expenses, including taxes	1 581 243	1 432 663
Employee benefits and bonuses	483 266	715 974
Expenses for office rental and maintenance	259 986	223 357
Charge of provision for expected credit losses	42 302	-
Charge of provision for doubtful debt	-	41 407
Professional services	45 798	36 426
Travel and entertainment expenses	33 897	31 459
Taxes accrued (excluding income tax)	12 408	11 275
Bank services	8 481	9 551
Other	1 011	1 130
Total general and administrative expenses	**2 468 392**	**2 503 242**

For the six months ended 30 September 2018, minimum lease payments included in operating lease and office maintenance expenses amounted to RUB 154,762 thousand (six months ended 30 September 2017: RUB 149,822 thousand).

6.7 Inventories recognized as expenses

For the six months ended 30 September 2018, inventories recognized as expenses amounted to RUB 6,500,337 thousand (six months ended 30 September 2017: RUB 4,942,929 thousand). Inventories are recognized as expenses within cost of sales.

7. Income tax

The Group's current income tax expense calculation is based on the tax rate that will apply to the anticipated aggregate profit for the year. The major components of income tax expense recognized in the interim condensed statement of profit or loss are as follows:

	For the six months ended 30 September	
	2018	**2017**
Current income tax expense	(58 688)	(183 454)
Deferred tax (expense)/benefit	(154 531)	63 325
Total income tax expense reported in the consolidated statement of profit or loss at the effective income tax rate of 21.9% (for the six months ended 30 September 2017: 21%)	**(213 219)**	**(120 129)**

8. Property, plant and equipment

	Buildings and structures	Vehicles, furniture and special equipment	Exhibition and demo equipment	Computer and office equipment	Leased equipment	Other	Capital investments in progress	Total
At 1 April 2017	**1 984**	**141 017**	**106 811**	**270 538**	**95 405**	**26 760**	**2 932**	**645 447**
Additions	-	-	2 892	273	-	-	68 876	72 041
Internal transfers	-	2 047	-	20 048	(22 095)	-	-	-
Commissioning	-	11 091	8 048	30 539	9 511	2 534	(61 723)	-
Disposals	-	(1 859)	(28 529)	(7 618)	-	-	(34)	(38 040)
At 30 September 2017	**1 984**	**152 296**	**89 222**	**313 780**	**82 821**	**29 294**	**10 051**	**679 448**
At 1 April 2018	**6 064**	**161 324**	**96 276**	**393 878**	**43 041**	**33 987**	**8 348**	**742 918**
Additions	-	62	5 205	633	-	-	143 057	148 957
Internal transfers	-	-	-	8 122	(8 122)	-	-	-
Commissioning	3 051	8 121	18 219	74 650	39 116	2 069	(145 226)	-
Disposals	-	-	(176)	(3 899)	-	(14 763)	-	(18 838)
At 30 September 2018	**9 115**	**169 507**	**119 524**	**473 384**	**74 035**	**21 293**	**6 179**	**873 037**
Depreciation and impairment								
At 1 April 2017	**(628)**	**(104 844)**	**(72 045)**	**(209 036)**	**(53 025)**	**(24 602)**	**-**	**(464 180)**
Depreciation charge for the period	(49)	(5 539)	(9 254)	(20 518)	(11 690)	(1 115)	-	(48 165)
Depreciation of internal transfers	-	(1 125)	-	(18 218)	19 343	-	-	-
Disposal	-	1 859	17 255	7 618	-	-	-	26 732
At 30 September 2017	**(677)**	**(109 649)**	**(64 044)**	**(240 154)**	**(45 372)**	**(25 717)**	**-**	**(485 613)**
At 1 April 2018	**(1 019)**	**(115 757)**	**(68 667)**	**(289 093)**	**(21 918)**	**(26 354)**	**-**	**(522 808)**
Depreciation charge for the period	(622)	(7 956)	(8 355)	(32 438)	(8 408)	(505)	-	(58 284)
Depreciation of internal transfers	-	-	-	(8 122)	8 122	-	-	-
Disposal	-	-	176	3 659	-	14 660	-	18 495
At 30 September 2018	**(1 641)**	**(123 713)**	**(76 846)**	**(325 994)**	**(22 204)**	**(12 199)**	**-**	**(562 597)**
Net book value								
At 30 September 2017	**1 307**	**42 647**	**25 178**	**73 626**	**37 449**	**3 577**	**10 051**	**193 835**
At 1 April 2018	**5 045**	**45 567**	**27 609**	**104 785**	**21 123**	**7 633**	**8 348**	**220 110**
At 30 September 2018	**7 474**	**45 794**	**42 678**	**147 390**	**51 831**	**9 094**	**6 179**	**310 440**

