



# MANAGEMENT REPORT

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**METRO SERVICE +**

**2018**

# MANAGEMENT REPORT

## Introduction

This document incorporates the essential components of the Company such as type of activity, service standards and estimated values. It also embraces both the past achievements of the Company and set goals for the future. In addition, we share the analytical information on those business risks creating minor or significant obstacles to the activity of the Company.

This document reflects our vision, future plans and standard of corporate ethics applicable within the Company.

## Overview of the Activities

### About the Company

The Company “METRO SERVICE+“ was established in 2006. It was the first company in Georgia that implemented Transport Fare Card Payment System and has been operating in the field of fare collection and administration in municipal transport and cableway systems for 12 years already. “Metro Service +“ operates 33 service centers in Tbilisi and Batumi and serves about 700 000 passengers, 1 000 municipal buses and 2 000 minibuses every day. All around Georgia, the Company owns around 3000 self-service terminals that enable the passengers to deposit amounts into the cards and to pay fines.

In 2014, JSC “Express Technologies” became 100% shareholder of the Company, which is focused on investing and developing the payment sector. The company founded in 2006 is oriented to achieving progress in payment system in Georgia, implementing an innovative transaction processing system and the ways to deliver the solutions based upon IT technologies. JSC “Express Technologies” group companies create a payment system platform focused on satisfaction of high-priority and diverse demands on the market.

Main entities of a target group are financial institutions, governmental authorities, telecommunication and utilities service providers, small and medium-sized businesses. Proposed products, other than the payment platform, include inter alia the plastic card issuance, transaction processing and automated fare collection system.

### Who We Are

Public transport demand increases as a result of urban development, which requires a continuous investment in new infrastructure, operating expenses increase and it should not impact on service quality and efficiency.

Transport system operation challenges include to integrate external infrastructure with internal system, management and analytics of increasing volume of information and its integral and fundamental part – transaction processing and fare collection.

In the aggregate, all above-mentioned components constitute fare collection management system, which was successfully implemented by "Metro Service +" LTD.

The Company issues a non-personalized plastic card "Metromoney" by means of which the fare may be paid in Tbilisi metro stations, buses, cableways and minibuses. The infrastructure installed in different types of transport facilities enables to pay fares with the bank cards as well. Electronic fare collection system processes hundred thousands of transactions per day, with a minimum involvement of customers, which means the use of plastic cards make the payment process as easy as possible, a long queue to get the tickets and mobilization of daily working cash in all transport are no longer necessary.

Electronic payments make the analytical activity easier as well - in particular, in terms of determination of strategically important lines and transport distribution management.

From 2007 to present, 4 219 701 Metromoney have been issued, including according to the current data, 896 467 are active, by use of them about 949 000 transactions are made every day, with average GEL 8 200 490 monthly turnover.

## Financial Summary

The Company is incorporated in the structure of public limited liability company "Bank of Georgia Group" traded on London Stock Exchange. Therefore, upon the founder's request, Company's accounting policy has been in line with IFRS Standards since its establishment. The first financial statement audited in compliance with IFRS Standards was published in 2018. EY Georgia LLC provided the auditing service to the Company and the relevant statement was published which reflected the financial position for the last three years. In December 2018, the Company changed the auditing service provider and the financial statement audit of 2018 was carried out by NEXIA TA LLC. Financial summary of the Company is given below.

### Statement of financial position

	<u>2018</u>	<u>2017</u>
Total assets	<u>19,865</u>	<u>8,814</u>
Total capital	<u>7,533</u>	<u>4,346</u>
Total capital and liabilities	<u>19,865</u>	<u>8,814</u>

### Consolidated Income Statement

	<u>2018</u>	<u>2017</u>
Total revenues	10,364	7,133
Total operating expenses	(6,621)	(5,739)
<b>Profit from Operating Activities</b>	<b>3,743</b>	<b>1,394</b>
Other financial components	(556)	108
<b>Profit (loss) before taxation</b>	<b>3,187</b>	<b>1,502</b>
profit tax expense	-	-
<b>Annual profit/(loss) and total gross income</b>	<b>3,187</b>	<b>1,502</b>

## Experience and Projects of the Company

In 2006 "Metro Service +" and Tbilisi Metro concluded the contract aiming to ensure fare collection and administration. Within the framework of this project, Tbilisi metro services and infrastructure were fully modernized by Metro Service +", including the card payment system was implemented.

