

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Financial Statements and Independent Auditor's Report

For the year ended December 31, 2016

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

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POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

Management is responsible for the preparation of the financial statements that present fairly the financial position of Polish Security Printing Works Armenian Branch (the "Branch") as of December 31, 2016, and the results of its operations, cash flows and changes in net assets for the year than ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Branch's financial position and financial performance;
- making an assessment of the Branch's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Branch;
- maintaining adequate accounting records that are sufficient to show and explain the Branch's transactions and disclose with reasonable accuracy at any time the financial position of the Branch, and which enable them to ensure that the financial statements of the Branch comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- taking such steps that are reasonably available to them to safeguard the assets of the Branch; and
- preventing and detecting fraud and other irregularities.

The financial statements of the Branch for the year ended December 31, 2016 were approved by management on March 22, 2017.

On behalf of the Management:



Krzysztof Pawlowski
Director
Polish Security Printing Works Armenian Branch



Agnieszka Matejko
Chief Accountant
Polish Security Printing Works Armenian Branch

March 22, 2017
Yerevan, Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To the Founder of Polish Security Printing Works Armenian Branch

Qualified Opinion

We have audited the financial statements of Polish Security Printing Works Armenian Branch (the "Branch"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

The Branch's inventory are carried at AMD 72,463 thousand on the statement of financial position as at December 31, 2016. We were unable to obtain sufficient appropriate audit evidence in respect of the net realisable value of these inventories as at December 31, 2016 due to the Branch's ongoing negotiations in relation to the future realisation of these inventory items. Consequently, we were unable to confirm the recoverability of these inventories and determine whether any adjustments to the carrying value of inventories were necessary.

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 Branch in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch'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 Branch'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 Branch'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 Branch 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.

Srbuhi Hakobyan
Executive Director

Deloitte Armenia CJSC
March 22, 2017




Arpine Ghevondyan
Audit Director

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016
(In thousands of Armenian Drams, unless otherwise stated)

	Notes	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets:			
Non-current assets			
Intangible assets	5	10,080	104,611
Property and equipment		-	8,904
Deferred tax assets	15	41,356	-
Total non-current assets		51,436	113,515
Current assets			
Inventories	6	72,463	509,112
Trade and other receivables	7	10,013	597,631
Cash and cash equivalents	8	808,562	142,603
Total current assets		891,038	1,249,346
Total assets		942,474	1,362,861
Liabilities:			
Current liabilities			
Trade and other payables	9	124,698	32,521
Current tax liability		116,240	257,578
Total current liabilities		240,938	290,099
Net assets attributable to the Founder			
	10	701,536	1,072,762
Represented by:			
Contributions from the Founder, net of remittances to the Founder	17	(1,782,073)	(536,432)
Retained earnings		2,483,609	1,609,194
		701,536	1,072,762

Approved for issuance and signed on behalf of management on March 22, 2017.



Krzysztof Pawlowski
 Director
 Polish Security Printing Works Armenian Branch




Agnieszka Matejko
 Chief Accountant
 Polish Security Printing Works Armenian Branch

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of Armenian Drams, unless otherwise stated)**

	Notes	<u>2016</u>	<u>2015</u>
Revenue	11	2,200,800	2,451,935
Cost of sales	12	(1,041,577)	(820,218)
Gross profit		<u>1,159,223</u>	<u>1,631,717</u>
Finance income		457	1,266
Administrative and other operating expenses	13	(36,600)	(55,540)
Other expenses	14	(8,243)	(4,557)
Fees and penalties		(1,141)	(31,354)
Net loss on foreign exchange operations		(396)	(8,754)
Profit before tax		<u>1,113,300</u>	<u>1,532,778</u>
Income tax expense	15	(238,885)	(340,015)
Profit and total comprehensive income for the year		<u>874,415</u>	<u>1,192,763</u>

Approved for issuance and signed on behalf of management on March 22, 2017.



