Financial Statements and Independent Auditor's Report

EPAM Systems LLC

31 December 2022

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Independent auditor's report

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To the participants of EPAM Systems LLC

Opinion

We have audited the financial statements of EPAM Systems LLC (the "Company"), which comprise the statement of financial position as of 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Armen Hovhannisyan	Narine Achemyan, FCCA
Chief Executive Officer	Engagement Partner

28 June 2023

Statement of financial position

In thousand drams	Note	As of 31 December 2022	As of 31 December 2021
Assets			
Non-current assets			
Property and equipment	4	542,434	433,729
Right-of use assets	5	133,706	131,482
Intangible assets	6	135,667	11,073
Deferred income tax assets	7	192,331	96,089
		1,004,138	672,373
Current assets			
Inventories		32,205	-
Trade and other receivables	8	2,174,005	1,237,450
Bank balances		2,039,527	471,669
		4,245,737	1,709,119
Total assets		5,249,875	2,381,492
Equity and liabilities			
Capital and reserves			
Charter capital	9	40,749	40,749
Accumulated profit		2,653,637	1,334,337
		2,694,386	1,375,086
Current liabilities			
Lease liabilities	10	153,950	168,006
Trade and other payables	11	2,091,444	695,505
Current income tax liabilities		310,095	142,895
		2,555,489	1,006,406
Total equity and liabilities		5,249,875	2,381,492

The financial statements were approved on 28 June 2023 by:

Benyamin Gyurjyan

Director

Sona Ghahramanyan

Accounting Team Leader

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 26.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2022	Year ended 31 December 2021
Revenue form contracts with customers	12	17,071,271	6,710,985
Other income	13	339,633	5,540
		17,410,904	6,716,525
Employee benefits	14	(14,256,043)	(5,083,471)
Depreciation and amortization		(918,581)	(587,850)
Other expenses	15	(309,701)	(173,856)
Profit from operating activities		1,926,579	871,348
Finance costs		(22,009)	(17,905)
Foreign currency translations loss, net	16	(224,758)	(63,123)
Profit before income tax		1,679,812	790,320
Income tax expense	17	(360,512)	(164,950)
Profit for the year		1,319,300	625,370
Other comprehensive income		-	-
Total comprehensive income for the year		1,319,300	625,370

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 26.

Statement of changes in equity

In thousand drams	Charter capital	Accumulated profit	Total
as of 1 January 2021	40,749	708,967	749,716
Profit for the year	-	625,370	625,370
Total comprehensive income for the year	-	625,370	625,370
as of 31 December 2021	40,749	1,334,337	1,375,086
Profit for the year	-	1,319,300	1,319,300
Total comprehensive income for the year	-	1,319,300	1,319,300
as of 31 December 2022	40,749	2,653,637	2,694,386

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 26.

Statement of cash flows

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities		
Profit for the year	1,319,300	625,370
Adjustments for:		
Depreciation and amortization	918,581	587,806
Finance cost	22,009	17,905
Income tax expense	360,512	164,950
Foreign exchange loss, net	224,758	63,123
Operating profit before working capital changes	2,845,160	1,459,154
Change in trade and other receivables	(954,203)	(760,920)
Change in inventories	(32,205)	-
Change in trade and other payables	1,399,332	309,681
Cash generated from operations	3,258,084	1,007,915
Income tax paid	(289,554)	(124,993)
Net cash from operating activities	2,968,530	882,922
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(940,678)	(596,641)
Net cash used in investing activities	(940,678)	(596,641)
Cash flows from financing activities		
Borrowings received	2,500,575	-
Borrowings repaid	(2,451,097)	-
Interests paid	(8,803)	-
Lease liabilities	(240,789)	(186,399)
Net cash used in financing activities	(200,114)	(186,399)
Net increase in bank balances	1,827,839	99,882
Foreign exchange effect on cash	(259,981)	(1,796)
Bank balances at the beginning of the year	471,669	373,583
Bank balances at the end of the year	2,039,527	471,669

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 26.

Notes to the financial statements

1 Nature of operations and general information

EPAM Systems LLC (the "Company") was established under the laws of the Republic of Armenia on 4 March 2014. The registration number of the Company is 48900379.

The Company is specialized in data processing and software implementation services. The Company is one of the largest IT companies in Armenia. The first engineering hub opened in 2014 in Yerevan and the second in Gyumri.

