Metro Service + LLC

IFRS Financial Statements

For the year ended 31 December 2019
Together with Independent Auditor’s Report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Owner and the Management of Metro Service + LLC

Opinion

We have audited the financial statements of Metro Service + LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the "IESBA Code".

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

Emphasis of Matter

We draw attention to note 19 to the financial statements, which describes a significant concentration of the company's transactions with related parties. Our opinion is not modified in respect of this matter.

Other Information included in the Company's Management Report

Management is responsible for the other information. Other information comprises the information included in the Management Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with the requirements of the respective regulatory normative acts, or otherwise appears to be materially misstated based on our knowledge obtained in the audit. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In our opinion, based on the work performed in the course of our audit, the information given in the Management Report, in all material respects:

- Is consistent with the financial statements for the year ended 31 December 2019; and
- Includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Gela Mghebrishvili.

For and on behalf of Nexia TA LLC

June 15, 2020

Tbilisi, Georgia

INDEPENDENT AUDITOR'S REPORT

To the Owner and the Management of Metro Service + LLC

Opinion

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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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 ISA will always detect a material misstatement when it exists.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
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June 15, 2020

Tbilisi, Georgia

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

(Thousands of Georgian Lari)

	Notes	*2019*	*2018*
Assets			
Non-current assets			
Property and equipment	6	18,361	11,346
Intangible assets		448	333
Right-of-use assets	13	401	-
Prepayments for equipment and intangible assets		1,691	1,896
		20,901	**13,575**
Current assets			
Inventories	7	467	227
Prepayments and other current assets	8	257	227
Accounts receivable	9	442	702
Cash and cash equivalents	10	3,608	5,134
		4,774	**6,290**
Total assets		**25,675**	**19,865**
Equity			
Charter capital	11	2,850	2,850
Retained earnings	11	5,105	4,683
Total equity		**7,955**	**7,533**
Non-current liabilities			
Advances received	14	12,250	4,450
Lease liabilities		170	-
		12,420	**4,450**
Current liabilities			
Accounts payable	12	856	3,664
Advances received	14	4,200	4,202
Lease liabilities	13	228	-
Income tax payable		16	16
		5,300	**7,882**
Total liabilities		**17,720**	**12,332**
Total equity and liabilities		**25,675**	**19,865**

The financial statements on pages 4 to 23 were approved by the management of Metro Service + LLC on 15 June 2020 and signed on its behalf by:

Davit Liparteliani Director

15 June 2020

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

(Thousands of Georgian Lari)

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DavitLiparteliani Director

15 June 2020

The accompanying notes on pages 8 to 23 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

	Notes	***2019***	***2018***
Revenue from transaction processing		7,392	8,231
Fees from sale and initiation of transport cards		556	666
Revenue from fleet management		603	492
Total revenues	14	**8,551**	**9,389**
Other operating income	15	1,801	975
Salaries and other employee benefits	16	(3,971)	(3,044)
Rent	6, 13	-	(993)
Depreciation and amortization	13	(1,522)	(527)
Other operating expenses	15	(3,339)	(2,057)
Operating profit		**1,520**	**3,743**
Other financial expenses		(1,083)	(525)
Foreign exchange loss, net		(15)	(31)
Profit before income tax expense		**422**	**3,187**
Income tax charge	17	-	-
Profit and total comprehensive income for the year		**422**	**3,187**

The accompanying notes on pages 8 to 23 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

	Notes	***Charter capital***	***Retained earnings***	***Total***
31 December 2017	11	**2,850**	**1,496**	**4,346**
Total comprehensive income for the year		-	3,187	3,187
31 December 2018	11	**2,850**	**4,683**	**7,533**
Total comprehensive income for the year		-	422	422
31 December 2019	11	**2,850**	**5,105**	**7,955**

The accompanying notes on pages 8 to 23 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