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POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

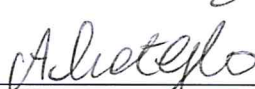
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of Armenian Drams, unless otherwise stated)

	<u>Net assets attributable to the Founder</u>
Balance at January 1, 2015	2,328,629
Profit and total comprehensive income for the year	1,192,763
Contributions from the Founder, Note 17	1,420,086
Remittances to the Founder, Note 17	(3,868,716)
Balance at December 31, 2015	1,072,762
Profit and total comprehensive income for the year	874,415
Contributions from the Founder, Note 17	404,495
Remittances to the Founder, Note 17	(1,650,136)
Balance at December 31, 2016	701,536

Approved for issuance and signed on behalf of management on March 22, 2017.



Krzysztof Pawlowski
Director
Polish Security Printing Works Armenian Branch



Agnieszka Matejko
Chief Accountant
Polish Security Printing Works Armenian Branch

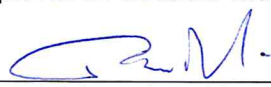
POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

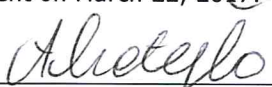
(In thousands of Armenian Drams, unless otherwise stated)

Notes	2016	2015
Cash flows from operating activities:		
Profit for the year	874,415	1,192,763
Adjustments for:		
Income tax expense recognized in profit or loss	238,885	340,015
Adjustments for cost of inventory received from the founder included in cost of sales	791,632	619,820
Adjustments for overhead expenses allocated to the branch by the founder	38,949	56,203
Depreciation and amortization	54,578	54,578
Written off passports and other inventory included in cost of sales	11,989	20,378
Net foreign exchange loss	396	8,754
Impairment of intangible assets	39,953	-
Movements in working capital:		
Decrease in receivables	587,610	237,727
Increase in payables	88,304	18,889
Net cash from operating activities before income taxes paid	2,726,711	2,549,127
Current income tax paid	(421,579)	(195,210)
Net cash from operating activities	2,305,132	2,353,917
Cash flows from investing activities:		
Acquisition of property and equipment	-	(62)
Net cash used in investing activities	-	(62)
Cash flows from financing activities:		
Cash received from the founder	11,420	988,106
Remittances to the founder	(1,650,136)	(3,868,716)
Net cash used in financing activities	(1,638,716)	(2,880,610)
Net increase / (decrease) in cash and cash equivalents	666,416	(526,755)
Cash and cash equivalents at the beginning of the year	142,603	678,701
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(457)	(9,343)
Cash and cash equivalents at the end of the year	808,562	142,603

Approved for issuance and signed on behalf of management on March 22, 2017.



Krzysztof Pawlowski
 Director
 Polish Security Printing Works Armenian Branch



Agnieszka Matejko
 Chief Accountant
 Polish Security Printing Works Armenian Branch

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH
Notes to the financial statements for the year ended December 31, 2016
(in thousands of Armenian Drams, unless otherwise stated)

1. The Branch

The Polish Security Printing Works Armenian Branch (the "Branch") is not a legal entity.

The Branch was 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.) (hereinafter referred to as "Founder"), which is registered at the address 1 R. Sanguszki Street 00-222 Warsaw, Poland.

The Branch is entitled to all rights granted to foreign legal entities according to the governing laws and regulations of the Republic of Armenia, Founder's Charter and Branch's Charter. The Branch is deemed as a separate subdivision of the Founder and is authorized to perform all the functions of the Founder, including representative functions. Founder bears full responsibility for the liabilities of the Branch.

According to the agreement (Contract N ASDB-10/53) signed between the Founder, the Police of the Republic of Armenia and E-governance Infrastructure Implementation Office on 28th July 2011 (hereinafter referred to as "Agreement"), the Branch is committed to provide service 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 2017.

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

2. Significant accounting policies

Statement of compliance: These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation: The Branch's financial statements are prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business.

The major sales agreement (contract No. ASDB-10/53) concluded on 28 July 2011 between the Branch and the Police of the Republic of Armenia and "E-governance Infrastructure Implementation Office" CJSC for supply of electronic passports with biometric parameters, plastic identification cards and the implementation of a system for issuing these documents in the Republic of Armenia, has ended on January 1, 2017. The Branch has created a separate committee responsible for finalizing the mentioned contract with the Police of the Republic of Armenia, including the finalisation of arrangements regarding the sale of remaining inventory balances at December 31, 2016.

