POLISH SECURITY PRINTING WORKS
ARMENIAN BRANCH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31st December 2013

AUDIT SERVICE LLC
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INDEPENDENT AUDITOR'S REPORT

Presented to the Founder of Polish Security Printing Works Armenian Branch,

27/February/2014

SCOPE OF THE AUDIT OF FINANCIAL STATEMENTS:

We have audited the accompanying financial statements of Polish Security Printing Works Armenian Branch (Hereinafter referred to as "The Branch"), which comprise of Statement of Financial Position as at 31st December 2013, Statement of 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 and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS:

The management of the Branch is responsible for preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

AUDITOR'S RESPONSIBILITY:

Our responsibility is to express an opinion on these Financial Statements based on audit conducted in accordance with International Standards on Auditing, which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including risk assessment of material misstatements of the Financial Statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Polish Security Printing Works Armenian Branch as at 31st December 2013 and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Audit Service LLC

Director

Qualified Auditor **Gor Davtyan**

Qualified Auditor **Gayane Tovmasyan**

Statement of Financial Position

As at 31st December 2013

Thousand AMD

	Notes	2013	2012
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	4	-	570,665
Intangible Assets	5	213,767	268,143
Other Non-Current Assets	6	133,510	-
Total Non-Current Assets		**347,277**	**838,808**
Current Assets			
Inventories	7	713,326	828,570
Trade and Other Receivables	8	275,760	498,061
Cash and Cash Equivalents	9	277,926	21,004
Total Current Assets		**1,267,012**	**1,347,635**
Total Assets		**1,614,289**	**2,186,443**
EQUITY AND LIABILITIES			
Total Equity			
Investment from the Founder	10	2,254,798	2,197,815
Accumulated Profit/(Loss)		(1,046,714)	(292,667)
Total Equity		**1,208,084**	**1,905,148**
Non-Current Liabilities		-	-
Current Liabilities			
Trade and Other Payables	8	406,205	281,295
Total Current Liabilities		**406,205**	**281,295**
Total Liabilities		**406,205**	**281,295**
Total Equity and Liabilities		**1,614,289**	**2,186,443**

These financial statements were accepted and approved by management of the Branch on 12.04.2014թ.

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

	Director	**Josef Ferber**
	Chief Accountant	**Gajos Bogdan**
AUDIT SERVICE LLC		
	Director	**Gor Davtyan**

These financial statements should be read with the notes set out on pages 5-28 which form the inseparable part of these statements

Statement of Comprehensive Income

For the year ended 31st December 2013

Thousand AMD

	Notes	2013	2012
Revenue	11	270,055	64,691
Cost of Sales	12	(306,610)	(51,839)
Gross Profit		**(36,555)**	**12,852**
Other Income		49,179	-
Property and Equipment maintenance and Installation Expenses		(19,798)	(170,498)
Technical Support		(194,215)	(76,580)
Depreciation and Amortisation		(3)	-
Accounting and Tax Consultation Services		(9,390)	(8,209)
Other Expenses	13	(701,465)	(49,031)
Net Profit/Loss from Operating Activities		**(912,247)**	**(291,466)**
Other Non-Operating Profit/Loss			
Net Profit/(Loss) from Foreign Exchange Differences	14	5,845	(1,201)
Financial Income		983	-
Net Profit/Loss Before Tax		**(905,419)**	**(292,667)**
Profit Tax Compensation/(Expense)		78,646	-
Net Profit/Loss for the period		**(826,773)**	**(292,667)**

These financial statements were accepted and approved by management of the Branch on 12.04.2014թ.

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Director **Josef Ferber**

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Statement of Changes in Equity

As at 31st December 2013

Thousand AMD

	Equity	Accumulated Profit/(Loss)	Total
Balance as at 1st January 2012	-	-	-
Investments from the Founder	2,197,815		**2,197,815**
Total Comprehensive Profit/(Loss) for the year		(292,667)	**(292,667)**
Balance as at 31st December 2012	**2,197,815**	**(292,667)**	**1,905,148**
Balance as at 1st January 2013	2,197,815	(292,667)	**1,905,148**
Investments from the Founder	56,983		**56,983**
Adjustments to the financial Results of the Previous Year		72,726	**72,726**
Total Comprehensive Profit/(Loss) for the year		(826,773)	**(826,773)**
Balance as at 31st December 2013	**2,254,798**	**(1,046,714)**	**1,208,084**

These financial statements were accepted and approved by management of the Branch on 12.04.2014թ.