	Notes	*2019*	*2018*
Cash flows from operating activities			
Profit before tax		422	3,187
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	6; 13	1,522	527
Finance cost		20	-
Working capital adjustments:			
Change in inventories		(240)	71
Change in prepayments and other current assets		(30)	(1,548)
Change in accounts receivable		260	(99)
Change in accounts payable and other liabilities		4,990	7,869
Net cash flows from operating activities before income tax		**6,944**	**10,007**
Interest paid		(20)	-
Income tax paid		-	(5)
Net cash flows from operating activities		**6,924**	**10,002**
Cash flows used in investing activities			
Purchase of property and equipment and intangible assets	6	(8,279)	(10,007)
Proceeds from sale of property and equipment		3	11
Net cash used in investing activities		**(8,276)**	**(9,996)**
Cash flows used in financing activities			
Payments of principal portion of lease liabilities	13	(174)	-
Net cash used in financing activities		**(174)**	
Net increase / (decrease) in cash and cash equivalents		**(1,526)**	**6**
Cash and cash equivalents, beginning	10	**5,134**	**5,128**
Cash and cash equivalents, end	10	**3,608**	**5,134**

The accompanying notes on pages 8 to 23 form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

1. Background

Metro Service + LLC ("the Company") is a limited liability company incorporated on 5 May 2006.

Company's legal address is located at 106 Beliashvili Street, Tbilisi, Georgia.

Acting as a sub-contractor of JSC Bank of Georgia, the company provides implementation, operation and maintenance of fare collection system throughout the public transportation network.

The Company is fully owned by JSC Express Technologies ("the Parent") and the ultimate controlling party is Bank of Georgia Group PLC, a UK based entity listed on London Stock Exchange.

These financial statements have not yet been approved by the owner. The owner has the power and authority to amend the financial statements after issue.

2. Basis of preparation

(a) Statement of compliance

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The Company presents comparative information for all amounts reported in the current period's financial statements for one preceding periods – year ended 31 December 2018.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(b) Basis measurement

The financial statements have been prepared on a historical cost basis, unless otherwise stated. These financial statements have been presented in thousands of Georgian Lari (GEL), unless otherwise stated.

(c) Going Concern

Management has prepared these financial statements on a going concern basis. In making this judgment management considered the Company's financial position, current intentions, the profitability of operations and access to local or international financial resources, as necessary.

Economic envirement has faced challenges as a result of spread of the COVID 19 pandemic around the world and in Georgia. The Company has assessed the future perspectives (see note 20) in the current situation and, as a result, the Company's management believes that there is no doubt about the Company's ability to continue as a going concern for at least the following 12 months after reporting period.

3. Summary of significant accounting policies

Functional and presentation currency, foreign currency translation

The Company's functional and presentation currency is Georgian Lari (GEL). Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into GEL at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the profit or loss within foreign exchange gain, net.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in the profit or loss within foreign exchange gain, net. The official NBG exchange rates at 31 December 2019 and 2019 were 2.8677 and 2.6766 GEL to USD, respectively.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

the profit or loss within other operating expense. Costs related to repairs and renewals are charged when incurred and included other operating expenses unless they qualify for capitalisation.

Depreciation of an asset commences when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Equipment and spare parts	10
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5
Leasehold improvements	5
Other equipment	5

Leasehold improvements are depreciated over the shorter of five years or the life of the related leased asset. The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each reporting date.

Equipment and spare parts may include uninstalled major spare parts. These assets are depreciated since they are installed to the existing equipment.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period the asset is derecognised.

Intangible assets

Intangible assets include computer software.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of such assets of between five to seven years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Inventories

Inventories comprise plastic cards and other items and are valued at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. Adoption of the new standard did not have effect on the Company's financial statements as at 31 December 2018.

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

• Financial assets at amortised cost (debt instruments)

• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

• Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

• Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; And

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets at amortised cost includes trade receivables.