In addition to the above process, the Branch has signed an additional agreement with the Republic of Armenia on the delivery of non-biometric passports through till December 2017, see Note 20, Subsequent events. As a result of this commitment the Branch will continue in operation at least till the first quarter of 2018 to finalise the 2017 results and make arrangements regarding the closure of the Branch if further agreements to continue delivery of the products and services. The Management of the Branch is also in the process of preparing for participation in a new tender that will be announced in 2017 containing new technical specifications for new passport and relevant documents supply. Should the Branch be successful in the new tender, the Branch will continue in operations at least till the end of the new agreement with the Republic of Armenia. There can be no assurance that the Branch will be successful in winning the new tender.

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Functional currency: Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Branch is the Armenian Drams ("AMD"). The presentational currency of the financial statements of the Branch is the AMD. All amounts are rounded to the nearest thousand AMD ("AMD '000"), except when otherwise indicated.

Offsetting: Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized

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Notes to the financial statements for the year ended December 31, 2016
(in thousands of Armenian Drams, unless otherwise stated)

amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Branch.

The principal accounting policies are set out below.

Revenue recognition: Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of Goods: Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Branch has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Branch retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Branch; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Foreign currencies: In preparing the financial statements of the Branch, transactions in currencies other than the Branch's functional currency ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the statement of profit or loss and other comprehensive income in the period in which they arise. The relevant exchange rates are as follows:

	Average Rate		Spot Rate	
	2016	2015	December 31, 2016	December 31, 2015
AMD/1 Euro	531.86	530.84	512.20	528.69

Taxation: Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax: The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Branch's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets 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.

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Notes to the financial statements for the year ended December 31, 2016
(in thousands of Armenian Drams, unless otherwise stated)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Branch expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year: Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

Intangible assets: *Intangible assets acquired separately:* Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives of 5 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets: An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

Impairment of intangible asset: At the end of each reporting period, the Branch reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branch estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventory: Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions: Provisions are recognised when the Branch has a present obligation (legal or constructive) as a result of a past event, it is probable that the Branch will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH
Notes to the financial statements for the year ended December 31, 2016
(in thousands of Armenian Drams, unless otherwise stated)

Financial instruments:

Financial assets and financial liabilities are recognised when the Branch becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets: Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method: The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets: Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Branch's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH
Notes to the financial statements for the year ended December 31, 2016
(in thousands of Armenian Drams, unless otherwise stated)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets: The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branch recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the Branch continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities: Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL: Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities: Other financial liabilities (including trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities: The Branch derecognises financial liabilities when, and only when, the Branch's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Branch's accounting policies, which are described in Note 2, the Management of the Branch are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the opinion of management, there are no critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements. In the opinion of management, key sources of estimation uncertainty relate to the estimates of recoverability of trade receivables and going concern presented in Notes 7 and 2.

4. Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have not affected the amounts reported in these financial statements:

- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

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New and revised IFRSs in issue but not yet effective

The Branch has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 <i>Financial Instruments</i>	Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)	Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
Amendments to IAS 7 – Disclosure Initiative	Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
IFRIC 22 Foreign Currency Transactions and Advance	Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted
Annual Improvements to IFRSs 2014-2016 Cycle	

The management of the Branch does not anticipate that the application of Annual Improvements, Amendments to IAS 7, IAS 12 and IFRIC 22 will have a material effect on the financial statement.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The management of the Branch anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Branch's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effects of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management is still in the process of assessing the full impact of the application of IFRS 15 on the Branch financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. The management does not intend to early apply the standard and intend to use the full retrospective method upon adoption.