9. Intangible assets

	In-house developments	Trademarks	Customer relationship	Vendor relationship	Other	Capital investments in progress	Total
At 1 April 2017	**356 471**	**2 011**	**11 817**	**1 393 991**	**19 000**	**46 241**	**1 829 531**
Additions – in-house developments	-	-	-	-	40	17 827	17 867
Commissioning	27 985	-	-	-	-	(27 985)	-
Disposals	(33 847)	-	-	-	-	(6 949)	(40 796)
At 30 September 2017	**350 609**	**2 011**	**11 817**	**1 393 991**	**19 040**	**29 134**	**1 806 602**
At 1 April 2018	**359 593**	**2 216**	**-**	**-**	**18 780**	**30 226**	**410 815**
Additions – in-house developments	-	-	-	-	-	388	388
Commissioning	129	55	-	-	1 035	(1 219)	-
At 30 September 2018	**359 722**	**2 271**	**-**	**-**	**19 815**	**29 395**	**411 203**
Amortization and impairment							
At 1 April 2017	**(246 712)**	**(1 497)**	**(11 817)**	**(1 393 991)**	**(14 335)**	**-**	**(1 668 352)**
Amortization	(17 977)	(150)	-	-	(385)	-	(18 512)
Disposals	10 154	-	-	-	-	-	10 154
At 30 September 2017	**(254 535)**	**(1 647)**	**(11 817)**	**(1 393 991)**	**(14 720)**	**-**	**(1 676 710)**
At 1 April 2018	**(272 214)**	**(1 778)**	**-**	**-**	**(14 868)**	**-**	**(288 860)**
Amortization	(14 173)	(82)	-	-	(390)	-	(14 645)
At 30 September 2018	**(286 387)**	**(1 860)**	**-**	**-**	**(15 258)**	**-**	**(303 505)**
Net book value							
At 30 September 2017	**96 074**	**364**	**-**	**-**	**4 320**	**29 134**	**129 892**
At 1 April 2018	**87 379**	**438**	**-**	**-**	**3 912**	**30 226**	**121 955**
At 30 September 2018	**73 335**	**411**	**-**	**-**	**4 557**	**29 395**	**107 698**

10. Financial assets and financial liabilities

10.1 Financial assets

	At 30 September 2018	At 31 March 2018
Derivatives not designated as hedging instruments at the Group's discretion		
Foreign exchange forward contracts	264	904
Total financial instruments at fair value	**264**	**904**
Financial assets at amortized cost		
Cash	801 015	336 164
Short-term deposits	187 966	3 187 534
Trade and other receivables (Note 12)	5 274 721	3 380 532
Assets from contracts with customers	720 584	-
Trade and other receivables due from related parties	64 650	92 284
Short-term loans receivable	111 409	7 000
Net investments in leases	8 843	11 164
Total financial assets	**7 169 452**	**7 015 582**
Total current financial assets	**7 143 925**	**7 010 308**
Total non-current financial assets	**25 527**	**5 274**

Derivatives not designated as hedging instruments at the Group's discretion reflect positive change in the fair values of those foreign currency forward contracts, which were not designated as hedging instruments at the Group's discretion but still are used to mitigate currency risk related to expected sales and purchases.