Trade receivables are amounts due from customers for provision of service or delivery of goods in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

• The rights to receive cash flows from the asset have expired; Or

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

• The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset,

or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Cash and cash equivalents and settlement-related accounts payable

Cash and cash equivalents consist of cash at banks and cash on hand that mature within three months from the date of origination, that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and are free from contractual encumbrances.

Cash and cash equivalents include settlement-related cash at bank which represents cash amounts paid by a individuals via cash desks and placed at the Company's bank account in the related party bank. Cash received from individuals are generally transferred to the Company's bank account on a daily basis. Simultaneously, the Company recognises settlement-related payables. Upon consumption of public transport services by individuals, the Company offset its settlement-related payables and cash at the related party bank.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organisations is not taxed in Georgia starting from 1 January 2017 (Note 15). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Company is recognised as deduction from equity in the statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported within other operating expenses.

Provisions and contingencies

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

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(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Provisions and contingencies (continued)

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Charter capital

The amount of Company's authorised charter capital is defined by the Company's Charter. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Accounts receivable

Accounts receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration.

Company as a leasee

The Company applies a single recognition and measurement approach for all lease, except for short-term leases and leases of low-value assets.The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the undelying assets.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, If necessary, appropriate adjustments are made. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Land and building ------ lease term.

The right-of-use asset are also subject of imairement.

Lease liablities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Leases (continued)

Short-term leases

The Company applies the short-term lease recognition exemption to it short-term leases of land and building,(those leases that have a lease term of 12 month ot less from the commencement date and do not contain a purchise option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income calculated for an a straight-line basis over the lease terms.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Impairment of non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Revenue from contract with customers

The Company is in the business of providing payment services via cash desks or self service terminals as well as maintenance services of self service terminals. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company early adopted IFRS 15 Revenue from Contracts with Customers starting from 1 January 2016.

FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Revenue from contracts with customer (continued)

The following specific recognition criteria must also be met before revenues are recognised:

Revenue from transaction processing

The Company provides transaction processing services that include receipt of cash amounts from an individual via cash desks for municipal transport services. Revenue from transaction processing is generated by services priced as specified fee per transaction, i.e. linked to the consumption of public transport services. Such revenue is recognised upon satisfaction of performance obligation on completion of the underlying transaction.

Fees from sale and initiation of transport cards

The Company sells and performs initiation of not personalised transport cards to individuals at a fixed price approved by municipal authorities. Revenue from sale and initiation of transport cards is recognised at the time of sale of these cards, as the Company does not have any performance obligations except for sale and initiation of a transport card to the public transport payment system. Fees from sale and initiation of transport cards represent respective revenue net of related cost of plastic cards as the Company assesses it acts as agent in such transactions (see also Note 4).

Significant financing component

The Company receives advance payments form the main customer for the service of operating the public transport payment system in Tbilisi. There is a significant financing component for this contract considering the length of time between the customer's payment and the transfer of the service, as well as the prevailing interest rate in the market. As such, the advance payments is discounted, using the market rate at the date of receiving the advance payments.

Employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments. The Company does not have any pension arrangements separate from the state pension system of Georgia.

Application of new standards, interpretations and amendments

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Company has adopted all of the new and amended Accounting Standards and Interpretations issued by IASB that are mandatory for the current reporting period.

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

In these financial statements, the Company has applied IFRS 16 Leases for the first time. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Companie's financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on- balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset

3. Summary of significant accounting policies (continued)

Application of new standards, interpretations and amendments (continued)

representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of the 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contract that were previously identified as lease applying IAS and IFRIC 4 at the date of initial application.

Before the adoption of IFRS 16, the Company classified each of its leases at the inception date as operating lease. The standard provides specific transition requirements and practical expedients, which have been applied by the Company. The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Based on the above, as at 1 January 2019:

- Right-of-use assets of Gel 333 thousands were recognised and presented in the statement of financial position separately.
- Lease liabilities of Gel 333 thousands were recognised and presented in the statement of financial position separately.