In 2009 "Metro Service +" concluded the contract with Tbilisi buses within which 1400 cash registers and GPS/GPRS Module were installed in 700 buses, parallel data transfer system was implemented. This project ensures transmission of GPS coordinates of bus to Transport Company's server.

Since 2009, by means of more than 3200 self-service terminals throughout Georgia, innovative travel card TOPUP system has been applicable.

In 2009, "Metro Service +" carried out first social transport project for students with the Company Magticom (Bali Card).

In 2011, 10-year exclusive contract with managing companies of Tbilisi minibuses was executed within which card payment system was implemented in about 2000 mini buses.

In 2011, together with Tbilisi City Hall and Tbilisi Transport Company, "Metro Service +" accomplished the passenger vouchering project with the purpose of depositing 5 GEL to the travel cards of up to 1.5 million passengers for the payment of the travel fares within the municipal transport.

In 2011, Bank of Georgia issued the universal Express Card with the travel function. The card holder does not have to perform a travel card TOPUP procedure and the amount of fare is deducted from the bank account already, on which the salary or other revenues are charged. Moreover, Express Card holder may use bonus points accumulated in different points of sale in the transport.

In 2012, card system was implemented in the Rike-Narikala cableway, and in 2016 the same was accomplished for the renewed Vake -Turtle Lake cableway.

Within the same 2016, modern card validators were installed in 143 new "Man" busses, while in the old "Bogdan" busses 130 old cash registers were replaced with the new ones.

In 2016, new universal bank card – the "School card" – with the travel function were issued. Within the same 2016, the universal bank "Stickers" with the travel function were issued as well.

From January 2017, the new card system was implemented in the Batumi Municipal transport as well, namely, new card validators were installed in 150 busses. With the purpose of the travel fare payment control, the controllers and conductors were provided with the special equipment. Well-equipped modern service center was created to ensure the issue of the standard travel cards "Batumi cards", as well as that of the personalized preferential cards with the applied photos of the beneficiaries.

The payment system created within the framework of the „Metro Service +" Transport Project undergoes continuous modifications, renewals and adaptations. From 2006 until today, up to 150 renewals and modifications have been implemented, including the major changes of the tariff scheme:

- Implementation of the discount system based on the exits;
- Implementation of the discount system based on the sequence/quantity of the travel;
- Implementation of the discount system based on the time.

By means of emission of both the bank cards, and the ordinary travel cards, „Metro Service +" provided support of around 20 different types of card, for various categories of the passengers. The Company has a highly qualified technical group that provides the technical service of the payment devices installed in the municipal busses of Tbilisi and Batumi, ensuring the fastest response in case of the damage/failure. „Metro

Service +” ensures continuous and uninterrupted implementation of the procedures related to the service quality improvement.

## **Future Plans**

In 2017, Bank of Georgia” won the competition announced by Tbilisi City Hall for “Modernization of the Fare Payment System in the Public Transport”. Within the project, from October 2018, fare payment system by means of all types of Georgian and foreign cards will be activated in Tbilisi metro, buses and cableways. Municipal transport will be equipped with new ticket machines, validation and card reading machines, the special mobile application will be developed with travel planning and ticket purchasing functionality. 'Metro Service +' as the subcontractor of the Bank is responsible for fulfillment of terms and conditions of tender and further operation.

## **Risk Factors**

### **Fraud**

Along with the development of information technologies, types of crime become diversified, property damage may occur as a result of fraud and misconduct of the customer. To "swindle" a technology and the attempts to top-up the balance in this way rarely but still take place. Only few number of such attempts may complete successfully in which case the damage is totally eliminated with the help of law enforcement bodies.

## **Information Security**

In 21<sup>st</sup> century the increasing number of cyber attacks and phishing scams pose a significant threat to all businesses. Priority target for the offenders is a finance sector, therefore, we are always conscious of expected attacks and establish high information security standards throughout the company. Security mechanisms include state of art and well-known products which ensure internal network protection from the external impact as well as the leak of sensitive information within the network. Relevant software is applied for monitoring of the existing devices, by means of which each event occurred on the devices important for the Company and personal computers of the customers is controlled. In addition, for ensuring the information security, awareness raising trainings are often conducted for the employees, each employee is provided with strictly defined instructions about how to act in any suspicious situation.

It should be noted that irrespective of recent massive cyber attacks, 'Metro Service +' has never got infected with a harmful virus which would lead to damage or disclosure of our confidential information.