10.2 Financial liabilities

Interest-bearing loans, overdrafts and borrowings

	At 30 September 2018	At 31 March 2018
Current interest-bearing loans and borrowings		
Bank overdrafts (with an interest rate of 9.1-12%)	6 439	2 344
Bank loans (credit facilities) (with an interest rate of 7.8-14%)	712 285	100 386
Installment agreements (with an interest rate of 9-11%)	-	4 239
Total short-term interest-bearing loans and borrowings	**718 724**	**106 969**
Long-term interest-bearing loans and borrowings	**-**	**-**
Total interest-bearing loans and borrowings	**718 724**	**106 969**

10. Financial assets and financial liabilities (continued)

10.2 Financial liabilities (continued)

All loans and borrowings of the Group are unsecured.

As at 30 September 2018, the Group had unused credit facilities of RUB 3,216 million (at 31 March 2018: RUB 3,179 million).

Other financial liabilities

	At 30 September 2018	At 31 March 2018
Derivatives not designated as hedging instruments at the Group's discretion		
Foreign exchange forward contracts	2 395	-
Total financial instruments at fair value	**2 395**	**-**
Other financial liabilities at amortized cost, less interest-bearing loans and borrowings		
Trade payables	3 358 403	1 516 082
Trade and other payables to related parties	1 024	87 292
Net assets attributable to non-controlling participants	229 052	264 778
Accrued liabilities (Note 15)	1 210 387	1 971 256
Finance lease liabilities	**56 764**	**23 676**
Total other financial liabilities	**4 858 025**	**3 863 084**
Total current financial liabilities	**4 819 140**	**3 853 515**
Total non-current financial liabilities	**38 885**	**9 569**

10.3 Derivatives

Derivatives not designated as hedging instruments

The Group uses foreign currency-denominated borrowings and foreign currency forward contracts to manage some of its transaction exposures. The foreign currency forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from 1 to 12 months.

10.4 Fair value

Carrying amounts of the Group’s financial instruments presented in the financial statements approximate their fair values.

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities are generally in line with their carrying amounts largely due to the short-term maturities of these instruments.

10. Financial assets and financial liabilities (continued)

10.4 Fair value (continued)

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken into account for the expected losses of these receivables.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the projected cash flows or discount rates, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

Quantitative disclosures of fair value measurement hierarchy for assets as at 30 September 2018:

			Fair value measurement using		
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured at fair value					
Derivative financial assets					
Foreign exchange forward contracts not designated as hedging instruments	30 September 2018	**264**	-	264	-

Quantitative disclosures of fair value measurement hierarchy for liabilities as at 30 September 2018:

			Fair value measurement using		
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial liabilities measured at fair value					
Derivative financial liabilities					
Foreign exchange forward contracts not designated as hedging instruments	30 September 2018	**2 395**	-	2 395	-

10. Financial assets and financial liabilities (continued)

10.4 Fair value (continued)

Quantitative disclosures of fair value measurement hierarchy for assets as at 31 March 2018:

			Fair value measurement using		
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured at fair value					
Derivative financial assets					
Foreign exchange forward contracts not designated as hedging instruments	31 March 2018	**904**	-	904	-

As at 31 March 2018, the Group had no financial liabilities at fair value.

10.5 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

The Group is exposed to currency risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The management of the Group reviews and agrees policies for managing each of these risks, which are summarized below.

Currency risk

Currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is primarily due to its operating activities, when revenue or expenses are denominated in a foreign currency. The Group manages its currency risk through forward contracts maturing in up to 12 months.

10. Financial assets and financial liabilities (continued)

10.5 Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities.

Trade receivables

Customer credit risk is managed by each business-unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. The need to recognize a provision for expected credit losses is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for whether it is necessary to accrue a provision for expected credit losses collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets disclosed in Note 12. The Group does not hold collateral as security.

The Group evaluates the risk concentration with respect to trade receivables as low, as the buyers operate in several industries and largely independent markets.

Financial instruments and cash deposits

The credit risk from balances with banks is managed by establishing credit limits for each bank. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a potential failure to make repayments.