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Director **Josef Ferber**

Chief Accountant **Gajos Bogdan**

AUDIT SERVICE LLC

Director **Gor Davtyan**

Statement of Cash Flows

For the year ended 31st December 2013

Thousand AMD

	Notes	2013	2012
Cash Flows From Operating Activities			
Profit/(Loss) for the year		(905,419)	(292,667)
Adjustments for:			
Depreciation and Amortization		*164,596*	14,217
Foreign Exchange (Profit)/Loss		*(5,845)*	*1,201*
Invalid Passports		*10,962*	-
Value change		*500,571*	-
Other expense adjustment		*309*	-
Operating Profit/(Loss) before working capital changes		**(234,826)**	**(277,249)**
Changes in Trade and Other Receivables		222,301	(498,061)
Changes in Inventories		119,890	(828,570)
Changes in Trade and Other Payables		130,022	280,759
Net Cash Flow From Operations		*237,387*	***(1,323,121)***
Cash Flows From Investing Activities			
Acquisition of Property, Equipment and Intangible Assets		(39,990)	(853,025)
Net Cash Flow from Investing Activities		**(39,990)**	**(853,025)**
Cash Flows From Financial Activities			
Investments Received from the Founder		56,983	2,197,815
Inflows from other financial activities		983	-
Net Cash Flow from Financial Activities		**57,966**	**2,197,815**
Net Change in Cash Balance			
Net Result of Foreign Exchange Differences	11	1,559	(665)
Cash Balance as at 01/January/2013		21,004	-
Cash Balance as at 31/December/2013	8	**277,926**	**21,004**

These financial statements were accepted and approved by management of the Branch on 12.04.2014թ.

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

	Director	**Josef Ferber**
	Chief Accountant	**Gajos Bogdan**
AUDIT SERVICE LLC	**Director**	**Gor Davtyan**

These financial statements should be read with the notes set out on pages 5-28 which form the inseparable part of these statements

Notes to the Financial Statements

1. General Information

Polish Security Printing Works Armenian Branch (the Branch) has been founded according to the decision made at the board meeting N267/11 held on 11th November 2011 by Polish Security Printing Works (PWPW S.A.) (the Founder), which is registered at the address 1 R. Sanguszki Street 00-222 Warsaw, Poland.

According to the agreement signed between the Founder, the Police of the Republic of Armenia and E-governance Infrastructure Implementation Office on 28th July 2011 (Contract N ASDB-10/53), the Branch is committed to provide services which include provision of biometric passports and electronic personal ID cards with microprocessor connection as well as delivery of related hardware and software (the Project). According to the schedule of the contract the Branch is obliged to issue 304,000 biometric passports and 1,000,000 ID cards by the year 2017.

The legal address of the Branch is Ashakunyats street 41, Yerevan, Armenia.

2. Bases for preparation of financial statements

2.1 Compliance

These financial statements are prepared in accordance with requirements of the International Financial Reporting Standards issued by International Accounting Standards Board and International Financial Reporting Interpretations Committee.

The definition of asset and liability is determined in IFRS, however the Branch does not have full control over its assets and liabilities and is acting merely as a division of the Founder based on the decisions of the Founder.

2.2 Basis for Recognition

Financial statements are prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.3 Functional and Reporting Currency

Functional currency of the Republic of Armenia is the Armenian Dram, which is also the reporting currency of the Branch's financial statements. The whole financial information is presented in AMD rounded to the nearest thousand.

2.4 Estimates and Judgments Used

While preparing financial statements in accordance with IFRS the management is required to make respective estimates, assumptions and judgments, which influence the accounting policy, as well as the amounts for assets, liabilities, income and expense. Real results may differ from these assessments.

Assessments and relevant estimates are continually revised. The revisions of accounting estimates are recognized in the period when they were revised and in further periods which may be effected.

2.5 Standards influencing presentation and disclosure

IAS 1 "Presentation of Financial Statements" (revised in 2007)

The revised IAS 1 provides changes in terminology presenting revised names of financial statements as well as changes of content and forms of presentation of financial statements. The Branch has decided to prepare single statement of comprehensive income rather than two separate statements with subtotals (single income statement followed by statement of other comprehensive income).

Requirements of amendments were kept. Items were grouped into items that might be reclassified to profit or loss in subsequent periods and items that will not be reclassified to profit or loss in subsequent periods.

IAS 7 (Amendment) "Statement of Cash Flows" (primarily revised, effective since 1st January 2010)

Amended IAS 7 sets that the expenditure resulting in recognized asset can be classified in the statement of cash flows as cash flows from investing activities.