The adoption of IFRS 16 had no impact on the Companie's retained earnings.

The Company also elected to use recognition exemptions for some lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases).

In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the

3. Summary of significant accounting policies (continued)

(Thousands of Georgian Lari)

Application of new standards, interpretations and amendments (continued)

plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit

liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

4. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Companie's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Companie's financial statements.

5. Significant accounting judgments and estimates

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates.

In the process of applying the Company's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

Recognition and presentation of fees from sale and inititation of transport cards

The Company sells and performs initiation of not personalised transport cards to individuals at a fixed price approved by municipal authorities. Transport card itself represent more convenient way to pay for public transport services only.

The Company assesses it is facilitating the sale and initiation of transport cards and therefore considers its performance obligation is to arrange the sale and initiation of transport cards to individuals and accordingly satisfies it at a point of time. The Company transfers the right to its customers to pay future public transport services using a transport card and is not primarily responsible for fulfilling the promise to provide transport services. In addition, the Company has no discretion in establishing the price for transport cards as it sells them at a fixed price approved by municipal authorities. The Company has only inventory risk limited to the cost of plastic cards.

Taking into consideration the above discussed indicators, the Company assesses it acts as agent in such transactions recognising revenues from sale and initiation of transport cards at a point in time net of related cost of plastic cards accordingly.

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(Thousands of Georgian Lari)

6. Property and equipment

Property, plant and Equipment as of December 31, 2019 and 2018 comprise:

	Equipment and spare parts	Furniture and fixtures	Computers and office equipment	Motor vehicles	Leasehold improve-ments	Other equipment	Total
Cost							
31 December 2017	**1,900**	**56**	**278**	**39**	**79**	**300**	**2,652**
Additions	26	24	461	44	31	9,738	10,324
Disposals	(703)	-	-	(20)	-	-	(723)
Transfers	320	-	-	-	-	(320)	-
Write off	(183)	-	(18)	3	-	-	(198)
31 December 2018	**1,360**	**80**	**721**	**66**	**110**	**9,718**	**12,055**
Additions	73	22	589	74	78	7,271	8,107
Disposals	-	(4)	-	-	-	-	(4)
Transfers	-	1,374	196	-	-	(1,570)	-
Write off	(201)	(1)	(10)	-	-	-	(212)
31 December 2019	**1,232**	**1,471**	**1,496**	**140**	**188**	**15,419**	**19,946**
Accumulated depreciation and impairment							
31 December 2017	**549**	**10**	**70**	**7**	**8**	**2**	**646**
Depreciation charge	314	11	67	12	13	3	420
Disposals	(149)	-	-	(10)	-	-	(159)
Write off	(183)	-	(18)	3	-	-	(198)
31 December 2018	**531**	**21**	**119**	**12**	**21**	**5**	**709**
Depreciation charge	195	86	174	21	22	591	1,089
Disposals	-	(1)	-	-	-	-	(1)
Write off	(201)	(1)	(10)	-	-	-	(212)
31 December 2019	**525**	**105**	**283**	**33**	**43**	**596**	**1,585**
Net book value:							
31 December 2017	**1,351**	**46**	**208**	**32**	**71**	**298**	**2,006**
31 December 2018	**829**	**59**	**602**	**54**	**89**	**9,713**	**11,346**
31 December 2019	**707**	**1,366**	**1,213**	**107**	**145**	**14,823**	**18,361**

7. Inventories

Inventories as at 31 December 2019 and December 2018 comprise of following:

	2019	*2018*
Plastic transport cards	119	133
Others	348	94
Total inventories	**467**	**227**

8. Prepayments and other current assets

Prepayments and other current assets as at 31 December 2019 and December 2018 comprise of following:

	2019	*2018*
Operating taxes receivable	65	88
Prepayments for rent and other services	128	63
Prepayments for inventories	64	76
Total prepayments and other current assets	**257**	**227**