The Company is controlled by EPAM Systems (Cyprus) Limited, which owns 99.9% shares. EPAM Systems (Cyprus) Limited is incorporated and operates under the laws of Cyprus, with principal place of business at Digeni Akrita, 45 Pamporidis Building 1070, Nicosia Cyprus. EPAM Systems (Cyprus) Limited's registration number is HE 188906.

The ultimate parent of the Company is EPAM Systems, Inc, which is incorporated in United States of America, State of Delaware with registered office at 41 University Drive, Newtown (PA). EPAM Systems, Inc is a global provider of digital platform engineering and software development services to many of the world's leading organizations located around the world, primarily in North America, Europe, and Asia.

These financial statements are consolidated by EPAM Systems, Inc, which is listed on the New York Stock Exchange under the ticker symbol "EPAM".

The average number of employees of the Company during 2022 was 875 employees (2021: 350 employees).

The Company's legal address is: 41/5 Arshakunyats street, floor 1, Yerevan, Armenia.

Business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

The conflict broke out on 24 February in Ukraine has evolved rapidly, having a significant impact around the world. The United States and the European countries have imposed severe sanctions against Russian Federation. The Western countries are discussing widening existing sanctions. Russian Federation is a significant trading partner of the Republic of Armenia, hence sanctions imposed on Russia as of the date of these financial statements, as well as the escalation of those sanctions had a radical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications were higher inflation, lower growth, and some disruption to financial markets as deeper sanctions take hold.

The conflict in Ukraine caused thousands of Russians and Ukrainians to relocate to the Republic of Armenia. This included not only individuals but also businesses that were established and operated in those countries. This resulted in increased inflows of foreign currency into the Armenian market, which led to a significant appreciation of the Armenian dram relative to the US dollar and Euro.

This event had a significant impact on entities that were involved in exporting goods and services, including those operating in the Information and Communication Technologies (ITC) sector. The Government of Armenia has introduced certain measures to mitigate the losses that the entities in the ITC sector suffered. Those measures included income tax refunds to such entities.

Management does not expect that there will be any further appreciation of the Armenian dram relative to the US dollar and Euro. However, the continuing conflict in Ukraine may result in inflows of still more foreign currency into Armenia, which may have a negative impact on the financial sustainability of the Company.

These financial statements do not reflect the potential future impact of the above on the Company's operations.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption that the Company operates on a going concern basis.

2.2 Basis of measurement

The financial statements have been prepared on an accruals basis and under the historical cost convention with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 18 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2022.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2022

New standards and amendments described below and applied for the first time in 2022 did not have a material impact on the annual financial statements of the Company:

Standard	Title of Standard or Interpretation
IFRS 3	*References to the conceptual framework (Amendments to IFRS 3)*
IAS 16	*Proceeds before intended use (Amendments to IAS 16)*

IAS 37	*Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
IFRS 1, IFRS 9, IAS 41, IFRS 16	*Annual improvements to IFRS Standards 2018-2021 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning on or after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments. They are presented below:

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)*	*1 January 2023*
IFRS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*	*1 January 2023*
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*	*1 January 2023*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*	*1 January 2023*
IFRS 16	*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*	*1 January 2024*
IAS 1	*Non-current Liabilities with Covenants (Amendments to IAS 1)*	*1 January 2024*

3 Significant accounting policies

3.1 Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 393.57 drams for 1 US dollar and 420.06 drams for 1 euro as of 31 December 2022 (31 December 2021: 480.14 drams for 1 US dollar and 542.61 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Computer equipment	-	1 year
Office furniture	-	8 years
Other	-	5 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for computer software.

3.4 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

3.5 Leased assets

The Company as a lessee

The Company makes the use of leasing arrangements principally for the provision of the office space. The Company does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis.

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities maintenance services at offices. The Company has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in its statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

3.6 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Company's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items. A summary of the Company's financial assets by category is given in note 19.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". Instruments within the scope of IFRS 9 requirements included, trade receivables recognized and measured under IFRS 15.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and other payables and lease liabilities. A summary of the Company's financial liabilities by category is given in note 19.2.

Lease obligations

Lease obligations are recognized initially at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the Company. The lease payments include fixed payments, variable payments that depend on index or rate, amounts expected to be paid under residual value guarantee, the exercise price under a purchase option the Company is reasonably certain to exercise as well as early termination fees unless the Company is reasonably certain not to terminate earlier. Variable payments that depend on external factors are expensed as incurred.