IFRS 7 Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities (effective since 1st January 2013)

The Branch has followed the requirements of IFRS 7 amendment and has disclosed separately information about rights of offset and related arrangements for all recognized financial instruments under an enforceable master netting agreement or similar arrangement, even if they are not set-off under IAS 32.

IAS 32 Financial Instruments: Presentation (Amendment December 2011)

An amendment was made to IAS 32 Financial Instruments: Presentation, effective 1st January 2014 which clarifies certain aspects because of diversity in application of the requirements on offsetting, and is focused on four main areas:

- ✓ The meaning of "currently has a legally enforceable right of set-off"
- ✓ The application of simultaneous realisation and settlement
- ✓ The offsetting of collateral amounts
- ✓ The unit of account for applying the offsetting requirements

IFRS 13 Fair Value Measurement

IFRS 13 issued in May 2011 and effective for annual periods beginning 1st January 2013, made consequential amendments to the disclosure requirements in IAS 36 related to measurement of the recoverable amount of impaired assets. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about measurements. Meanwhile it does not change the requirements regarding which items should be measured or disclosed at fair value, it applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. Entities are required to make various disclosures depending upon nature of the fair value measurement and the level in which it's classified. The Branch referred to this IFRS where applicable.

An amendment was proposed for IAS 36 which narrows the application of the requirement to disclose the recoverable amount of an asset or cash-generating unit and expand and clarify the disclosure requirements when an asset or cash-generating unit's recoverable amount has been determined on the basis of fair value less costs of disposal. The proposed amendments would apply retrospectively for annual periods beginning on and after 1st January 2014.

IAS 16 Property, Plant and Equipment: classification of Servicing Equipment

The Branch applies where applicable the amendment to IAS 16 effective for annual periods beginning on and after 1st January 2013, spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

3. ACCOUNTING

3.1 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are accounted at initial value with reduction of accumulated depreciation and impairment losses. The initial value includes acquisition price, import charges, taxes and other compulsory payments which cannot be claimed and other expenditure relating directly to the asset. Gains or losses resulted by disposure or write off of the property, plant and equipment are determined by the difference from proceeds from assets sold and the carrying amount of the asset, and are recognized in the statement of comprehensive income.

Depreciation is recognized in the statement of comprehensive income on a straight line basis with monthly allocations over the estimated life of the asset. Calculation of depreciation starts the next month the asset is brought into use.

The estimated useful life of the property, plant and equipment per classes are following:

Equipment	**- 5 years**
Machinery	**- 5 years**

If there are any indicators that there have been significant changes of asset's depreciation rate, useful life or residual value, the depreciation of the asset is revised so that in future it reflects correctly the new expectations. If there are any indicators that the residual value of any class of assets differs significantly from its fair value, the whole class is being estimated. Further expenditures are capitalized only when they increase future economic benefits related to the asset concerned. All other expenditures including reconstruction and maintenance costs are recognized in the statement of comprehensive income during the period of implementation of these works.

3.2 INTANGIBLE ASSETS

Intangible assets, acquired by the Branch, are recognized with acquisition cost less accumulated amortization and impairment losses. They are being amortized during their useful life, which is 5 years, applying a straight-line method. If there are such indicators of significant changes in asset's amortization rates, useful life or residual value, the amortization of the asset is revised so that in future it correctly reflects the new expectations.

3.3 INVENTORY

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reconstruction, replenishment and any other cost necessary to complete and sell the goods.

The inventory cost is calculated using first in first out (FIFO) method and includes costs of acquisition, transportation, development and packaging.

3.4 Financial Instruments

Financial assets and financial liabilities are recognized when the Branch becomes a contractual party of the financial instrument.

Financial assets are derecognized when the contractual rights expected from the cash flows of the financial asset expire or when financial assets, together with all significant risks and rewards are being transferred to a third party.

Financial liabilities are derecognized when they are paid, discharged, cancelled or expired. Financial assets and financial liabilities are initially recognized at fair value plus transaction costs with exception of financial assets and liabilities that are initially classified as financial assets and liabilities measured at fair value through profit or loss.

The further measurement of the financial assets and liabilities is provided below.

Financial assets

Financial assets, except for hedging instruments, are classified as:

- Loans and receivables;
- Financial assets measured at fair value through profit or loss;
- Financial assets available for sale;
- Investments held to maturity.