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9. Accounts receivable

Accounts receivable as at 31 December 2019 and December 2018 comprise of following:

	2019	*2018*
Receivables from related parties (Note 17)	248	465
Other receivables	305	351
	553	**816**
Less – loss allowance	(111)	(114)
Total accounts receivable, net	**442**	**702**

As at 31 December 2019 and 31 December 2018, the carrying amounts disclosed above reasonably approximate their fair values. As at 31 December 2019, accounts receivable with initial carrying value of GEL 111 were impaired and fully provided for. Payment terms are in range between 5 to 25 calendar days.

10. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 and December 2018 comprise of following:

	2019	*2018*
Settlement-related cash on a related party bank account (Note 19)	326	2,596
Cash on a related party bank account (Note 19)	3,169	2,433
Cash on hand	113	105
Total cash and cash equivalents	**3,608**	**5,134**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company management does not expect any losses from non-performance by the bank holding cash and cash equivalents, and there are no material differences between their book and fair values.

11. Equity

As at 31 December 2019 and 31 December 2018, the Company had fully contributed charter capital of GEL 2,850. In 2019 and 2018, no dividends were declared or distributed. The Company does not have a formal capital management policy.

12. Accounts payable

Accounts payable as at 31 December 2019 and December 2018 comprise of following:

	2019	*2018*
Settlement-related payables	475	3,188
Accruals for employee compensation	246	183
Payables for operating lease	108	158
Payables for PPE and Intangibles	-	59
Payables to related parties (Note 19)	11	10
Other payables	16	66
Total accounts payable	**856**	**3,664**

Settlement-related payables represent funds received in advance from individuals and to be settled upon consumption of transportation services by such individuals.

As at 31 December 2019 and 31 December 2018, the carrying amounts disclosed above reasonably approximate their fair values.

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(Thousands of Georgian Lari)

13. Leases

Company as a lessee

The Company has lease contracts for various items of buildings used in its operatios. Leases of building have lease terms between 1 5 years.

The Company also has certain leases of Land and buildings with lease terms of 12 month or less and The Company applies the "short-term lease" recognition exemption for these leases.

Set aut below are the carrying amounts of right-of-use assets recognised and movements during the period:

	Land and building
Cost:	
As at 1 January - effect of adoption of IFRS 16	333
Additions	377
Disposals	(236)
As at 31 December 2019	474
Accumulated depreciation and impairment	
As at 1 January 2019	
Depreciation charge	171
Disposals	(99)
As at 31 December 2019	72
Net book value:	
01 January 2019	**333**
31 December 2019	**402**

Set aut below are the carrying amounts of lease liabilities recognised and movements during the period:

	2019
As at 1 January - effect of adoption of IFRS 16	333
Adition	377
Disposal	(138)
Accrual of interest	20
Foreign exchange adjustments	2
Payments	(196)
As at 31 December 2019	**398**

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	171
Interest expenses of lease liabilities	20
Expenses relating to short-term leases	20
Total amount recognised in profit of loss	**211**

The Company had total cash outflows for leases 196 of Gel in 2019. The Company also had non-cash additions to right-of-use assets and lease liabilities 333 of Gel as at 1 January 2019.

Lease expenses related to the contracts exempted from recognition criteria under IFRS 16, is shown in note 15 in the following section: „Lease-like services with undefined space or no contract", and the depreciation charge of the right to use the asset is shown in the Statement of Comprehensve Income in the section "Depreciation and amortization".

14. Revenues from contracts with customers

The Company provides transaction processing services to its customers. The Company has assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Company.