Subsequent to initial recognition, lease obligations are stated at amortized cost using effective interest method by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of right-of-use asset had been reduced to zero.

Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

Charter capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior period accumulted profits.

All transactions with owners are recorded separately within equity.

Dividends are recognized as a liability in the period in which they are declared.

3.8 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.9 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves.

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Company has no realistic alternative but to make the payments.

3.10 Revenue

The main revenue stream of the Company is the provision of services in the information technology landscape, including information systems analysis, engineering, programming, data processing and other services.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized over time, when the Company satisfies performance obligations by transferring the promised services to its customers.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as advances from customers in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4 Property and equipment

In thousand drams	Computer equipment	Office furniture	Other	Total
Cost				
as of 1 January 2021	398,060	82,414	17,222	497,696
Additions	566,003	15,478	1,841	583,322
as of 31 December 2021	964,063	97,892	19,063	1,081,018
Additions	799,493	13,450	632	813,575
as of 31 December 2022	1,763,556	111,342	19,695	1,894,593
Accumulated depreciation				
as of 1 January 2021	224,758	21,114	1,851	247,723
Charge for the year	388,458	8,934	2,174	399,566
as of 31 December 2021	613,216	30,048	4,025	647,289
Charge for the year	685,856	17,326	1,688	704,870
as of 31 December 2022	1,299,072	47,374	5,713	1,352,159
Carrying amount				
as of 31 December 2021	350,847	67,844	15,038	433,729
as of 31 December 2022	464,484	63,968	13,982	542,434

As of 31 December 2022, the cost of fully depreciated property and equipment was drams 820,723 thousand (2021: drams 190,654 thousand).

5 Right-of-use assets

In thousand drams	Office space
Cost	
as of 1 January 2021	516,913
Additions	32,821
as of 31 December 2021	549,734
Additions	213,426
As of 31 December 2022	763,160
Accumulated depreciation	
as of 1 January 2021	246,207
Charge for the year	172,045
as of 31 December 2021	418,252
Charge for the year	211,202
As of 31 December 2022	629,454
Carrying amount	
as of 31 December 2021	131,482
As of 31 December 2022	133,706

Right-of-use assets include lease of office space. The Company leases offices mainly in “Elite Plaza” at Movses Khorenatsi 15, Yerevan, Armenia. The Company recognized the office spaces as a right to use asset, and depreciated them over the lease term. The related obligation is presented under “lease liabilities” at the amount of drams 153,950 thousand (31 December 2021: drams 168,006 thousand).

6 Intangible assets

In thousand drams	Computer software	Other	Total
Cost			
as of 1 January 2021	29,659	828	30,487
Additions	13,319	-	13,319
as of 31 December 2021	42,978	828	43,806
Additions	122,847	4,256	127,103
as of 31 December 2022	165,825	5,084	170,909
Accumulated amortization			
as of 1 January 2021	15,710	828	16,538
Charge for the year	16,195	-	16,195
as of 31 December 2021	31,905	828	32,733
Charge for the year	2,482	27	2,509
as of 31 December 2022	34,387	855	35,242
Carrying amount			
as of 31 December 2021	11,073	-	11,073
as of 31 December 2022	131,438	4,229	135,667

During 2022, due to the increase in the number of employees, the Company acquired a large number of Microsoft 365, Office 365, Enterprise Mobility + Security and other licenses.

7 Deferred income tax assets

The movement of deferred income taxes is disclosed below:

In thousand drams	2022	2021
Balance at the beginning of year	96,089	48,178
Credited to profit or loss	96,242	47,911
Balance at the end of year	192,331	96,089

Deferred income tax assets are calculated on temporary differences in tax and financial bases of trade and other payables.

8 Trade and other receivables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Financial assets		
Trade receivables	1,746,640	1,064,231
	1,746,640	1,064,231
Non-financial assets		

Prepaid taxes	392,394	156,256
Other	34,971	16,963
	427,365	173,219
	2,174,005	1,237,450

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on provision of services is 37 days (2021: 58 days). No interest is charged on trade receivables.

Refer to note 20 (a) for the currencies in which the trade and other receivables are denominated.

Note 20 (b) includes disclosures relating to the credit risk analysis.