5. Intangible assets

	<u>Licenses</u>	<u>Software</u>	<u>Total</u>
Cost			
Balance at January 1, 2015	272,688	165	272,853
Balance at December 31, 2015	272,688	165	272,853
Balance at December 31, 2016	272,688	165	272,853

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Accumulated amortization

Balance at January 1, 2015	113,621	43	113,664
Amortization charge	54,538	40	54,578
Balance at December 31, 2015	168,159	83	168,242
Amortization charge	54,538	40	54,578
Impairment losses recognised in profit or loss	39,953	-	39,953
Balance at December 31, 2016	262,650	123	262,773

Net book value at:

December 31, 2016	10,038	42	10,080
December 31, 2015	104,529	82	104,611
January 1, 2015	159,067	122	159,189

Intangible assets include licenses necessary for operation of machinery and equipment, which are placed at the premises of the Police of the Republic of Armenia. Due to the closure process of the Agreement and expected discontinuance of issuance of biometric passports, the respective licenses were written off due to redundancy.

6. Inventories

	December 31, 2016	December 31, 2015
ID Cards	50,111	353,316
Diplomatic Passports	13,448	13,448
Card readers	8,904	-
Kinegrams	-	12,473
Biometric Passport	-	129,875
Total	72,463	509,112

In accordance with the Agreement, all inventories on consignment are passed to the Police of the Republic of Armenia as custodian of the passports and ID cards in the territory of the Republic of Armenia.

As discussed in Note 2, the Branch is in the process of negotiating the final clauses relating to the closure of the Agreement with the Republic of Armenia. The management is of the belief that as part of the closure process the inventory balances remaining at December 31, 2016, including ID cards and diplomatic passports, will be realised and as such has not impaired these as obsolete inventory.

7. Trade and other receivables

	December 31, 2016	December 31, 2015
Financial Receivables		
Trade receivables	-	586,051
Non-financial receivables		
Receivables from state budget	3,220	5,372
Prepayments	6,793	6,208
Total trade and other receivables	10,013	597,631

8. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Current accounts	808,562	142,603
Total cash and bank balances	808,562	142,603

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9. Trade and other payables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other financial liabilities:		
Payables for purchases	10,347	16,834
Non-Financial liabilities:		
Tax and other obligatory fees payables	96,436	15,687
Other reserves and provisions	17,915	-
Total trade and other liabilities	<u>124,698</u>	<u>32,521</u>

10. Net assets

The Branch, the whole amount of its assets and other recourses (including financial recourses) reflected on its balance sheet are assets and recourses of the Founder. The Branch has rights to full economical use, operational management, and disposal over all assets and recourse reflected on its balance.

Any assets of the Branch can be used by the Founder for temporary or permanent use free-of charge.

For movement of net assets during the year ended December 31, 2016 see Note 17.

11. Revenue

	<u>2016</u>	<u>2015</u>
Biometric passports	1,104,128	1,891,477
ID cards	728,452	463,558
Non-Biometric Passports	368,220	96,900
Total revenue	<u>2,200,800</u>	<u>2,451,935</u>

12. Cost of sales

	<u>2016</u>	<u>2015</u>
Inventory	791,501	625,991
Technical support and control	84,329	78,138
Amortization and depreciation	54,578	54,578
Impairment loss of licenses	39,953	-
Written off passports and other inventory	11,989	20,378
Other	59,227	41,133
Total	<u>1,041,577</u>	<u>820,218</u>

Other expenses include allocations from the Founder in the amount of AMD 15,536 thousand (2015: AMD 13,788) and ID cards related quarterly license fees in the amount of AMD 15,648 (2015: AMD 24,130) thousand.

As discussed in Note 5, impairment loss licenses arise due to expected discontinuance of issuance of biometric passports.

13. Administrative and other operating expenses

	<u>2016</u>	<u>2015</u>
Overhead expenses allocated to the Branch by the Founder	23,413	42,415
Professional services fees	13,187	13,125
Total	<u>36,600</u>	<u>55,540</u>

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14. Other expenses

	<u>2016</u>	<u>2015</u>
Bank commission and insurance expense	1,832	2,948
VAT receivable written off	1,603	-
Other expenses	4,808	1,609
Total	<u>8,243</u>	<u>4,557</u>

15. Income tax expense

The Branch measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia, which may differ from IFRS. The Branch is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. As of reporting dates, deferred tax assets have not been recognised to the extent that is not probable that there will be sufficient taxable profits against which the Branch utilise the benefits of the temporary differences.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Armenia on taxable profits (as defined) under tax law in that jurisdiction.