Financial assets are referred to different categories at initial measurement depending on the nature and purpose of the transaction. The category of the financial instrument corresponds to the principle through which the instrument is measured and which shows whether the profit and loss from the changes of fair value should be recognized in the statement of comprehensive income or directly in the equity.

Generally, all financial assets of the Branch are recognized using records of the last reporting date. Assessment of impairment of the financial asset is performed at least on the last day of each reporting period. All expenses and income related to the financial assets are recognized in the statement of comprehensive income under the articles "Financial Expenses" and "Financial income" or "Other Financial Items" respectively, except for impairment of trade receivables which is recognized in other expenses.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Trade And Other Receivables

Current receivables are recognized at fair value. They are subsequently recorded at amortized cost less provisions for impairment. Provision of impairment for receivables is made only when there is objective evidence that the Branch is not able to collect all outstanding amounts within the initially mentioned periods. Significant financial difficulties of the debtor delay in payments and late payments (more than 365 days) are indicators of receivable impairment. The amount of the provision is the difference between the carrying value and present value of the estimated future cash flows discounted at the original effective interest rate..

The balance of the provision is adjusted in the statement of comprehensive income for the reporting period through recognition of income or expense. Any amount written off from the debtor's account is reduced from the existing provision for doubtful debts. All receivables, collection of which is estimated to be not probable, are being written off.

Cash and bank balances

The cash and bank balances include actual cash in hand, balances on bank accounts and cash in transit classified under "loans and receivables" of financial assets.

Financial liabilities

Loans and borrowings

Loans and borrowings are initially recognized at fair value, excluding transaction costs. After the initial recognition, loans and borrowings are measured at amortized cost, and the difference between this cost and redemption value is recognized in the statement of comprehensive income during the borrowing period using the effective interest rate method. Interests and other costs related to borrowings are expensed at their commitment as part of financial expenses, except the borrowing costs directly related to the acquisition, construction or production of qualified asset, which are capitalized as a part of the asset's value.

Trade And Other Payables

Payables are recognized at fair value and later measured at amortized cost.

3.5 Impairment

Impairment of Assets

At each reporting date the Branch reviews its property, equipment and intangible assets to assess if any indicator of impairment losses exists. If there is any indication of possible impairment, then the recoverable amount of the impaired asset (or group of assets) is revaluated and compared with the book value. If the estimated recoverable amount is less than the book value is reduced to the estimated recoverable amount with impairment loss immediately recognized in profit or loss.

Inventories are also assessed at ach reporting period. Carrying value of inventories is compared with their net realizable value. When deciding on selling price replenishment costs and other costs to complete and sell are being excluded. If any group of inventories has been impaired, the book value is being reduced to the selling price less replenishment costs and other costs to complete and sell, and impairment loss is immediately recognized in profit or loss.

If impairment loss is respectively reversed, then the carrying value of the asset or group of assets is being increased to the estimated recoverable amount (in case of inventories to selling price less replenishment costs and any costs to complete and sell) so that the increased value doesn't exceed the amount that would have been determined had no impairment loss been recognized for the asset (or group of assets) in prior period. Reversal of impairment loss is immediately recognized in profit or loss.

Impairment of property, plant and equipment

Assets with indefinite useful life are not depreciated and are being tested for impairment annually. Depreciable assets are revised for impairment when changes in conditions and circumstances indicate that their carrying value may not be recoverable. Impairment loss in the amount of asset's carrying value exceeding the recoverable amount is recognized.

The recoverable amount is the higher of the net realizable value and value in use. If the recoverable amount of asset or cash-generating unit is less than its book value, then book value of the asset or cash-generating unit is reduced to the recoverable amount. Impairment losses are immediately recognized as expense in the statement of comprehensive income, except the cases when respective asset is accounted for at revaluated cost and in this case impairment loss is considered as decrease in value as a result of revaluation.

If impairment loss is reversed in future, then the carrying value of asset or cash-generating unit is increased to its recoverable amount, so that the increased carrying value does not exceed the carrying value which could have been if no impairment losses were recognized for this asset or cash-generating unit in prior periods. Reversal of impairment loss is immediately recognized as income in the statement of comprehensive income, except the cases when the corresponding asset is accounted for at revaluated amount, in which case any reversal of impairment loss is considered as revaluation surplus.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets other than assets measured at fair value through profit or loss, are tested for impairment indication at the end of each reporting period. Financial assets are considered to be impaired if there is impartial evidence that one or more events occurred after the initial recognition of the financial assets affected the expected cash flows.