On 15 September 2017, the Company's servicing related party bank, JSC Bank of Georgia, signed an agreement with Tbilisi City Hall for the exclusive right to operate the public transport payment system in

Tbilisi. In accordance with the agreement, Bank of Georgia will continue as the sole provider of payment support services to the public transportation network, and operate retail branches in Tbilisi metro stations for

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(Thousands of Georgian Lari)

14. Revenues from contracts with customers (continued)

the next ten years. Bank of Georgia will implement a modern payments system for public transport network in Tbilisi, including payment processing using Visa and MasterCard cards, and create a digital platform for ticket reservations and purchases through mobile applications.

In February 2018, JSC Bank of Georgia and the Company signed an agreement according to which the Company will be a sub-contractor and operate the public transport payment system in Tbilisi for a new ten year period starting from October 2018.

Revenue from transaction processing and from fleet management includes intereste revenue earned from contracts with significant financing component with amount of 1,082 Gel (2018: 524 Gel).

Contract assets and liabilities

The Company has recognised the following revenue-related contract assets and liabilities:

	2019	*2018*
Accounts receivable	442	651
Advances received (long term and short-term)*	16,450	8,652

** Advances received is primarily attributable to the funds received from the servicing related party bank for public transport payment system and fleet management services to be provided for next ten years.*

Accounts receivable are recognised when the right to consideration becomes unconditional.

The Company applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, as either as the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date or the original expected duration of the underlying contracts is less than one year.

15. Other operating income and expense

	2019	*2018*
Rent income	1,321	956
Interconnection fees	343	19
Income from installation of ticket validators	137	-
Total other operating income	**1,801**	**975**
Lease-like services with undefined space or no contract	(1,194)	-
Repair and maintenance	(459)	(423)
Operating taxes	(306)	(229)
Communication networking	(266)	(156)
Commission fees	(186)	(164)
Stationary, materials and supplies	(76)	(102)
Professional services	(65)	(72)
Audit expenses	(12)	(35)
Expense relating to short-term leases	(20)	-
Cost of assets transferred to Tbilisi City Hall	-	(409)
Loss allowance (charge) / reversal on account receivable	9	(91)
Other operating expense	(764)	(376)
Total other operating expense	**(3,339)**	**(2,057)**

16. Salaries and other employee benefits

	2019	*2018*
Salaries and other benefits	3,717	2,856
Cash bonuses	254	188
Total salaries and other employee benefits	**3,971**	**3,044**

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(Thousands of Georgian Lari)

17. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks,

insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distribution between Georgian resident companies is not subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016, the Company reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

In 2019, the Company had no distributed profits (dividends).

Management believes the Company is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

18. Financial intruments risk management objectives and policies

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. In the course of its ordinary activities, the Company is exposed to credit risk, liquidity risk and market risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. As at 31 December 2019 and 31 December 2018, the Company has no other significant financial assets subject to credit risk except for:

- Cash at banks

  As at 31 December 2019 and 31 December 2018, the Company placed GEL 3,494 and GEL 5,030 with a bank, a related party, having a ratings of *BB-/B* from Standard & Poor's, *B1/NP (FC) & Ba3/NP (LC)* from Moody's and *BB-/B* from Fitch Ratings.

- Accounts receivable

  Accounts receivable of the Company are mostly comprised of receivables from services provided to related parties. These receivables are mostly denominated in GEL and mostly due within 3 months from the reporting date. As at 31 December 2019, accounts receivable with initial carrying value of GEL 111 were impaired and fully provided for.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet all its payment obligations when they fall due under normal or stress circumstances. The Company's liquidity risk is analysed and managed by management.

As at 31 December 2019 and 31 December 2018, the Company's all financial liabilities are due within 3 months and contractual undiscounted repayment obligations are equal to their carrying values.

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company has no significant exposure to currency risk or interest rate risk.