The Group's maximum exposure to credit risk for the components of the statement of financial position as at 30 September 2018 is the carrying amounts as illustrated in Note 13 except for derivative financial instruments.

Liquidity risk

The Group monitors its risk of a shortage of funds using a liquidity-planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

10. Financial assets and financial liabilities (continued)

10.5 Financial risk management objectives and policies (continued)

In order to avoid excessive risk concentrations, the Group's policies and procedures include instruments to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

11. Inventories

	At 30 September 2018	At 31 March 2018
Goods in storage	1 018 174	574 148
Goods shipped	17 622	61 751
Work in progress	188 056	749 771
Total inventories	**1 223 852**	**1 385 670**

During the six months ended 30 September 2018, the Group recognized reversal of inventories that were impaired in prior periods in the amount of RUB 8,275 thousand (six months ended 30 September 2017: RUB 1,411 thousand).

During the six months ended 30 September 2018, impairment of inventories amounted to RUB 25,363 thousand (six months ended 30 September 2017: RUB 21,981 thousand) and was recognized as expenses within cost of sales.

12. Trade and other receivables, assets from contracts with customers

	At 30 September 2018	At 31 March 2018
Trade receivables	5 047 469	3 251 258
Assets from contracts with customers	720 584	-
Other receivables	227 252	129 274
Total trade and other receivables less provision for expected credit losses	**5 995 305**	**3 380 532**
Short-term	5 971 661	3 380 532
Long-term	23 644	-

For terms and conditions relating to related part receivables, refer to Note 18.

12. Trade and other receivables, assets from contracts with customers (continued)

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. As at 30 September 2018, trade receivables with an initial carrying amount of RUB 105,870 thousand (as at 31 March 2018: RUB 82,430 thousand) were impaired and fully provided for. See below for the movements in the provision for expected credit losses.

	Provision for trade and other receivables	Provision for assets from contracts with customers	Total
At 1 April 2017	**118 978**	**-**	**118 978**
Charge of provision for doubtful debt	39 108	-	39 108
Provision used	(1 092)	-	(1 092)
Reversal of unused amounts	(4 811)	-	(4 811)
At 30 September 2017	**152 183**	**-**	**152 183**
At 1 April 2018	**82 430**	**-**	**82 430**
Charge of provision for expected credit losses	32 834	9 468	42 302
Provision used	(2 916)	-	(2 916)
Reversal of unused amounts	(6 478)	-	(6 478)
At 30 September 2018	**105 870**	**9 468**	**115 338**

13. Cash and cash equivalents

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents comprised the following:

	At 30 September 2018	At 31 March 2018
Cash on hand and at banks	801 015	336 164
Short-term deposits	187 966	3 187 534
Total cash and cash equivalents	**988 981**	**3 523 698**

Short-term deposits are placed for different terms (one day to three months), subject to the Group's need for cash. Such deposits bear interest based on the respective rates applicable to short-term deposits. For the six months ended 30 September 2018, short-term deposits bear interest rates of 5.0%-8.0% (for the year ended 31 March 2018: 4.0%-9.3%).

14. Commitments under an investment partnership agreement

On 13 October 2017, the Company signed an investment partnership agreement with SkolkovoVentures LLC. According to the agreement, the maximum amount of the Group's investment commitments is RUB 100 million. The maximum period during which the Group's investment commitments should be fulfilled is 5 years. Committed investments are to be made as required by the investment fund as new participants join the fund and as the need to cover expenses incurred by the partnership arises.

15. Accrued liabilities

	At 30 September 2018	At 31 March 2018
Salary accruals, including bonuses and unused vacation	1 167 086	1 871 223
Accrued expenses related to subcontracted works	35 556	88 989
Other accrued liabilities	7 745	11 044
Total accrued liabilities	**1 210 387**	**1 971 256**

16. Government grants

On 27 April 2016, the Group and the Government of the Russian Federation (Ministry of Education and Science of the Russian Federation) entered into an agreement to implement a complex project for establishing high-tech production "Creation of an integrated system for managing design and extraction of hydrocarbons based on a three-dimensional digital model of an oil and gas field", according to which the Group undertakes to invest RUB 130.0 million during two years until 31 December 2017. According to the agreement, the Russian Government shall provide the Group with RUB 130.0 million as grants to compensate for R&D-costs to be incurred by Lomonosov Northern (Arctic) Federal University.

