

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Financial Statements and Independent Auditor's Report
For the year ended December 31, 2017

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

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STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2017
(In thousands of Armenian Drams, unless otherwise stated)

	Notes	December 31, 2017	December 31, 2016
Assets:			
Non-current assets			
Intangible assets	5	-	10,080
Property and equipment		-	-
Deferred tax assets	14	41,356	41,356
Total non-current assets		41,356	51,436
Current assets			
Inventories	6	-	72,463
Trade and other receivables	7	5,101	10,013
Cash and cash equivalents	8	436,131	808,562
Total current assets		441,232	891,038
Total assets		482,588	942,474
Liabilities:			
Current liabilities			
Trade and other payables	9	9,266	124,698
Current tax liability			116,240
Total current liabilities		9,266	240,938
Net assets attributable to the Founder			
	10	473,322	701,536
Represented by:			
Contributions from the Founder, net of remittances to the Founder	16	(1,971,543)	(1,782,073)
Retained earnings		2,444,865	2,483,609
		473,322	701,536

Approved for issuance and signed on behalf of management on March 26, 2018.

Członek Zarządu
Dariusz Nowakowski

Członek Rady Nadzorczej
 delegowany do czasowego wykonywania
 czynności Prezesa Zarządu
Tomasz Karusewicz

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Agnieszka Matejko
 Chief Accountant
 Polish Security Printing Works Armenian Branch

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, 2017**

(In thousands of Armenian Drams, unless otherwise stated)

	Notes	<u>2017</u>	<u>2016</u>
Revenue	11	577,834	2,200,800
Cost of sales	12	(485,062)	(1,041,577)
Gross profit		92,772	1,159,223
Finance income			457
Other income		16,486	
Administrative and other operating expenses		(14,883)	(36,600)
Other expenses	13	(1,945)	(8,243)
Fees and penalties		(2,130)	(1,141)
Net loss on foreign exchange operations Reserve		(2,409)	(396)
		(108,131)	
Profit(loss) before tax		(20,240)	1,113,300
Income tax expense	14	(18,504)	(238,885)
Profit(loss) and total comprehensive income for the year		(38,744)	874,415

Approved for issuance and signed on behalf of management on March 26, 2018.

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Chief Accountant

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POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands of Armenian Drams, unless otherwise stated)

	<u>Net assets attributable to the Founder</u>
Balance at January 1, 2016	1,072,762
Profit and total comprehensive income for the year	874,415
Contributions from the Founder, Note 16	404,495
Remittances to the Founder, Note 16	(1,650,136)
Balance at December 31, 2016	701,536
Profit(loss) and total comprehensive income for the year	(38,744)
Contributions from the Founder, Note 16	498,774
Remittances to the Founder, Note 16	(688,244)
Balance at December 31, 2017	473,322

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POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands of Armenian Drams, unless otherwise stated)

Notes	2017	2016
Cash flows from operating activities:		
Profit(loss) for the year	(38,744)	874,415
Adjustments for:		
Income tax expense recognized in profit or loss	18,504	238,885
Adjustments for cost of inventory received from the founder included in cost of sales	464,110	791,631
Adjustments for overhead expenses allocated to the branch by the founder		38,949
Depreciation and amortization	10,080	54,578
Written off passports and other inventory included in cost of sales	-	11,989
Net foreign exchange loss	2,409	396
Impairment of intangible assets	-	39,953
Reserve	108,131	
Movements in working capital:		
Decrease in receivables	4,912	587,610
Increase in payables	(113,471)	88,304
Net cash from operating activities before income taxes paid	455,931	2,726,711
Current income tax paid	(140,118)	(421,579)
Net cash from operating activities	315,813	2,305,132
Cash flows from investing activities:		
Acquisition of property and equipment	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Cash received from the founder	-	11,420
Remittances to the founder	(688,244)	(1,650,136)
Net cash used in financing activities	(688,244)	(1,638,716)
Net increase/ (decrease) in cash and cash equivalents	(372,431)	666,416
Cash and cash equivalents at the beginning of the year	808,562	142,603
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	-	(457)
Cash and cash equivalents at the end of the year	436,131	808,562

Approved for issuance and signed on behalf of management on March 26, 2018.

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POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Notes to the financial statements for the year ended December 31, 2017 (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 19 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 2018 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, 2017 (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	2017	December 31, 2016	December 31, 2017
AMD/1 Euro	531.86	545.10	512.20	580.10

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, 2017 (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).

Financial instruments:

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

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Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

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.

