

# **Financial Statements and Independent Auditor's Report**

## **EPAM Systems LLC**

31 December 2023



# Contents

Independent auditor's report	3
Statement of financial position	5
Statement of profit or loss and other comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9

# Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ  
Երևան Պլազա բիզնես կենտրոն  
ՀՀ, ք. Երևան 0015  
Գրիգոր Լուսավորչի 9  
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC  
Yerevan Plaza Business Center  
9 Grigor Lusavorich Street,  
Yerevan 0015, Republic of Armenia  
T + 374 10 50 09 64/61

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 2023, 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 material 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 2023, 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. 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.

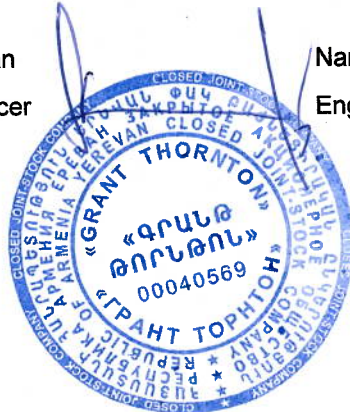
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Armen Hovhannisyan  
Chief Executive Officer

Narine Achemyan, FCCA  
Engagement Partner



28 June 2024



# Statement of financial position

In thousand drams	Note	As of 31 December 2023	As of 31 December 2022
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	4	242,178	542,434
Right-of use assets	5	299,050	133,706
Intangible assets	6	170,796	135,667
Deferred income tax assets	7	208,067	192,331
		<u>920,091</u>	<u>1,004,138</u>
<i>Current assets</i>			
Inventories		-	32,205
Trade and other receivables	8	3,213,151	2,174,005
Bank balances		2,349,076	2,039,527
		<u>5,562,227</u>	<u>4,245,737</u>
<b>Total assets</b>		<u><u>6,482,318</u></u>	<u><u>5,249,875</u></u>
<b>Equity and liabilities</b>			
<i>Capital and reserves</i>			
Charter capital	9	40,749	40,749
Additional capital		65,671	-
Accumulated profit		3,964,405	2,653,637
		<u>4,070,825</u>	<u>2,694,386</u>
<i>Non-current liabilities</i>			
Lease liabilities	10	77,063	-
		<u>77,063</u>	<u>-</u>
<i>Current liabilities</i>			
Lease liabilities	10	237,992	153,950
Trade and other payables	11	2,096,438	2,091,444
Current income tax liabilities		-	310,095
		<u>2,334,430</u>	<u>2,555,489</u>
<b>Total equity and liabilities</b>		<u><u>6,482,318</u></u>	<u><u>5,249,875</u></u>

The financial statements were approved on 28 June 2024 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 2023	Year ended 31 December 2022
Revenue form contracts with customers	12	18,461,784	17,071,271
Other income	13	339,835	339,633
		<u>18,801,619</u>	<u>17,410,904</u>
Employee benefits	14	(16,242,584)	(14,256,043)
Depreciation and amortization		(825,161)	(918,581)
Other expenses	15	(317,953)	(309,701)
Profit from operating activities		<u>1,415,921</u>	<u>1,926,579</u>
Finance income		1,195	-
Finance costs		(28,004)	(22,009)
Foreign currency translations gain/(loss), net	16	204,885	(224,758)
Profit before income tax		<u>1,593,997</u>	<u>1,679,812</u>
Income tax expense	17	(283,229)	(360,512)
Profit for the year		<u>1,310,768</u>	<u>1,319,300</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>1,310,768</u>	<u>1,319,300</u>

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	Additional capital	Accumulated profit	Total
as of 1 January 2022	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
Profit for the year	-	-	1,310,768	1,310,768
Total comprehensive income for the year	-	-	1,310,768	1,310,768
Share-based compensation	-	65,671	-	65,671
Total transactions with participant	-	65,671	-	65,671
as of 31 December 2023	40,749	65,671	3,964,405	4,070,825