## **Fighting against the Illicit Income Legalization**

The Company strives to establish high standards and prevent any case of money laundering and terrorism funding. Primary precondition to cooperate with us is a thorough inquiry into the partners' activities, reputation and essential details.

Prevention of the turnover of the revenues from illegal activity is of high priority. In case of any suspicion in this respect, we apply to the competent authorities for relevant instructions and adequate response.

Metro Service+ Ltd takes into account all the requirements and recommendations of National Bank of Georgia and Financial Monitoring Service; we actively cooperate with them and make our efforts to contribute to prevention of illicit income and combating against terrorism. No illegal case carried out by means of our payment channels or activities has detected until today.

## **Corporate Governance Reporting**

Organizational structure of the Company, to the maximum extent possible, is customized with simplification and efficiency of the business activity, Director Davit Liparteliani holds the leading position in the structure.

### **Short biography of the Director**

Davit Liparteliani was appointed to the position of the Director of Metro Service+ Ltd in 2006 and he has been continuously and successfully leading the company for 12 years already. He has extensive experience of working in a finance sector. His work experience starts from 1998. In 1998-2002 he worked as an economic sector officer in Intelinvest Ltd. In 2002-2003 he works as a financial director of JSC Poti Gemtsasheni, in 2003-2006 he was a chairman of the Supervisory Board in "Black Metal Inter" LLC.

Davit Liparteliani graduated from Microeconomics and Management faculty of Ivane Javakhishvili Tbilisi State University qualifying as information systems manager

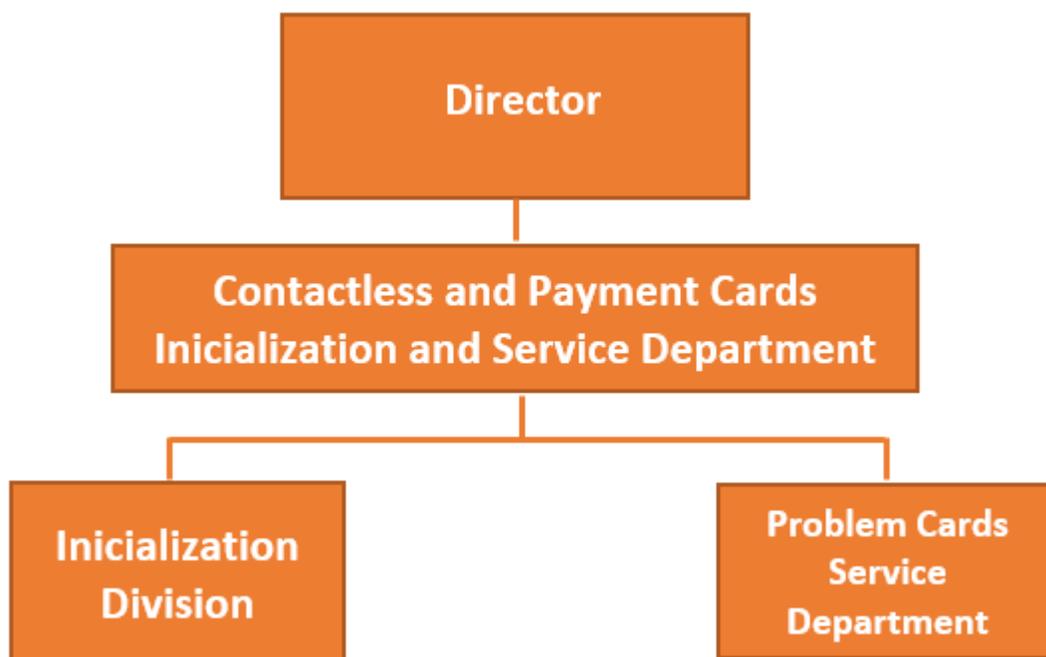
### **Characteristics and Examples of the Structure**

Corporate structure consists of subdivisions linked with horizontal and vertical lines all of which are subordinate to the director or/and supervising structural unit. These structural divisions are responsible for business operations of the Company.

Each structural unit has its separate procedural documentation which is subject to further distribution with job descriptions relevant to each position.

In developing and upgrading the organizational structure, precise segregation of the rights and obligations and clear expression of procedural instructions are of crucial importance for full and proper performance of the work assumed so that to effectively apply human and material resources.