(Thousands of Georgian Lari)

19. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if parties are subsidiaries of the same group. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions and outstanding balances were as follows:

	2019		*2018*	
	Parent	*Entities under common control*	*Parent*	*Entities under common control*
Assets				
Cash and cash equivalents	–	3,394	–	5,030
Accounts receivables	–	248	–	465
Prepayments and other current assets	–	–	–	–
	–	**3,742**	**–**	**5,495**
Liabilities				
Accounts payable	–	11	–	10
Advances received	–	16,450	–	8,650
Lease liabitilities	336	–	–	–
	336	**16,461**	**–**	**8,660**

Accounts receivable principally represent receivables for sub-lease of spaces at metro stations from JSC Bank of Georgia with payment terms in range between 5 to 25 days.

Advances received is primarily attributable to the advances received from JSC Bank of Georgia services related to public transport payment system and fleet management services to be provided for next ten years.

	2019		*2018*	
	Parent	*Entities under common control*	*Parent*	*Entities under common control*
Sales and other income				
Revenue from transaction processing services	-	5,708	-	6,817
Revenue from fleet management	-	603	-	492
Other operating income	-	1,539	-	905
	-	**7,850**	**-**	**8,214**
Purchases and expenses				
Rent	-	-	135	–
Interest expense	13	1,083	–	525
Other operating expenses	-	192	–	261
	13	**1,275**	**135**	**786**

In 2019 and 2018, compensation of key management personnel totalled GEL 97 and GEL 217, respectively.

20. Events after the reporting date

During 2020, new coronavirus so-called COVID-19 has spread across the world, which was officialy categorized as a pandemic by the World Health Organization (WHO) on March 11, 2020. Due to this circumstance, one-month the state of emergency was declared in Georgia on March 21, 2020. As a result of the situation, has faced challenges. The company believes it has all the resources needed to continue as a going concern. However, it is too early to make a precise prediction of how the crisis will affect its performance. It is also uncertain how long it will take to get out of the crisis; such a global integrated crisis is the first in the history of Georgian business and no corporate experience exists.

There have been no subsequent events that need to be disclosed in the financial statements.

MANAGEMENT REPORT

METRO SERVICE +

2019

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 13 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 over 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.

4 868 957 Metromoney cards have been issued since 2007, of which 2 636 427 are active with average daily number of transactions around 1 050 000 and monthly turnover of GEL 8 735 500.

Financial Summary

The Company is incorporated in the structure of public limited liability company “Bank of Georgia Group” traded on London Stock Exchange. Therefore, by the request of ultimate parent, 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 to NEXIA TA LLC. Financial summary of the Company is given below.

Statement of financial position

	2019	***2018***
Total assets	**25,675**	**19,865**
Total capital	**7,955**	**7,533**
Total capital and liabilities	**25,675**	**19,865**

Consolidated Income Statement

	2019	***2018***
Total revenues	10,352	10,364
Total operating expenses	(8,832)	(6,621)
Profit from Operating Activities	**1,520**	**3,743**
Other financial components	(1,098)	(556)
Profit (loss) before taxation	**422**	**3,187**
profit tax expense	-	-
Annual profit/(loss) and total gross income	**422**	**3,187**

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 uninterruptible implementation of the procedures related to the service quality improvement.

Since 2019 Metro Service+ LLC, in addition to the card payment option enables its customers to purchase one-off tickets for public transport through mobile application. In Tbilisi, public transport customers (which includes busses, metro and rope-way) can use mobile applications for Android and IOS platform and transfer money through Self Service Terminals of Bank of Georgia, select desired transport and buy ticket. Expect of ticket purchase customers are offered below-mentioned services:

Travel planning

Customers can plan optimal route either by current location, street name, bus stop ID or map.

Bus stop

Customers can select bus stop either by location, street name, bus stop ID or map.

Online bus

Customers can trace bus location by destination ID and access informative list or map.