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 2023	Year ended 31 December 2022
<i>Cash flows from operating activities</i>		
Profit for the year	1,310,768	1,319,300
<i>Adjustments for:</i>		
Non-monetary employee compensations	65,671	-
Depreciation and amortization	825,161	918,581
Finance cost	28,004	22,009
Income tax expense	283,229	360,512
Finance income	(1,195)	-
Foreign exchange (gain)/loss, net	(204,885)	224,758
<i>Operating profit before working capital changes</i>	<u>2,306,753</u>	<u>2,845,160</u>
Change in trade and other receivables	(1,019,528)	(954,203)
Change in inventories	32,205	(32,205)
Change in trade and other payables	3,105	1,399,332
<i>Cash generated from operations</i>	<u>1,322,535</u>	<u>3,258,084</u>
Income tax paid	(609,060)	(289,554)
<i>Net cash from operating activities</i>	<u>713,475</u>	<u>2,968,530</u>
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment and intangible assets	(313,254)	(940,678)
<i>Net cash used in investing activities</i>	<u>(313,254)</u>	<u>(940,678)</u>
<i>Cash flows from financing activities</i>		
Borrowings received	-	2,500,575
Borrowings repaid	-	(2,451,097)
Interests paid	-	(8,803)
Lease liabilities paid	(279,023)	(240,789)
<i>Net cash used in financing activities</i>	<u>(279,023)</u>	<u>(200,114)</u>
Net increase in bank balances	121,198	1,827,839
Foreign exchange effect on cash	187,156	(259,981)
Interest income received	1,195	-
Bank balances at the beginning of the year	2,039,527	471,669
Bank balances at the end of the year	<u>2,349,076</u>	<u>2,039,527</u>

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 2023 was 966 employees (2022: 875 employees).

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

### *Business environment*

The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The economic environment of Armenia is significantly influenced by the level of business activity in the Russian Federation and significant cash movements flow from the Russian Federation to the Republic of Armenia. Therefore, ongoing political tension in the region, international sanctions, stock market volatility, and other risks experienced in the Russian Federation could have a negative effect on the financial and corporate sectors of Armenia.

In 2023, the Armenian economy was expanding at a notable rate, although at a moderated pace in comparison to the preceding year. During 2023, the Central Bank maintained its course of reducing the monetary policy rate, as inflationary pressures decreased, even recording deflation.

The future effects of the current economic situation and the above measures are difficult to predict, and 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.

## 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 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 2023.

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 2023**

<b>Standard</b>	<b>Title of Standard or Interpretation</b>
<i>IFRS 17</i>	<i>Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)</i>
<i>IFRS 17</i>	<i>Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)</i>
<i>IAS 12</i>	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</i>
<i>IAS 8</i>	<i>Definition of Accounting Estimates (Amendments to IAS 8)</i>
<i>IAS 1</i>	<i>Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)</i>
<i>IAS 12</i>	<i>International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)</i>

With the exception of the amendments to IAS 1 and IFRS Practice Statement 2 - *Disclosure of Accounting Policies* presented below, other standards and amendments did not have material impact on the statements of the Company.

*Amendments to IAS 1 and IFRS Practice Statement 2- Disclosure of Accounting Policies*

In IAS 1 and IFRS *Statement Practice 2 (Making Materiality Judgements)*, the amendments provide guidance and examples to help entities apply materiality judgments on accounting policy disclosures. The purpose of the amendments is to help entities present more useful accounting policy disclosures by replacing the requirement to disclose "significant" accounting policies with a requirement to requirement to disclose "material" accounting policies and by adding guidance on how entities should apply the concept of materiality when disclosing accounting policies.

### **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:

<b>Standard</b>	<b>Title of Standard or Interpretation</b>	<b>Effective for reporting periods beginning on or after</b>
<i>IFRS 16</i>	<i>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</i>	<i>1 January 2024</i>
<i>IAS 1</i>	<i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i>	<i>1 January 2024</i>
<i>IAS 1</i>	<i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>	<i>1 January 2024</i>
<i>IAS 7 and IFRS 7</i>	<i>Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)</i>	<i>1 January 2024</i>
<i>IAS 21</i>	<i>Lack of Exchangeability (Amendments to IAS 21)</i>	<i>1 January 2025</i>

## **3 Summary of material accounting policies**

As describe in note 2.5, the Company has reviewed its disclosure of accounting policies in accordance with *Amendments to IAS 1 and IFRS Practice Statement 2- Disclosure of Accounting Policies*. Disclosures of accounting policies have been more simplified and clarified, excluding accounting policies on immaterial matters, as well as general information, which only duplicates the requirements of IFRSs.