The results of the agreement were partially delivered in 2016-2017 and are expected to be delivered in full by 2022.

As at 30 September 2018, the Group received a grant under this agreement in full.

For the six months ended 30 September 2017, the Group received RUB 30 million as grants under this agreement, which were transferred to Lomonosov Northern (Arctic) Federal University in full to finance R&D work.

On 28 April 2017, the Group and the Government of the Russian Federation (Ministry of Education and Science of the Russian Federation) entered into an agreement to implement a complex high-tech production project "Development of a software-based technological platform for interactive strategizing and business analysis adapted to building forecasts for government entities and commercial organizations", under which the Group undertakes to invest RUB 120.0 million during the three years ended 31 December 2019. According to the agreement, the Government of the Russian Federation shall provide the Group with RUB 120.0 million as grants in order to compensate for R&D costs to be incurred by Federal State Autonomous Educational Institution for Higher Education Peter the Great St. Petersburg Polytechnic University.

The results of the agreement were partially delivered in 2017 and are expected to be delivered in full by 2024.

For the six months ended 30 September 2018, the Group did not receive grants under this agreement.

16. Government grants (continued)

For the six months ended 30 September 2017, the Group received RUB 8 million as grants under this agreement and transferred them in full to Federal State Autonomous Educational Institution for Higher Education Peter the Great St. Petersburg Polytechnic University to finance R&D work.

On 11 July 2018, the Group and the Government of the Russian Federation (Ministry of Education and Science of the Russian Federation) concluded an agreement to implement a complex high-tech production project “Development of a software-based technological platform based on automated machine learning algorithms of the ontological classification of reference data (including gradient boosting and neural networks) with the application of cloud technologies”, under which the Group undertakes to invest RUB 210.0 million during the three years ended 31 December 2020. According to the agreement, the Russian Government will provide the Group with RUB 210.0 million in the form of grants to compensate for R&D costs to be incurred by Federal State-Funded Educational Institution for Higher Education “N.P. Ogarev Mordovia State University”.

The results of the agreement are expected to be delivered in full by 2022.

For the six months ended 30 September 2018, the Group received RUB 25 million as grants under this agreement and transferred them in full to Federal State-Funded Educational Institution for Higher Education “N.P. Ogarev Mordovia State University” to finance R&D work.

On 28 April 2017, the Group and the Government of the Russian Federation (Ministry of Education and Science of the Russian Federation) concluded an agreement to implement a complex high-tech production project “Development of a methodology and tools for creating applications, supporting the life cycle of IT support and decision-making for carrying out effective administrative and management processes within the authority given”, under which the Group undertakes to invest RUB 200.0 million until 31 December 2019.

According to the agreement, the Russian Government will provide the Group with RUB 200.0 million in the form of grants to compensate for R&D costs to be incurred by Belgorod State National Research University.

The results of the agreement were partially delivered in 2017 and are expected to be delivered in full by 2024.

For the six months ended 30 September 2018, the Group did not receive any grants under this agreement.

For the six months ended 30 September 2017, the Group received RUB 1 million as grants under this agreement and transferred them in full to Belgorod State National Research University to finance R&D work.

On 11 July 2018, the Group and the Government of the Russian Federation (Ministry of Education and Science of the Russian Federation) concluded an agreement to implement a complex high-tech production project “Development of new methods and tools for property management in the budget sector and their implementation in the software package of the information and analytical system for the central management of the property owned by the constituent entities of the Russian Federation, municipalities, and of the state companies’ property”, under which the Group undertakes to invest RUB 210.0 million until 2020.