Impairment loss of financial assets held at amortized cost is accounted at the difference of asset's carrying value and present value of future cash flows discounted with initial effective interest rate. For all financial assets impairment loss is directly deducted from the asset's carrying value, except for trade receivables, carrying amount of which are reduced through provision of doubtful debts.

If in coming periods impairment loss decreases and this decrease can objectively be referred to events occurring after the impairment was recognized, then the impairment loss previously recognized is being reversed and recognized in the statement of comprehensive income so that the carrying amount of such reversal doesn't exceed what the amortized cost would have been had the impairment not been recognized.

3.6 INVESTMENTS FROM THE FOUNDER

The investments from the Founder represent contributions made by the Founder to support the operations of the Branch and these investments are accounted at the initial value.

3.7 PROVISIONS

Provisions are recognized at the statement of financial position, when the Branch has legal and constructive obligation as a result of past events and when it's probable that outflow of economic benefits will be required for settling the obligation. If its effect is material, then provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and where appropriate risks attributable to the liability.

3.8 REVENUE RECOGNITION

Revenue is measured at the fair value of the received or receivable consideration taking into account any trade discounts and rebates allowed by the Branch.

Revenue is reduced by assessed rebates, assessed amounts of returned goods and any similar allowances.

In 2013 the Branch during revenue recognition has reduced its recoverable amount by 309,000 AMD. This amount comes from the sales-invoice A8072538113 issued to the Police of Republic of Armenia at 23rd December 2013 for 52 396 sold passports.

Sale of Goods

Revenue from the sale of goods is recognized when all the following conditions take place:

- ✓ The Branch has transferred to the buyer significant part of the risks and rewards associated with the ownership of goods;
- ✓ The Branch retains neither continuing managerial involvement associated with the right of ownership nor effective control over sold goods;
- ✓ The revenue amount may be measured fairly;
- ✓ It's probable that economic benefits associated with the transaction will flow to the Branch;
- ✓ Transaction related expenses may be measured fairly.

Rendering of Services

Revenue from a service provision is recognized when:

- ✓ The revenue amount may be measured reliably;
- ✓ It's probable that economic benefits associated with the transaction will flow to the Branch;
- ✓ Transaction completion stage at the reporting date may be measured reliably;
- ✓ Transaction related expenses may be measured reliably.

3.9PROFIT TAXES

Current profit tax is the tax payable from the amount of annual profit according to tax rates enacted for the reporting period with consideration of adjustments for tax payables in respect of previous periods.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets should be recognized on all deductible temporary differences to the extent of how probable taxable profit availability is against which deductible temporary difference can be utilized. Such deferred tax assets and liabilities are not recognized if temporary difference arises from the initial recognition of goodwill or initial recognition of other assets and liabilities in such a transaction which affects neither the accounting profit nor taxable profit (except for business combinations).

Deferred tax liabilities are recognized for taxable temporary differences, which relate to investments in daughter and associated companies and participation in joint ventures, with exception of cases when the Branch is able to control the reversal of temporary difference and it's probable that the temporary difference won't be reversed in the foreseeable future. Deferred tax assets which arise from deductable temporary differences associated with such investments and participations are recognized only to the extent that taxable profit is probable to exist against which temporary difference may be utilized and which will be redeemed in foreseeable future.

Carrying value of the deferred tax assets is reviewed by the end of each reporting period and deducted by the amount which is no longer probable that the Branch will have enough taxable profit, which will make it possible to utilize the benefit from the deferred tax asset totally or partially.

Deferred tax assets and liabilities are being measured using such tax rates which are assumed to enact during the disposal of the asset and redemption for the liability taking into account the tax rates (and legal acts regulating tax relations) which enacted at the end of the reporting period. Measurement of deferred tax assets and liabilities reflect tax consequences, which will emerge depending on the method used by the Branch to recover or redeem carrying amounts of its assets and liabilities at the reporting date.

The Branch had tax loss in 2012 and 2013 at the amount of 274,320,0 thousand AMD and 393,231,0 thousand AMD respectively. In the reporting period the Branch has transferred the unutilized tax loss for 2012 and 2013 to the next period by creating a deferred tax asset associated with profit tax. The Branch has accounted 54,864,0 thousand AMD of deferred tax asset attributable to the tax loss in 2012 by adjusting the financial result of the previous year in the capital, and 78,646,0 thousand AMD of deferred tax asset attributable to the tax loss in 2013 was referred in the financial results as recovery of profit tax.