Example of structural division



## Company Policies

To implement corporate governance principles according to the international regulations and the best practice, the Company has developed the policies establishing the rules for employee behaviour and an adequate response to each violation.

Among these policies, the following is of particular importance:

### Conflicts of Interest Management Policy

This policy sets out how we aim to determine, manage and prevent any existng and potencial conflicts of interest. This policy is designed to interpret the topics related to the conflicts of interest and help the staff in their prevention and adequate response, in particular it:

- Sets out the circumstances which could give rise to a conflict of interests;
- Describes the procedures, systems and regulations to identify, prevent and control possible conflicts of interest;
- Protects the interests of the Company, its customers, employees, investors and suppliers through developing a relevant measures for elimination of the conflict;
- Ensures compliance with the regulations of the National Bank of Georgia.

Restrictions/prohibitions set for prevention of the conflict of interest are:

- Activity outside of employer company;
- familial relations among the subordinate employees;

- gambling addiction;
- drug addiction
- personal transactions.

## **Personal Data Protection Policy**

This document aims to introduce and describe the necessary processes and regulations according to the Law of Georgia on Personal Data Protection and international standards, as well as to impose required restrictions on the employees in this regard and at the same time to protect their personal data from illegal and unauthorized use.

## **Information Classification and Management Policy**

To improve preventive and detective controls over the use of information resources, information architecture infrastructure should be developed which means to classify the information by risk-based approach, as well as to determine relevant responsible persons, to sort information and information resources according to the level of confidentiality, to develop other access and use rules.

Under this policy, information is divided into four categories of confidentiality – in particular, “Public”, “for internal use”, “Confidential” and “strictly confidential”. Information management is regulated according to these levels and provides for the rules of marking, movement, access granting, storage and destruction of the information.

## **Notification Management Policy**

This policy aims to promote creation of such environment in the employer organization where any incompliance or violation will be promptly detected and suppressed. The employees of the Company are those persons witnessing any misconduct or violation around them. Pursuant to the policy employer company ensures anonymity of the applicant, whose application is considered with full responsibility and strict maintenance of confidentiality.

## **Overview of the rights of general meeting of partners and the rules for their implementation**

JSC Express Technologies is 100% shareholder of the Company, rights and obligations of the partners are governed by the charter of the Company which is publicly available document.

The partners' meeting is the highest governing body of the Company; the partner is authorized to manage the Company solely or by the representative.