### **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 404.79 drams for 1 US dollar and 447.90 drams for 1 euro as of 31 December 2023 (31 December 2022: 393.57 drams for 1 US dollar and 420.06 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 8-10 years for computer software.

## 3.4 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.

#### *Short-term leases*

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.

### 3.5 Impairment of depreciable 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.

### 3.6 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 expired.

#### *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.

The Company considers a broad 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.

The Company makes use of a simplified approach of IFRS 9 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, 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.

Lease liability is remeasured when there is a change in future lease payments arising from a change. 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 accumulated profits.

All transactions with owners are recorded separately within equity.

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

### *Additional capital*

#### *Share-based payments*

The Parent of the Company launches share-based payment programs repaid by equity instruments, in accordance with which the Company's employees are granted equity instruments of the Parent.

Fair value of services received from employees in exchange for shares is recognized as expense. During the useful life the total amount to be recognized as expense is determined based on the fair value as of the date of share granted.

Share provided to employees of the Company in return of the Parent's equity instruments are considered to be capital contribution. Fair value of the service received from employees is measured based on the fair value of the provision date and is recognized over the vesting period as additional capital increase.

## 3.8 Income tax

### *Current 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*

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 goodwill or from the initial recognition (other than in a business combination) of other 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.

## 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.

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
<i>Cost</i>				
as of 1 January 2022	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
Additions	74,970	53,649	9,915	138,534
as of 31 December 2023	1,838,526	164,991	29,610	2,033,127
<i>Accumulated depreciation</i>				
as of 1 January 2022	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
Charge for the year	404,422	31,999	2,369	438,790
as of 31 December 2023	1,703,494	79,373	8,082	1,790,949
<i>Carrying amount</i>				
as of 31 December 2022	464,484	63,968	13,982	542,434
as of 31 December 2023	135,032	85,618	21,528	242,178

As of 31 December 2023, the cost of fully depreciated property and equipment was drams 1,651,260 thousand (2022: drams 820,723 thousand).

## 5 Right-of-use assets

In thousand drams	Office space	
	2023	2022
<i>Cost</i>		
as of 1 January	763,160	549,734
Additions	412,124	213,426
as of 31 December	1,175,284	763,160
<i>Accumulated depreciation</i>		
as of 1 January	629,454	418,252
Charge for the year	246,780	211,202
as of 31 December	876,234	629,454

Carrying amount  
as of 31 December

299,050	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 and 8.2 Garegin Nzhdeh, Gyumri, Shirak marz. 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 315,055 thousand (31 December 2023: drams 153,950 thousand).

## 6 Intangible assets

In thousand drams	Computer software	Other	Total
<i>Cost</i>			
as of 1 January 2022	42,978	828	43,806
Additions	122,847	4,256	127,103
as of 31 December 2022	165,825	5,084	170,909
Additions	-	174,720	174,720
as of 31 December 2023	165,825	179,804	345,629
<i>Accumulated amortization</i>			
as of 1 January 2022	31,905	828	32,733
Charge for the year	2,482	27	2,509
as of 31 December 2022	34,387	855	35,242
Charge for the year	126,717	12,874	139,591
as of 31 December 2023	161,104	13,729	174,833
<i>Carrying amount</i>			
as of 31 December 2022	131,438	4,229	135,667
as of 31 December 2023	4,721	166,075	170,796

During 2023, due to the increase in the number of employees, the Company acquired a large number of computer and other licenses.

## 7 Deferred income tax assets

The movement of deferred income taxes is disclosed below:

In thousand drams	2023	2022
Balance at the beginning of year	192,331	96,089
Credited to profit or loss	15,736	96,242
Balance at the end of year	208,067	192,331

Deferred income tax assets are calculated on temporary differences in tax and financial bases of trade and other payables and are related to accrued liabilities to employees.