3.10 FOREIGN CURRENCY

In preparing the financial statements, transactions in currencies other than the functional currency of the Branch are recorded at the exchange rates defined by the Central Bank of Armenia (CBA) prevailing on the dates of transactions. At each reporting date monetary items held in foreign currency are retranslated using the CBA exchange rates issued for that date. Non-monetary items carried at fair value and denominated in foreign currencies are retranslated at the rates prevailing on the date of the transaction. Non-monetary items measured at historic cost in foreign currency are not retranslated.

Exchange Rates set by CBA for the reporting period of 2012 and 2013 are shown in the table below:

Foreign Currency	**Average rate set by CBA**	
	As at 31.12.2013	**As at 31.12.2012**
1 Polish Zloty	134.81 AMD	130.96 AMD
1 Euro	559.54 AMD	532.24 AMD

Exchange rate differences arising from transactions carried out in foreign currency and differences from recounting of items held in foreign currency are recognized in statement of comprehensive income under the article "Other non-operating income/expense".

The Branch consistently implemented the accounting policies during the whole period covered by these financial statements.

4. Property, Plant and Equipment

Machinery and Equipment	*Thousand AMD*
Cost	
Balance as at 01/01/2012	-
Additions	580,337
Disposals	-
Balance as at 31/12/2012	**580,337**
Additions	39,961
Disposals	620,298
Balance as at 31/12/2013	-
Accumulated Depreciation	
Balance as at 01/01/2012	-
Charge for the year	(9,672)
Balance as at 31/12/2012	**(9,672)**
Charge for the year	(110,055)
Reductions	(119,727)
Balance as at 31/12/2013	-
Carrying Value	
As at 01/01/2012	-
As at 31/12/2012	570,665
As at 31/12/2013	-

5.Intangible Assets

Thousand AMD

	Licenses	**Computer Software**	**Total**
Cost			
Balance as at 01 January 2012	-	-	-
Additions	272,688	-	272,688
Disposals	-	-	-
Balance as at 31 December 2012	**272,688**	-	**272,688**
Additions	-	165	165
Disposals	-	-	-
Balance as at 31 December 2013	**272,688**	**165**	**272,853**
Amortization			
Balance as at 01 January 2012	-	-	-
Charge for the year	4,545	-	4,545
Balance as at 31 December 2012	**4,545**	-	**4,545**
Charge for the year	54,538	3	54,541
Deductions	-	-	-
Balance as at 31 December 2013	**59,083**	**3**	**59,086**
Carrying Value			
As at 1 January 2012	-	-	-
As at 31 December 2012	268,143	-	268,143
As at 31 December 2013	**213,605**	**162**	**213,767**

In the Statement of Comprehensive Income amortization expense has been reflected in "depreciation and amortization". Intangible assets comprise of computer software and licenses necessary for operation of machinery and equipment, which are placed at the premises of The Police of Republic of Armenia, as well as accounting software purchased in 2013.

6. Other Non-Current Assets

The Branch had tax loss in 2012 and 2013 at the amount of 274,320 thousand AMD, and 393,231 thousand AMD respectively. The management has estimated that in future the Branch will have enough taxable profit, which will make total realization of the benefit of deferred tax asset possible. The Branch has transferred the unused tax loss in 2012 and 2013 to the next period forming deferred tax asset in terms of Profit Tax. The deferred tax asset of 54,864 thousand AMD attributable to the tax loss in 2012 the Branch has formed by adjusting the financial result of the previous year in the Equity, and deferred tax asset of 78,646 thousand AMD attributable to the tax loss in 2013 was recognized in the financial results as profit tax compensation.

Carrying value of deferred tax assets as at 31st December 2013 has been 133,510 thousand AMD.

7. Inventories

Thousand AMD

	As at 31st December 2013	As at 31st December 2012
ID Cards	344,035	446,468
Biometric Passports	337,555	353,911
Kinegrams	31,736	28,191
Total	**713,326**	**828,570**

The cost of inventory expensed during the year is 310,309 thousand AMD.

As at 31st December 2013 all inventory has been under control of the Police of Republic of Armenia.

8. Receivables, Payables and Prepayments

Thousand AMD

	As at 31st December 2013	As at 31st December 2012
Receivables and prepayments made		
Trade Receivables	118,567	77,629
Prepayments made	156,869	105,193
State Budget Receivables	324	315,239
Total	**275,760**	**498,061**
Payables and prepayments received		
Trade and Other Payables	31,408	12,618
Payable Tax and Liabilities	-	15,053
Payables to the Founder	374,798	253,624
Total	**406,206**	**281,295**

All amounts are short-term. The net carrying value of trade receivables is considered to be reasonable estimation of fair value.