16. Government grants (continued)

According to the agreement, the Russian Government will provide the Group with RUB 210.0 million in the form of grants to compensate for R&D costs to be incurred by Federal State-Funded Educational Institution for Higher Education "V.G. Shukhov Belgorod State Technological University".

For the six months ended 30 September 2018, the Group did not receive any grants under this agreement.

R&D costs under these agreements are recognized within R&D costs and administrative expenses less government grants received.

17. Commitments and contingencies

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by several countries. The ruble interest rates remain high. The combination of these factors resulted in reduced access to capital, a higher cost of capital and increased uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

The Group's management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 activities of the Group's entities may be challenged by the relevant regional and federal authorities.

In 2017, the concept of tax benefit was formalized at the statutory level for all taxes collected in the Russian Federation, with a focus being made on the business purpose of the transaction and the need to confirm that the obligation under the transaction has been performed by a party of a contract or by a party that has to execute the obligation under the contract or under the law.

This new development significantly changes the concept of recognizing unjustified tax benefits received by the taxpayers, which will have a significant impact on the existing court practice. However, the mechanism of applying the concept of unjustified tax benefit has not yet been regulated, and the court practice has not been modified accordingly.

It is possible that the labor law regulators may challenge accounting methods that they have never challenged before. As such, significant additional penalties and liabilities may be assessed. It is not possible to determine claim amounts for claims, which may be, but have not actually been, filed, or to assess the likelihood of an adverse outcome. Claims under lawsuits, which have not been filed may be lodged regardless of their limitation period.

17. Commitments and contingencies (continued)

Taxation (continued)

New transfer pricing legislation effective from 1 January 2012 provides for major modifications, which made transfer pricing rules closer to OECD guidelines, and also created additional uncertainty in practical application of tax legislation in certain circumstances.

The transfer pricing rules introduce an obligation for taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the total annual turnover under the transactions between the same parties exceeds a particular threshold (RUB 1 billion from 2014).

Since the wording of the current transfer pricing legislation is ambiguous and there is no established court practice, it is quite difficult to make reliable assessment of the outcome of disputes with the tax authorities regarding the market level of prices. However, management believes that such disputes cannot have a material effect on the financial performance or operations of the Group.

The amendments to the tax legislation aimed to counter the use of low tax jurisdictions and aggressive tax planning structures came into effect from 1 January 2015.

These changes and recent trends in the application and interpretation of certain provisions of the Russian tax legislation indicate that the tax authorities may take a more assertive position in the interpretation of legislation and the review of tax assessments. It is therefore possible that transactions and accounting methods of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed. It is not possible to determine the amounts of potential claims or assess the probability of an unfavorable outcome. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, reviews may cover longer tax periods.

According to management, they had properly construed the respective legislation as at 30 September 2018, and the probability that the Company will retain its position with regard to tax, currency and customs legislation is thus assessed as high.

Litigations

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 proceeding or other matters, other than those discussed above, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

18. Related party transactions

The tables below show total amounts of related party transactions performed during the six months ended 30 September 2018 and 30 September 2017, as well as outstanding balances with related parties as at 30 September 2018 and 31 March 2018:

Balances with related parties	At 30 September 2018	At 31 March 2018
Trade and other receivables due from related parties	64 650	92 284
Trade and other payables to related parties	1 024	87 292

	For the six months ended 30 September	
Related party transactions	**2018**	**2017**
Sales to related parties	74 452	79 650
Purchases from related parties	141 474	144 479
Associate		
Interest accrued on loans issued	-	2 734
Interest received on loans issued	-	(2 720)
Key management personnel of the Group		
Interest accrued on loans received	-	422
Interest accrued on loans issued	459	55
Interest received on loans issued	(459)	(793)

On 12 and 20 December 2016, 7 February 2017 and 6 April 2017, the Group and SCAO LLC (an associate) entered into four loan agreements for the amounts of RUB 2,000 thousand, RUB 4,000 thousand, RUB 5,400 thousand and RUB 2,000 thousand, respectively. The loans mature on 29 and 31 December 2017, 31 January 2018 and 31 March 2018, respectively. The interest rate of the loans is 10% p.a. On 31 March 2018, the outstanding amount was repaid in full.