## 8 Trade and other receivables

In thousand drams	As of 31 December 2023	As of 31 December 2022
<i>Financial assets</i>		
Trade receivables	2,651,494	1,746,640
	<u>2,651,494</u>	<u>1,746,640</u>
<i>Non-financial assets</i>		
Prepaid taxes	516,537	392,394
Other	45,120	34,971
	<u>561,657</u>	<u>427,365</u>
	<u>3,213,151</u>	<u>2,174,005</u>

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 52 days (2022: 37 days). No interest is charged on trade receivables.

Trade receivables are denominated in US dollars (refer to note 20 (a)) and were primarily generated from sales to related (intra-group) companies, thus are exposed to minimal credit risk (refer to note 20 (b)).

## 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.

### 9.1 Additional capital

In accordance with the long-term incentive project of the Parent, the Company's employees are granted the right to receive a share of the Parent or cash payment. This right is equally recognized as an additional capital increase or liability to employees at fair value of the service received from the employees within four years after it was granted.

Holders of equity instruments of the Parent are not granted the right to vote or receive dividends.

## 10 Lease liabilities

In thousand drams	Լվազագույն վարձավճարներ	
	As of 31 December 2023	As of 31 December 2022
<i>Minimum lease payments , including:</i>		
Less than 1 year	259,251	158,762
From 1 year to 5 years	95,555	-
	<u>354,806</u>	<u>158,762</u>
Less amount representing interest	39,751	4,812
<i>Present value of minimum lease payments</i>		
Less than 1 year	237,992	153,950
From 1 year to 5 years	77,063	-
	<u>315,055</u>	<u>153,950</u>

The weighted average interest rate of the borrowing used by the Company to discount the lease liabilities was 11.2% (2022: 8.7%).

The interest expense for the year ended 31 December 2023, which was accrued to lease liabilities, amounted to drams 28,004 thousand (year ended 31 December 2022: drams 13,307 thousand) and was included in finance expenses.

## 11 Trade and other payables

In thousand drams	As of 31 December 2023	As of 31 December 2022
Payables to employees	1,619,916	1,612,339
Trade payables	175,028	80,701
Taxes and duties payable	301,494	398,404
	<u>2,096,438</u>	<u>2,091,444</u>

## 12 Revenue from contracts with customers

The revenue of the Company is generated from the contracts with related entities. The Company operates under cost-plus arrangements.

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 71% of revenues from two customers: EPAM Systems, Inc (parent) and EPAM Systems UK (2022: 83%).

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 "On high-technology industry ecosystem, digitization and market development plan", "On providing state support to commercial organizations and individual entrepreneurs operating in the field of information technology" and "On the event of attraction of highly qualified specialists", the Company signed agreements with the RA Ministry of High-Tech Industry and National Center of Innovation and Entrepreneurship SNCO. The amount of state support received within the framework of the above contracts were drams 338,212 thousand (2022: drams 326,132 thousand).

## 14 Employee benefits

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Basic salary	13,780,383	11,766,714
Bonuses and other benefits	2,288,094	2,360,089
Insurance costs	174,107	129,240
	<u>16,242,584</u>	<u>14,256,043</u>

## 15 Other expenses

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Foreign currency conversion costs	70,443	81,498
Office supplies and utilities	69,733	34,181
Donations	45,968	-
Audit and consulting services	20,838	19,804
Non-refundable taxes	17,946	13,440
Entertainment and hospitality	14,076	71,088
Other	78,949	89,690
	<u>317,953</u>	<u>309,701</u>

## 16 Foreign currency translations gain/(loss), net

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
<i>Financial assets at amortized cost</i>		
Trade and other receivables	19,618	(17,648)
Bank balances	187,156	(259,981)
<i>Financial liabilities at amortized cost</i>		
Trade and other payables	(1,889)	3,393
Borrowings received	-	49,478
	<u>204,885</u>	<u>(224,758)</u>

## 17 Income tax expense

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Current tax	298,965	456,754
Deferred tax	(15,736)	(96,242)
	<u>283,229</u>	<u>360,512</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2023	Effective tax rate (%)	Year ended 31 December 2022	Effective tax rate (%)
Profit before taxation (under IFRSs)	<u>1,593,997</u>		<u>1,679,812</u>	
Tax calculated at a tax rate of 18% (2022: 18%)	286,919	18.0	302,366	18.0
(Non-taxable)/non-deductible items, net	<u>(3,690)</u>	<u>(0.2)</u>	<u>58,146</u>	<u>3.5</u>
Income tax expense	<u>283,229</u>	<u>17.8</u>	<u>360,512</u>	<u>21.5</u>

## 18 Critical accounting estimates and judgments

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.