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

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

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)

In the current year the Branch has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Branch.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

The amendments to IAS 7, effective 1 January 2017, require the Branch to provide disclosures about the changes in liabilities from financing activities. The Branch categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 .

Amendments to IAS 12 Income Taxes

The IASB has issued Recognition of Deferred Tax Assets for Unrealized Losses, which makes narrow-scope amendments to IAS 12 Income Taxes. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Branch's financial statements from these Amendments.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Branch are summarized below:

IFRS 12 Disclosure of Interests in Other Entities

Clarification of the scope of the Standard.

IFRS 12 is required to be applied retrospectively in accordance with IAS 8.

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

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

Management anticipates that all of the relevant pronouncements will be adopted in the the Branch's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Branch's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the the Branch's financial statements.

Amendments to IAS 40 Investment Property: Transfers of Investment Property

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

Amendments to IAS 40 are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 9 Financial Instruments

The IASB released IFRS 9 Financial Instruments, representing the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces

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Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Branch's management have yet to assess the impact of this new standard on the Branch's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 Revenue, IAS 11 Construction Contracts, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Branch's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The the Branch's management have not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Branch initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Branch shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRIC 23 Uncertainty over Income Tax Treatment

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Branch are summarized below:

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**Notes to the financial statements for the year ended December 31, 2017
(in thousands of Armenian Drams, unless otherwise stated)**

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters

IFRS 1 is effective for annual periods beginning on or after 1 January 2018

IAS 28 Investments in Associates and Joint Ventures

Measuring an associate or a joint venture at fair value

IAS 28 should be applied retrospectively in accordance with IAS 8 for annual periods beginning on or after 1 January 2018, however early application is permitted.

5. Intangible assets

	<u>Licenses</u>	<u>Software</u>	<u>Total</u>
Cost			
Balance at January 1, 2016	272,688	165	272,853
Balance at December 31, 2016	272,688	165	272,853
Balance at December 31, 2017	272,688	165	272,853
Accumulated amortization			
Balance at January 1, 2016	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
Amortization charge	10,038	42	10,080
Balance at December 31, 2017	272,688	165	272,853
Net book value at:			
December 31, 2017	-	-	-
December 31, 2016	10,038	42	10,080
January 1, 2016	104,529	82	104,611

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
ID Cards	-	50,111
Diplomatic Passports	-	13,448
Card readers	-	8,904
Kinegrams	-	-
Biometric Passport	-	-
Fingerprint reader ARH AF510	-	-
OCR reader Combo Smart RS	-	-
Power supply unit for ARH AF510 reader	-	-
Total	-	72,463

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Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

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.

The Branch impaired the whole amount of inventory balance 108,131 thousand AMD as of 31 December, 2017

7. Trade and other receivables	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial Receivables		
Trade receivables	-	-
Non-financial receivables		
Receivables from state budget	3,436	3,220
Prepayments	1,665	6,793
Total trade and other receivables	<u>5,101</u>	<u>10,013</u>

8. Cash and cash equivalents	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current accounts	436,131	808,562
Total cash and bank balances	<u>436,131</u>	<u>808,562</u>

9. Trade and other payables	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other financial liabilities:		
Payables for purchases	962	10,347
Non-Financial liabilities:		
Tax and other obligatory fees payables	8,304	96,436
Other reserves and provisions	-	17,915
Total trade and other liabilities	<u>9,266</u>	<u>124,698</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, 2017 see Note 16.

11. Revenue	<u>2017</u>	<u>2016</u>
Biometric passports	93,334	1,104,128
ID cards	-	728,452
Non-Biometric Passports	484,500	368,220
Total revenue	<u>577,834</u>	<u>2,200,800</u>

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**Notes to the financial statements for the year ended December 31, 2017
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12. Cost of sales

	<u>2017</u>	<u>2016</u>
Inventory	464,110	791,501
Technical support and control	9,302	84,329
Amortization and depreciation	10,080	54,578
Written off passports and other inventory		11,989
Impairment loss of licenses		39,953
Other	1,570	59,227
Total	<u>485,062</u>	<u>1,041,577</u>

13. Other expenses

	<u>2017</u>	<u>2016</u>
Bank commission and insurance expense	690	1,832
VAT receivable written off		1,603
Other expenses	1,255	4,808
Total	<u>1,945</u>	<u>8,243</u>

14. 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>2017</u>	<u>2016</u>
Current tax expense	18,504	280,241
Deferred tax benefit	-	(41,356)
Total income tax expense	<u>18,504</u>	<u>238,885</u>