On 21 October 2016, the Group entered into an agreement to provide a loan of RUB 25,000 thousand to key management personnel. The interest rate of the loan was 6.7% p.a. On 30 March 2017, the Group entered into an additional agreement to extend the maturity until 31 July 2017. As at 31 March 2018, the loan was repaid in full.

On 2 April 2018, the Group entered into an agreement to provide a loan of RUB 17,000 thousand to key management personnel, maturing on 30 September 2018. The interest rate of the loan was 7.25% p.a. As at 30 September 2018, the loan was repaid in full.

For the six months ended 30 September 2018, the Group sold licenses for proprietary and commercial software and equipment to the companies with the common ultimate beneficiary and a company controlled by a member of key management personnel, and provided technological, support and maintenance services.

For the six months ended 30 September 2018, the Group primarily purchased software licenses and subcontracted services from Medialogiya LLC (a company with the common ultimate beneficiary), as well as lease services from Frontline Com. LLC (a company with the common ultimate beneficiary).

18. Related parties transactions (continued)

Terms and conditions of transactions with related parties

Sale and purchase transactions with related parties are made on terms equivalent to those of transactions with unrelated parties. Borrowings are provided at market rates. Outstanding balances with related parties at the year-end are unsecured and interest free, and settlement occurs in cash.

Ultimate parent

The Group's ultimate parent is IBS Holding LLC, the ultimate beneficiary of which is A.M. Karachinsky.

Compensation to key management personnel of the Group

	For the six months ended 30 September	
	2018	**2017**
Short-term employee benefits	209 901	132 772

The amounts disclosed in the table are the amounts recognized as expenses during the reporting period in relation to key management personnel.

19. Made and declared distributions to shareholders

	For the six months ended 30 September	
Dividends to equity holders of the parent to be paid in cash	**2018**	**2017**
Declared and paid dividends on ordinary shares (RUB 44.94 per share for the financial year 2017; RUB 7.36 per share for the six months of 2017)	2 350 000	385 000
Proposed dividends on ordinary shares (RUB 44.94 per share for the financial year 2017; RUB 7.36 per share for the six months of 2017)	2 350 000	385 000

	For the six months ended 30 September	
Movements in (accumulated loss)/retained earnings	**2018**	**2017**
Accumulated loss at 1 April	**1 701 193**	**(585 564)**
Impact on adoption of IFRS 15 and IFRS 9 (Note 2.2)	20 651	-
Balance at 1 April 2018 after adoption of IFRS 15 and IFRS 9	**1 721 844**	**(585 564)**
Profit for the period	760 384	451 914
Dividends to be paid in cash	(2 350 000)	(385 000)
Retained earnings/(accumulated loss) at 30 September	**132 228**	**(518 650)**

19. Made and declared distributions to shareholders (continued)

For the six months ended 30 September 2018, net profit attributable to non-controlling participants recorded within finance expenses of the Group amounted to RUB 8,976 thousand (for the six months ended 30 September 2017: RUB 3,991 thousand).

For the six months ended 30 September 2018, the Group did not pay any dividends to non-controlling participants (for the six months ended 30 September 2017: RUB 12,900 thousand).

20. Events after the reporting period

On 22 November 2018, the Group entered into an agreement to purchase a 14% interest in its subsidiary BFT LLC and thus increased its interest to 71%. The consideration to a non-controlling participant will amount to RUB 50 million.

During the period after the reporting date, the Group received a loan of RUB 100 million from IBS Holding LLC, maturing on 29 December 2018.

During the period after the reporting date, the Group provided a loan of RUB 50 million to USP Compulink LLC, maturing on 29 December 2018, and a loan of RUB 42 million to INLINE Technologies LLC, maturing on 29 December 2018.

During the period after the reporting date, the Group entered into new lease agreements with ZAO Hewlett-Packard A.O. and RB Leasing LLC. The total amount of liabilities under these agreements is RUB 99 million.