	<u>2016</u>	<u>2015</u>
Current tax expense	280,241	340,015
Deferred tax benefit	(41,356)	-
Total income tax expense	<u>238,885</u>	<u>340,015</u>

The income tax expense for the year can be reconciled to the accounting profit as follows:

	<u>2016</u>		<u>2015</u>	
Profit before taxation	<u>1,113,300</u>		<u>1,532,778</u>	
Tax at applicable tax rate of 20%	222,660	20.0%	306,556	20.0%
Non deductible expenses	3,487	0.3%	9,635	0.6%
Deductible temporary differences for which no deferred tax assets have been recognised	11,429	1.0%	-	0%
Prior period underaccrued taxes	<u>1,309</u>	0.1%	<u>23,824</u>	1.6%
Income tax expense	<u>238,885</u>	21.4%	<u>340,015</u>	22.2%

The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position:

in AMD '000	<u>December, 31, 2016</u>	<u>Recognized in profit or loss</u>	<u>December, 31, 2015</u>	<u>Recognized in profit or loss</u>	<u>December, 31, 2014</u>
Deferred tax assets / (liabilities)					
Intangible assets	7,990	7,990	-	-	-
Trade receivables	33,366	33,366	-	-	-
Net deferred tax assets	<u>41,356</u>	<u>41,356</u>	-	-	-

As discussed in Note 2, the Branch is in the process of negotiating the final clauses relating to the closure of the Agreement with the Republic of Armenia. As part of the closure process the Branch has been rejected by the police the receipt of calculated penalty income in the amount of AMD 222,435 due to the deviations of timing of cash inflows from the contractual payment schedules. For taxable profit calculation purposes the calculated penalty income is included as taxable income, for which a deferred tax asset has been recognised in the amount of AMD 33,366 thousand. Given the



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Branch will remain in operation at least till December 31, 2017, see Note 20, management is of the belief that at least 75% of the unreceived penalty income due to the Branch will be available for deduction from 2017 and onwards taxable profits.

16. Commitments and contingencies

Operating environment: Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

The possible effects of these factors on the Branch may include the inability to pay creditors when they become due, impaired reputation, difficulties in selling the goods, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Branch and, accordingly, to going concern problems. Also, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Branch may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Branch may be affected.

The financial statements of the Branch do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

Legal proceedings: The Branch was not involved in legal proceedings at December 31, 2016 and December 31, 2015.

Taxes: The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. 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 severe 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.

Commitments for delivery of services: See Note 20.

17. Related parties

The Branch is a division of its Founder, the Polish Security Printing Works S.A.

Transactions with related parties: The key executives received AMD 6,539 thousand remuneration during the year (2015: AMD 3,213 thousand).

During the reporting year the Branch had the following transactions with its Founder:

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Transactions with the Founder	2016	2015
(Remittances to the Founder, net of contributions) / Contributions from the Founder, net of remittances, beginning of year	(536,432)	1,912,198
Inventory received from the Founder	354,126	366,935
Property and equipment received from the Founder	-	8,842
Overhead expenses allocated to the Branch by the Founder, including AMD 15,536 thousand recognised in cost of sales (2015: AMD 13,788 thousand)	38,949	56,203
Cash transferred to the Branch by the Founder	11,420	988,106
Cash remitted from the Branch to the Founder	(1,650,136)	(3,868,716)
(Remittances to the Founder, net of contributions), end of year	(1,782,073)	(536,432)

18. Financial risk management

The Branch manages its expenditures and net assets to ensure that it will be able to continue as going concern while achieving its goals through the optimization of expenses which are being born during program implementation. The main risks inherent to the Branch's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The most material financial risks, which the Branch may face, are outlined below.

Credit risk – The Branch is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Branch is exposed to credit risk in relation to its bank balances held within cash and cash equivalents and trade receivables as at reporting date.

The following table presents the maximum exposure to credit risk of financial assets. For the financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset.