Trade receivables represent a receivable in respect of sales of ID cards and biometric passports to the Police of Republic of Armenia in 2013.

A State Budget Receivable of 324,000 AMD represents VAT eligible for offset, and it will be offset with future VAT liabilities. Management believes that receivables from the State Budget are fully recoverable.

Interests are not calculated for trade payables. The Branch has a policy of managing financial risk, which ensures settling all liabilities on time.

9. Cash and Cash Equivalents

Thousand AMD

	As at 31st December 2013	**As at 31st December 2012**
Bank Account		
AMD	75,337	18,905
Foreign Currency Accounts	21,908	2,099
Subtotal	**97,245**	**21,004**
Deposit Accounts		
AMD	180,681	-
Total	**277,926**	**21,004**

10. EQUITY

Investment from the Founder

Investment from the Founder comprises of investments made on 28th July 2011 within the scope of the contract signed between the Police of Republic of Armenia, E-governance Infrastructure Implementation Office LLC and the Founder for placement of necessary machinery and equipment required for the program realization. The value of the investments represents the cash, cash equivalents and fair value of other assets received from PWPW S.A. In 2013 investment from the Founder has been 56,983 thousand AMD.

11.REVENUE

Thousand AMD

	As at 31st December 2013	As at 31st December 2012
Sales of ID Cards	159,817	43,932
Sales of Biometric Passports	60,952	20,759
Sales of Non-Biometric Passports	49,286	-
Total	**270,055**	**64,691**

*** In the Financial Statements of 2012 Sales Revenue of 25,708 thousand AMD generated from 166 passports (2,755 thousand AMD) and 9,375 ID cards (22,953 thousand AMD) sold in 2012 (Invoice A2562373121) was not accounted for. Cost of Sales was accounted for 17,140 thousand AMD less than should have been. In the Statement of Changes in Equity financial result of the previous years was adjusted by the difference of the mentioned revenue and cost of sales, with the amount of 8,568 thousand AMD.

12.COST OF SALES

Thousand AMD

	As at 31st December 2013	As at 31st December 2012
ID Cards	106,108	30,172
Biometric Passports	156,226	7,450
Non-biometric passports	44,276	
Total	**306,610**	**37,622**

13. OTHER EXPENSES

Thousand AMD

	As at 31st December 2013	As at 31st December 2012
Selling Expenses	50,987	28,161
Administrative Expenses	13,358	15,796
Other	637,120	5,074
Total	**701,465**	**49,031**

Sales and Management expenses are those overheads which were made by the Founder and have been referred to the Branch.

14. PROFIT/LOSS FROM EXCHANGE RATE DIFFERENCES

Thousand AMD

	As at 31st December 2013	As at 31st December 2012

Loans and Borrowings	1,559	(665)
Financial Liabilities measured at Amortized Cost	4,286	(536)
Total	**5,845**	**(1,201)**

15. Financial Instruments

15.1 Accounting Policies

Accounting policy and details of accepted methods implemented for each class of financial asset, financial liability and equity instrument, as well as revenue and expense recognition criteria and basis are presented in the note 3.

15.2 Categories of Financial Instruments

Balances presented in the Statement of Financial Position refer to the following categories f assets and liabilities:

FINANCIAL ASSETS

Accounts Receivable and Lending	As at 31th December 2013	As at 31st December 2012
Trade and Other Receivables	118,549	77,629
Bank Balances	277,926	21,004
Total	**396,475**	**98,633**

FINANCIAL LIABILITIES

Financial Liabilities Measured at Amortized Cost	As at 31th December 2013	As at 31st December 2012
Trade and Other Payables	406,205	266,242
Total	**406,205**	**266,242**

16. Financial Risk Management Directions

The Branch faces a wide range of risks related to the financial instruments, which are:

- Market Risk
- Credit Risk
- Liquidity Risk

The Branch is not engaged in activities of asset trading with speculative purposes, and does not issue options. The most material financial risks, which the Branch may face, are outlined below.

16.1 Financial Risk Factors

a) Market Risk

During the use of financial instruments the Branch faces market risk, mainly the foreign currency risk which arise both from operational and investing activities.

- ***Foreign Currency Risk***

The Branch commits transactions in foreign currency as a result of which it is influenced by foreign currency exchange rate fluctuations.