## 18.1 Critical accounting estimates

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 Material 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 2023	As of 31 December 2022
<i>Amortized cost</i>		
Trade and other receivables	2,651,494	1,746,640
Bank balances	2,349,076	2,039,527
	<u>5,000,570</u>	<u>3,786,167</u>

## Financial liabilities

In thousand drams

	As of 31 December 2023	As of 31 December 2022
<i>Amortized cost</i>		
Lease liabilities	315,055	153,950
Trade and other payables	1,794,944	1,693,040
	<u>2,109,999</u>	<u>1,846,990</u>

## 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 results 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	US dollar	
	As of 31 December 2023	As of 31 December 2022
<i>Financial assets</i>		
Trade and other receivables	2,651,494	1,746,640
Bank balances	2,342,030	2,010,492
	<u>4,993,524</u>	<u>3,757,132</u>
<i>Financial liabilities</i>		
Trade and other payables	42,117	2,484
	<u>42,117</u>	<u>2,484</u>
Net position	<u>4,951,407</u>	<u>3,754,648</u>

The following table details the Company's sensitivity to a 10% (2022: 10%) 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% (2022: 10%) then this would have had the following impact:

In thousand drams	US dollar impact	
	2023	2022
Profit or loss	(495,141)	(375,465)

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 2023	As of 31 December 2022
<i>Financial assets at carrying amounts</i>		
Trade and other receivables	2,651,494	1,746,640
Bank balances	2,349,076	2,039,527
	<u>5,000,570</u>	<u>3,786,167</u>

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 1,525,148 thousand (as of 31 December 2022: drams 1,049,998 thousand). Year end balances represent amounts due for November and December of 2023.

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 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.

2023	Trade and other payables	Lease liability	Total
Weighted average effective interest rate	<i>Interest free</i>	11.2%	
Less than 6 months	863,802	129,985	993,787
6 months to 1 year	931,142	129,266	1,060,408
1-5 years	-	95,555	95,555
	<u>1,794,944</u>	<u>354,806</u>	<u>2,149,750</u>

2022	Trade and other payables	Lease liability	Total
Weighted average effective interest rate	<i>Interest free</i>	8.7%	
Less than 6 months	1,439,829	122,064	1,561,893
6 months to 1 year	253,211	36,698	289,909
	<u>1,693,040</u>	<u>158,762</u>	<u>1,851,802</u>

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 1-2 months.

## 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 stakeholders.

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 plant facilities, 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	Lease liabilities	Total
as of 1 January 2023	153,950	153,950
<i>Cash-flows</i>		
Repayments	(279,023)	(297,023)
<i>Non-cash</i>		
Additions	412,124	412,124
Interest accrual	28,004	28,004
as of 31 December 2023	315,055	315,055

In thousand drams	Borrowings	Lease liabilities	Total
as of 1 January 2022	-	168,006	168,006
<i>Cash-flows</i>			
Amount received	2,500,575	-	2,500,575
Repayments	(2,451,097)	(240,789)	(2,691,886)
Interests paid	(8,702)	-	(8,702)
<i>Non-cash</i>			
Additions	-	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

## 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	Year ended 31 December 2023	Year ended 31 December 2022
<i>Transactions</i>		
<i>Parent</i>		
Provision of services	11,057,902	11,628,141
Borrowing received	-	2,500,000
Borrowing repaid	-	2,451,097
Interest expense	-	(8,702)

<i>Entities under common control</i>		
Provision of services	7,403,882	5,443,610
Acquisition of goods	-	36,816
<i>Key management</i>		
Salaries and bonuses	14,418	20,351
In thousand drams		
Outstanding balances	As of 31 December 2023	As of 31 December 2022
<i>Parent</i>		
Trade and other receivables	1,384,022	883,045
<i>Entities under common control</i>		
Trade and other receivables	1,267,472	863,595
Trade and other payables	83,369	2,721
<i>Key management</i>		
Salaries and bonuses	2,289	1,127