	December 31, 2016		Total
	Republic of Armenia	OECD countries	
Non-derivative financial assets			
Cash and cash equivalents	808,562	-	808,562
Total non-derivative financial assets	808,562	-	808,562

	December 31, 2015		Total
	Republic of Armenia	OECD countries	
Non-derivative financial assets			
Cash and cash equivalents	142,603	-	142,603
Trade and other receivables	586,051	-	586,051
Total non-derivative financial assets	728,654	-	728,654

Liquidity risk – Liquidity risk is the risk that the Branch will not be able to settle its liabilities when they are due. The following tables show the liquidity analysis of non-derivative financial liabilities at December 31, 2016 and December 31, 2015. For non-derivative financial liabilities, the cash flows

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represent undiscounted cash flows on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in these tables could occur significantly earlier, or at significantly different amounts.

	December 31, 2016		
	Up to 1 month	1 to 6 months	Total
Non-derivative financial assets			
<i>Non-interest bearing financial assets</i>			
Cash and cash equivalents	808,562	-	808,562
Total non-interest bearing financial assets	808,562	-	808,562
<i>Non-interest bearing financial liabilities</i>			
Trade and other payable	(10,347)	-	(10,347)
Total non-interest bearing financial liabilities	(10,347)	-	(10,347)
Liquidity gap	798,215	-	798,215
Cumulative liquidity gap	798,215	-	798,215

	December 31, 2015		
	Up to 1 month	1 to 6 months	Total
Non-derivative financial assets			
<i>Non-interest bearing financial assets</i>			
Cash and cash equivalents	142,603	-	142,603
Trade and other receivables	-	586,051	586,051
Total non-interest bearing financial assets	142,603	586,051	728,654
<i>Non-interest bearing financial liabilities</i>			
Trade and other payables	(16,834)	-	(16,834)
Total non-interest bearing financial liabilities	(16,834)	-	(16,834)
Liquidity gap	125,769	586,051	711,820
Cumulative liquidity gap	125,769	711,820	711,820

Market risk - Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Branch's financial performance or the value of its holdings of financial instruments.

Foreign currency risk: Foreign currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branch's operations are carried out primarily in Armenia and, as such, a significant portion of the Branch's business is transacted in local currency – Armenian Drams.

The Branch's exposure to foreign currency exchange rate risk at reporting date is presented below:

	December 31, 2016		
	AMD	EUR	Total
Financial assets			
Cash and cash equivalents	300,715	507,847	808,562
Total financial assets	300,715	507,847	808,562
Financial liabilities			
Other financial liabilities	7,344	3,003	10,347
Total financial liabilities	7,344	3,003	10,347
Open balance sheet position	293,371	504,844	798,215

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	December 31, 2015		
	AMD	EUR	Total
Financial assets			
Cash and cash equivalents	141,534	1,069	142,603
Trade receivables	586,051	-	586,051
Total financial assets	727,585	1,069	728,654
Financial liabilities			
Other financial liabilities	11,460	5,374	16,834
Total financial liabilities	11,460	5,374	16,834
Open balance sheet position	716,125	(4,305)	711,820

Currency risk sensitivity: The following table details the Branch's sensitivity to a 10% increase and decrease in the AMD against the EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably 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. A positive number below indicates an increase in profit and net assets where the AMD appreciates 10% against EUR.

	Impact on profit or loss	Impact on net assets
10% appreciation of AMD against EUR		
At December 31, 2016	(50,484)	(50,484)
At December 31, 2015	431	431

Limitations of sensitivity analysis: The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

19. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The management considers that due to the short term nature of Branch's financial assets and financial liabilities, their carrying amounts recognized in the statement of financial position at reporting date approximate their fair values.

20. Subsequent event

On February 22, 2017 the Branch signed an additional agreement to deliver 500,000 non biometric passports through the months from May to December 2017 for a total amount of AMD 581,400 thousand. The payments for the above delivery of passports as per the above addendum is scheduled to take place during the same months of delivery. As of the date of issuance of these financial statements negotiations and agreements in respect of the closure of the Agreement and treatment of remaining inventory balances and financial arrangements.