9 Charter capital

The charter capital of the Company is drams 40,749 thousand and consists of two shares. 99.9% of the capital is owned by EPAM Systems (Cyprus) Limited, a company incorporated and operates under the laws of Cyprus. The remaining 0.1% belongs to EPAM Systems, Inc., a company registered under the laws of the State of Delaware, USA.

10 Lease liabilities

In thousand drams	As of 31 December 2022	As of 31 December 2021
Minimum lease payments less than 1	158,762	172,607
Less amount representing interest	4,812	4,601
Present value of minimum lease payments	153,950	168,006

The weighted average interest rate of the borrowing used by the Company to discount the lease liabilities was 8.7%.

The interest expense for the year ended 31 December 2022, which was accrued to lease liabilities, amounted to drams 13,307 thousand (year ended 31 December 2021: drams 18,037 thousand) and was included in financial expenses.

11 Trade and other payables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Payables to employees	1,612,339	534,638
Trade payables	80,701	36,877
Taxes and duties payable	398,404	123,990
	2,091,444	695,505

12 Revenue from contracts with cutomers

The revenue of the Company is generated from the contracts with related entities. The Company operates under cost-plus arrangements which includes the respective costs as defined by contracts plus an arm’s-length compensation.

The Company provides services in the information technology landscape, including information systems analysis, engineering, programming, data processing and other services to the entities within EPAM group. The Company generated 86% of revenues from two customers: EPAM Systems, Inc (parent) and EPAM Systems UK (2021: 93%).

In the scope of service provision agreements, the Company receives service fees, consisting of direct and overhead expenses made by the Company multiplied by a profit margin. Direct expenses include employee compensations, expenses for acquisition of materials and other direct expenses. Overhead expenses include rental, utility services and other indirect expenses.

Revenue is recognized on the basis of invoices submitted for each month.

Entire revenue of the Company is recognized over time.

13 Other income

Based on the RA Government's Decrees N399-L dated 24 March 2022 and N1084-N dated 14 July 2022 "On high-technology industry ecosystem, digitization and market development plan" and “On providing state support to commercial organizations and individual entrepreneurs operating in the field of information technology", the Company signed agreements with the RA Ministry of High-Tech Industry. The amount of state support received within the framework of the above contracts were drams 326,132 thousand.

14 Employee benefits

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Basic salary	11,766,714	4,589,242
Bonuses and other benefits	2,360,089	438,653
Insurance costs	129,240	55,576
	14,256,043	5,083,471

15 Other expenses

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Entertainment and hospitality	71,088	43,616
Office supplies and utilities	34,181	22,769
Accounting and consulting services	19,804	16,188
Non-refundable taxes	13,440	8,770
Foreign currency conversion costs	81,498	42,587
Other	89,690	39,926
	309,701	173,856

16 Foreign currency translations loss, net

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Financial assets at amortized cost		
Trade and other receivables	17,648	67,539
Cash and bank balances	259,981	1,796
Financial liabilities at amortized cost		
Trade and other payables	(3,393)	(6,212)
Borrowings received	(49,478)	-
	224,758	63,123

17 Income tax expense

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Current tax	456,754	212,861
Deferred tax	(96,242)	(47,911)
	360,512	164,950

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2022	Effective tax rate (%)	Year ended 31 December 2021	Effective tax rate (%)
Profit before taxation (under IFRSs)	1,679,812		790,320	
Tax calculated at a tax rate of 18% (2021: 18%)	302,366	18	142,258	18
(Non-taxable)/non-deductible items, net	58,146	2	22,692	3
Income tax expense	360,512	20	164,950	21

18 Critical accounting estimates

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Right-of-use assets and lease liabilities

The value of right-of-use assets and lease liabilities is based on management estimates of lease terms as well as an incremental borrowing rate used to discount lease payments. The lease terms correspond to the non-cancellable period of a contract except in cases where the Company is reasonably certain of exercising renewal options. When assessing the lease term, management considers all facts and circumstances that create the economic incentive for the Company to excise the option to extend the lease, such as the costs to terminate or enter into lease contracts.

Changes in these factors could affect the estimated lease term and the reported value of right-of-use assets and lease liabilities.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in tax environment.

19 Financial instruments

19.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.6.