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

	<u>2017</u>		<u>2016</u>	
Profit before taxation	(20,240)		1,113,300	
Tax at applicable tax rate of 20%	(4,048)	-20.0%	222,660	20.0%
Non deductible expenses	22,552	111.4%	3,487	0.3%
Deductible temporary differences for which no deferred tax assets have been recognised			11,429	1.0%
Prior period underaccrued taxes			1,309	0.1%
Income tax expense	<u>18,504</u>	91.4%	<u>238,885</u>	21.4%

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

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Notes to the financial statements for the year ended December 31, 2017
(in thousands of Armenian Drams, unless otherwise stated)

in AMD '000	December, 31, 2017	Recognized in profit or loss	December, 31, 2016	Recognized in profit or loss
Deferred tax assets / (liabilities)				
Intangible assets	7,990	-	7,990	7,990
Trade receivables	33,366	-	33,366	33,366
Net deferred tax assets	41,356	-	41,356	41,356

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 recognized the amount of AMD 33,366 thousand. 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.

15. 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, 2017 and December 31, 2016.

Taxes: The taxation system in Armenia is relatively new and is characterized by frequently changing

POLISH SECURITY PRINTING WORKS ARMENIAN BRANCH

Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

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 19.

16. Related parties

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

Transactions with related parties: The key executive personnel did not receive any remuneration during the reporting period (2016: AMD 6,539 thousand).

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

Transactions with the Founder	2017	2016
(Remittances to the Founder, net of contributions) / Contributions from the Founder, net of remittances, beginning of year	(1,782,073)	(536,432)
Inventory received from the Founder	498,774	354,126
Property and equipment received from the Founder	-	-
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
Cash transferred to the Branch by the Founder	-	11,420
Cash remitted from the Branch to the Founder	(688,244)	(1,650,136)
(Remittances to the Founder, net of contributions), end of year	(1,971,543)	(1,782,073)

17. 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.

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**Notes to the financial statements for the year ended December 31, 2017
(in thousands of Armenian Drams, unless otherwise stated)**

	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, 2017		Total
	Republic of Armenia	OECD countries	
Non-derivative financial assets			
Cash and cash equivalents	436,131	-	436,131
Total non-derivative financial assets	436,131	-	436,131

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, 2017 and December 31, 2016. For non-derivative financial liabilities, the cash flows 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		Total
	Up to 1 month	1 to 6 months	
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, 2017		Total
	Up to 1 month	1 to 6 months	
Non-derivative financial assets			
<i>Non-interest bearing financial assets</i>			
Cash and cash equivalents	436,131	-	436,131
Total non-interest bearing financial assets	436,131	-	436,131
<i>Non-interest bearing financial liabilities</i>			
Trade and other payables	(962)	-	(962)
Total non-interest bearing financial liabilities	(962)	-	(962)
Liquidity gap	435,169	-	435,169
Cumulative liquidity gap	435,169	-	435,169

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Notes to the financial statements for the year ended December 31, 2017 (in thousands of Armenian Drams, unless otherwise stated)

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, 2017		
	AMD	EUR	Total
Financial assets			
Cash and cash equivalents	434,250	1,881	436,131
Total financial assets	434,250	1,881	436,131
Financial liabilities			
Other financial liabilities	962	-	962
Total financial liabilities	962	-	962
Open balance sheet position	433,288	1,881	435,169
	December 31, 2016		
	AMD	EUR	Total
Financial assets			
Cash and cash equivalents	300,715	507,847	808,562
Trade receivables			
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

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, 2017	(188)	(188)
At December 31, 2016	(50,484)	(50,484)

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.

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**Notes to the financial statements for the year ended December 31, 2017
(in thousands of Armenian Drams, unless otherwise stated)**

18. 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.

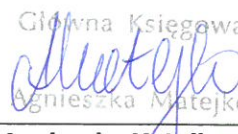
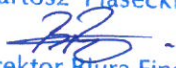
The management considers that due to the short term nature of Branch's financial assets and financial liabilities, their carrying amounts recognized in the statement of financial position at reporting date approximate their fair values.


19. Subsequent event

The Company's current year losses amounted to drams 38,744 thousand. The main contract signed with RA Police has expired and it's not expected to be renewed. The Company won't be able to generate revenue in future periods without renewal of the existing contract. As a result, the Company impaired the whole amount of inventory balance 108,131 thousand AMD as of 31 December, 2017.

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 are in progress.

Polish Security Printing Works Armenian Branch

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