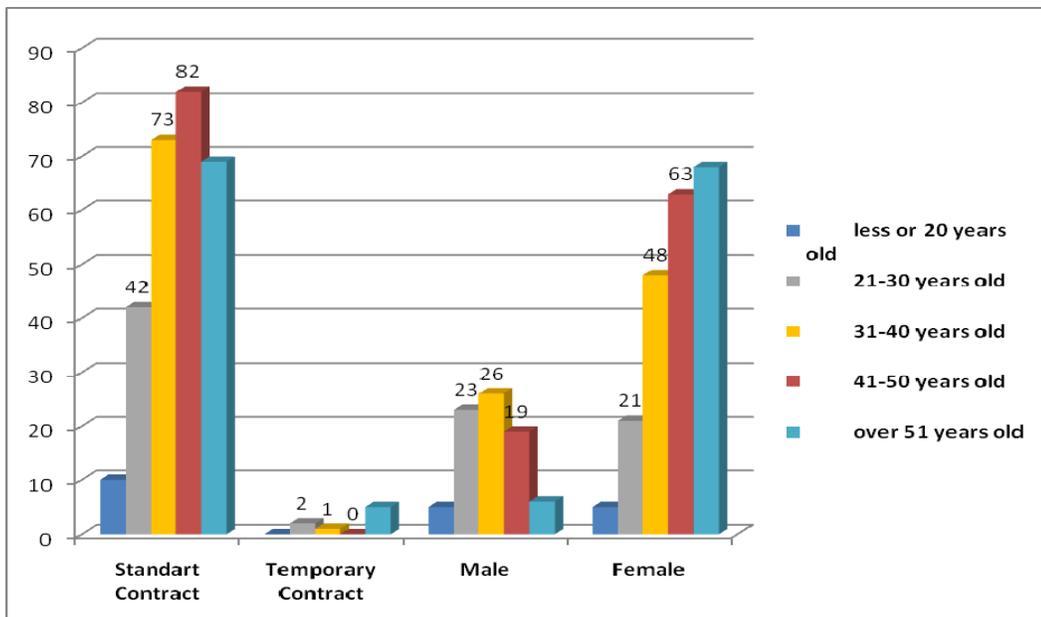
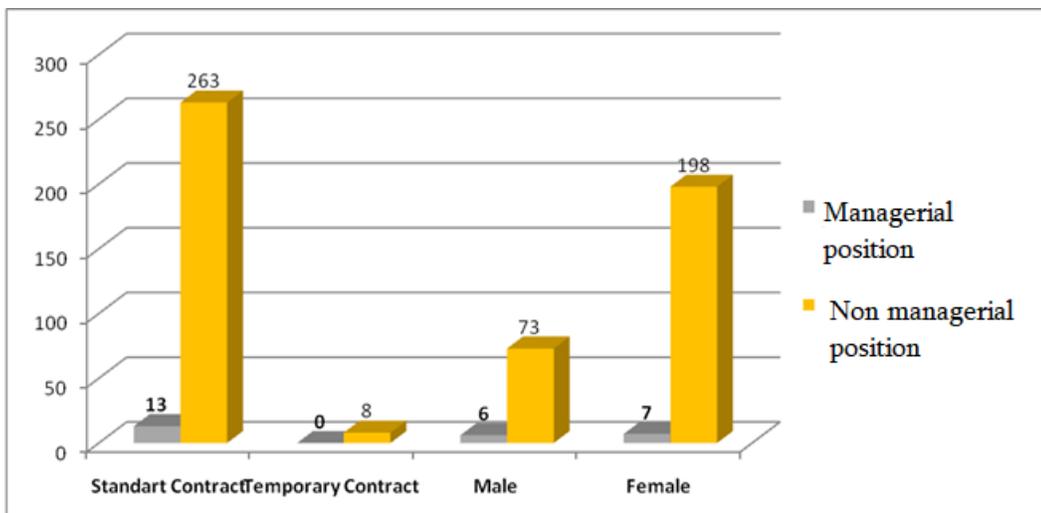
Ordinary meeting of partners is held once over the year, within two months upon completion of the economic year. Additional information on the body with managerial authority is given in the Charter of the Company.

# Non-Financial Reporting

## Our Team

Our Company employs around 280 persons (average number of employees -242 in 2018). From a larger number of candidates, we make choice to the benefit of the most motivated and driven persons. Human resources play the essential role in efficient performance of the Company's business, therefore, we strive to create optimal conditions for efficient working and professional development. The basic pillar of our employee-oriented approach is the principle of fairness which we try to express through relevant remuneration, granting of additional bonuses and respecting for the diversity always characterized for any wide circle of human beings.

Gender balance of the Company's employees by managerial and non-managerial positions, as well as the examples of age diversity are illustrated below:



We understand and take our responsibility before our employees, however, in exchange for it, the employees should prove to be diligent towards the work, which is clearly specified in our internal labour regulations and code of ethics.

### **Healthy work environment**

It should be noted that since starting a business activity until today only one case concerning the labour dispute has been initiated against Metro Service + Ltd. We recognize that our employees guarantee our success, that's why we make all efforts to create equal opportunities to develop for each and all employees.

it is worth noting that we strictly protect the personal data about our employees and customers, relevant security mechanisms against the risks are the subject to periodic review and update. The information on personal data catalogues at the disposal of Metro Service + Ltd is available on the official website of Personal Data Protection Office.

### **Occupational Safety and Health**

Minimum safety standards are established by the legislation, we strive to become familiarized with the internationally recognized best practice and provide our employees with safe and healthy working environment.

The company's building is equipped with fire prevention infrastructure, relevant training is conducted for the employees how to act to avoid the accident and to ensure a fast response to the natural disasters and unforeseen events.

Business continuity management policy is developed and key employee group responsible for crisis management is allocated.

### **Fighting against Corruption**

Corruption and accepting/giving a bribe is prohibited within the Company, irrespective of its amount and form thereof. We strictly assess any act or transaction which may be considered as an unlawful influence on the decisions directed to the company.

To regulate this field, the company applies the quite comprehensive policy on Conflicts of Interest Management, and the dedicated structural unit carries out control in order than any employee and any act performed by or within the company to be in compliance with this policy.

### **Persons responsible for preparation and submission of the report**

The person authorized to manage the Company – Director shall be responsible to submit the management report.