19.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Trade and other receivables	1,746,640	1,064,231
Bank balances	2,039,527	471,669
	3,786,167	1,535,900

Financial liabilities

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Lease liabilities	153,950	168,006
Trade and other payables	1,693,040	571,515
	1,846,990	739,521

20 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, which result from its operating activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Company's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Company's sales, which are primarily denominated in US dollars.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item	
As of 31 December 2022	US dollar
Financial assets	
Trade and other receivables	1,746,640
Bank balances	2,010,492

	3,757,132
Financial liabilities	
Trade and other payables	2,484
Net position	3,754,648

Item	
As of 31 December 2021	US dollar
Financial assets	
Trade and other receivables	1,064,231
Bank balances	453,536
Net position	1,517,767

The following table details the Company's sensitivity to a 10% (2021: 15%) increase and decrease in dram against US dollar. 10% represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

If Armenian dram had strengthened against US dollar by 10% (2021: 15%) then this would have had the following impact:

In thousand drams	US dollar impact	
	2022	2021
Profit or loss	375,713	227,665

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from financial assets, including bank balances and trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2022	As of 31 December 2021
Financial assets at carrying amounts		
Trade and other receivables	1,746,640	1,064,231
Bank balances	2,039,527	471,669
	3,786,167	1,535,900

As of the reporting date there is a significant concentration of credit risk on trade receivables. The Company has two major debtors EPAM Systems, Inc and EPAM Systems UK at the total amount of drams 1,049,998 thousand (as of 31 December 2021: drams 906,973 thousand). Year end balances represent amounts due for November and December of 2022.

Management concluded that the risk of expected credit losses related to these amounts is acceptable as they are receivable from related parties.

Management believes that there is no credit risk related to bank balances, since those are held in reputable financial institutions.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

2022	Trade and other payables	Lease liability	Total
Weighted average effective interest rate	*Interest free*	*8.7%*	
Less than 6 months	1,439,829	122,064	1,561,893
6 months to 1 year	253,212	36,698	289,910
	1,693,040	158,762	1,851,802

2021	Trade and other payables	Lease liability	Total
Weighted average effective interest rate	*Interest free*	*8.31%*	
Less than 6 months	463,061	86,304	549,365
6 months to 1 year	108,455	86,303	194,758
	571,515	172,607	744,122

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Company's cash resources and trade receivables significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within 1 month.

21 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to participants.

The capital structure of the Company consists of equity comprising issued capital and accumulated profits.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to participants, return capital to participants, issue new shares, or sell assets to reduce debt.

22 Contingencies

22.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company's operations and financial position.

22.2 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

23 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand drams	Borrowings	Lease liabilities	Total
as of 1 January 2022	-	168,006	168,066
Cash-flows			
Amount received	2,500,000	-	2,500,000
Repayments	(2,451,097)	(240,789)	(2,691,886)
Interests paid	(8,702)	-	(8,702)
Non-cash			
Addition	-	213,426	213,426
Interest accrual	8,702	13,307	22,009
Foreign currency exchange gain	(49,478)	-	(49,478)
as of 31 December 2022	-	153,950	153,950

In thousand drams	Lease liabilities
as of 1 January 2021	303,547
Cash-flows	
Repayments	(186,399)
Non-cash	
Addition	32,821
Interest accrual	18,037
as of 31 December 2021	168,006

24 Related parties

The Company's related parties include its participants, entities under common control and key management as described below.

24.1 Control relationships

The Company is controlled by EPAM Systems (Cyprus) Limited, which owns 99.9% of the Company's shares. The ultimate parent of the Company is EPAM Systems, Inc, which is incorporated in United States of America and listed on the New York Stock Exchange under the ticker symbol "EPAM".

24.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended 31 December 2022	Year ended 31 December 2021
Parent		
Provision of services	11,628,141	4,385,857
Borrowing received	2,500,000	-
Borrowing repaid	2,451,097	-
Interest expense	(8,702)	-
Entities under common control		
Provision of services	5,443,610	2,325,128
Acquisition of goods	36,816	-
Key management		
Salaries and bonuses	20,351	873

In thousand drams

Outstanding balances	As of 31 December 2022	As of 31 December 2021
Parent		
Trade and other receivables	883,045	469,998
Entities under common control		
Trade and other receivables	863,595	594,233
Trade and other payables	2,721	-
Key management		
Salaries and bonuses	1,127	-