The main part of the Branch's transactions is committed in AMD. The dependence from the foreign currency exchange rate fluctuations arises from the Branch's international purchases, which initially are expressed in Euro and polish zloty. Financial assets and liabilities expressed in foreign currency, and imposed to the foreign currency risk, are outlined below. The reflected amounts are the data presented to the main managing personnel, which is expressed in Armenian drams using the exchange rate as of the last date of the reporting period.

Article	**As at 31st December 2013**		**As at 31st December 2012**	
	Euro	Polish Zloty	Euro	Polish Zloty
Financial Assets				
Loans and Borrowings	-	-	-	-
Bank Balances	21,908	-	2,099	-
Financial Liabilities				
Trade and Other Payables	30,788	374,797	49,440	214,762
Net Result	**(8,880)**	**(374,797)**	**(47,341)**	**(214,762)**

b) Credit Risk

Credit Risk arises when contractual party fails to meet its obligations which could result in financial losses for the Branch. The influence of this risk for the Branch arises from various financial instruments, such as accounts receivable, dfixed deposits, held-to-maturity investments, financial institutions claims etc. Credit risk is mostly influenced by the carrying values of the following financial assets. For trade and other receivables no material credit risk concentration exists as of the reporting date, as it refers only to the Police of the Republic of Armenia's receivable and it's improbable that the contractual party will fail to meet its obligations.

For cash and cash equivalents the credit risk is at an acceptable level, as contractual party is an authoritative bank.

c) Liquidity Risk

The liquidity risk is the risk that the Branch will fail to meet its liabilities.

The Branch implements a policy of managing liquidity by keeping sufficient resources in bank accounts, as well as keeping assets with high liquidity for paying its liabilities on time. During the assessment and management of the liquidity risk the Branch takes into account cash flows expected from the financial assets, mainly cash flows and trade receivables. Cash resources and trade receivables of the Branch exceed its necessary cash outflows.

16.2 Fair Value

The management is assured that the carrying values of the financial assets and liabilities recognized in the Financial Statements at amortized cost are almost equal to their fair value.

17 Conventionality

17.1 Business Environment

Political and economic reforms that take place in Armenia are continuous in nature. As an emerging market Armenia is missing perfect business environment and relevant infrastructures, which usually exist in countries with competitive markets. Besides, economic conditions keep on limiting the volumes of transactions in the financial markets and fair values of the financial instruments may be not correspond with the implemented transactions.

17.2 Taxes

Armenia's tax system is relatively new and is distinguished by frequent changes in the legislation, official clarifications and court sentences, which often are not clear enough, contain contradictory points and require explanations from various tax authorities. Taxes are eligible for inspection and investigation by various authorities with authority to implement fines and penalties. In case of tax legislation breach tax authorities have no right to define additional tax liabilities, fines or penalties, if 3 years have passed from the date of the breach.

These facts may cause material tax risk in Armenia in comparison with other countries. Management assumes that they have estimated tax liabilities respectively, according to its interpretations of the tax legislation of Armenia and official announcements have made relevant contributions to cover tax liabilities. Nevertheless relevant competent authorities may have other interpretations and consequences may become material for the Branch if these authorities manage to impose their interpretations.

18. Related Parties

Related parties of the Branch are the Founder, main managing personnel, etc.

18.1 Control

As described in the note 1, the Branch was founded and is controlled by PWPW S. A.

18.2 Transactions With Related Parties

In the reporting period the following transaction took place between the Branch and its related parties with following balances;

Thousand AMD

Transactions	**As at 31st December 2013**	**As at 31st December 2012**
The Founder		
Services Received	374,797	253,624
Investments Received	56,983	2,197,815
Total	**431,780**	**2,451,439**

Thousand AMD

Balances	**As at 31st December 2013**	**As at 31st December 2012**
The Founder		
Investments from the Founder	56,983	2,197,815
Trade and Other Payables	374,797	253,624
Total	**431,780**	**2,451,439**

19. Events after the Reporting Period

After the reporting period the Branch operated in the ordinary course of business.

20. Going Concern

The main obstacle for future economic advancement is the low level of institutional development, regional instability and centralized economic roots. The possible impacts of these factors may include lender insolvency, wrecked reputation, difficulties in selling services as well as getting financial resources, etc. All these issues can lead to a decrease in the Branch's solvency and thereafter cause going concern issues. Strong market pressure in its turn may lead to a deterioration of Armenia's overall economy and the Branch's performance.

Meanwhile as far as doubts and assumptions prevail in these uncertainties, the management is not able to reliably decide on their influence on the carrying values of the Branch's assets and liabilities.