Bus schedule

Customers can select the nearest bus stop by bus stop ID or name

Information

- Contact information
- Tariffs
- Metromoney
- Work hours

Additionally, since 2019 conductors who control ticketless passengers on the bus can verify payments made through bank or metro cards with Land Rover A8 pad. Besides, conductors are able to impose penalties through Smart POS Z91 pad. Both pads use NFC technology and check payment history on the server while the connection between the device and the server is GSM technology and is connected to the VPN network built between the provider and Metro Service + LLC

Future Plans

Starting 2020 Municipal transport will be equipped with new ticket machines, validation and card reading machines. 'Metro Service +' as the subcontractor of the Bank is responsible for fulfillment of terms and conditions of tender and further operation along with improvement and simplification of already existing services.

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 be fulfilled successfully and in such cases the damage is totally eliminated with the help of law enforcement bodies.

Information Security

In 21st 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 is worth noting that despite recent massive cyber-attacks, 'Metro Service +" has never been affected with a harmful malware which would lead to damage or disclosure of our confidential information.

Pandemic and international crisis

The situation caused by the pandemic affects not only Georgia and specific businesses, but also majority countries around the world. As a preventive measure various states have declared state of emergency. The impact of the pandemic and its accompanying crisis on the company is minimal, since despite the state of emergency, the continuity of payment services is an essential part of the normal functioning of the country. Accordingly, for the whole period of lock-down the company was an authorized entity to continue operations, and despite its limited range of activities, it was able to focus its resources on future plans and ongoing projects. Metro Service + LLC did not suffer any significant losses due to the state of emergency declared in the country.

To ensure safe and continuous operations, company adopted several hygienic and personal safety regulations based on WHO’s and NCDC’s recommendations and guidelines.

Combating Money Laundering and Terrorism Financing

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

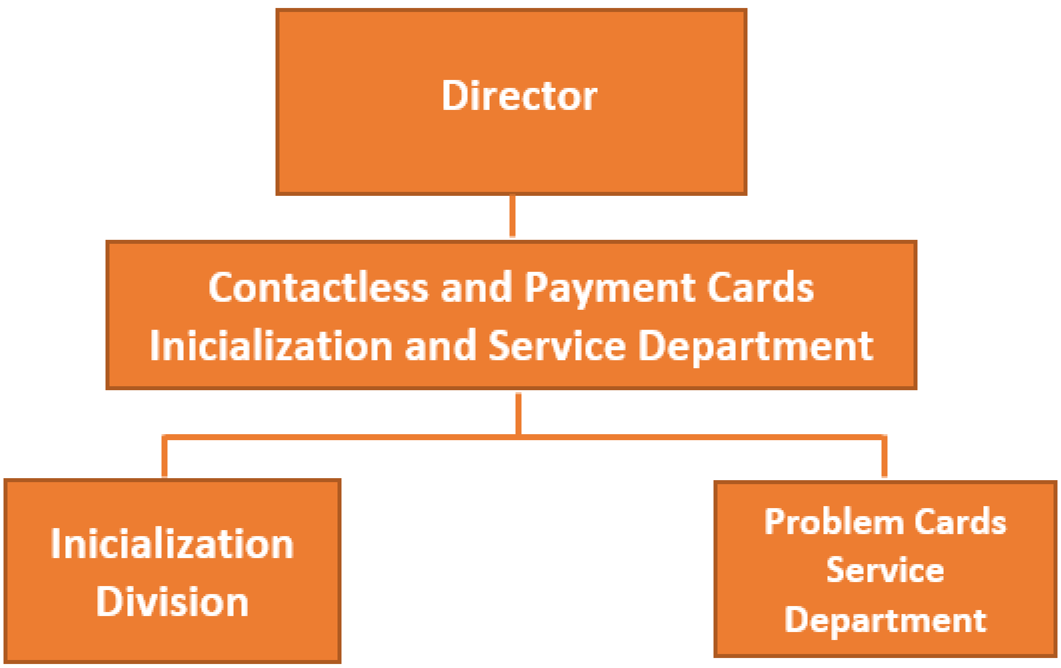
Characteristics and Examples of the Structure

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 exisitng 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 relevant measures to eliminate 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.

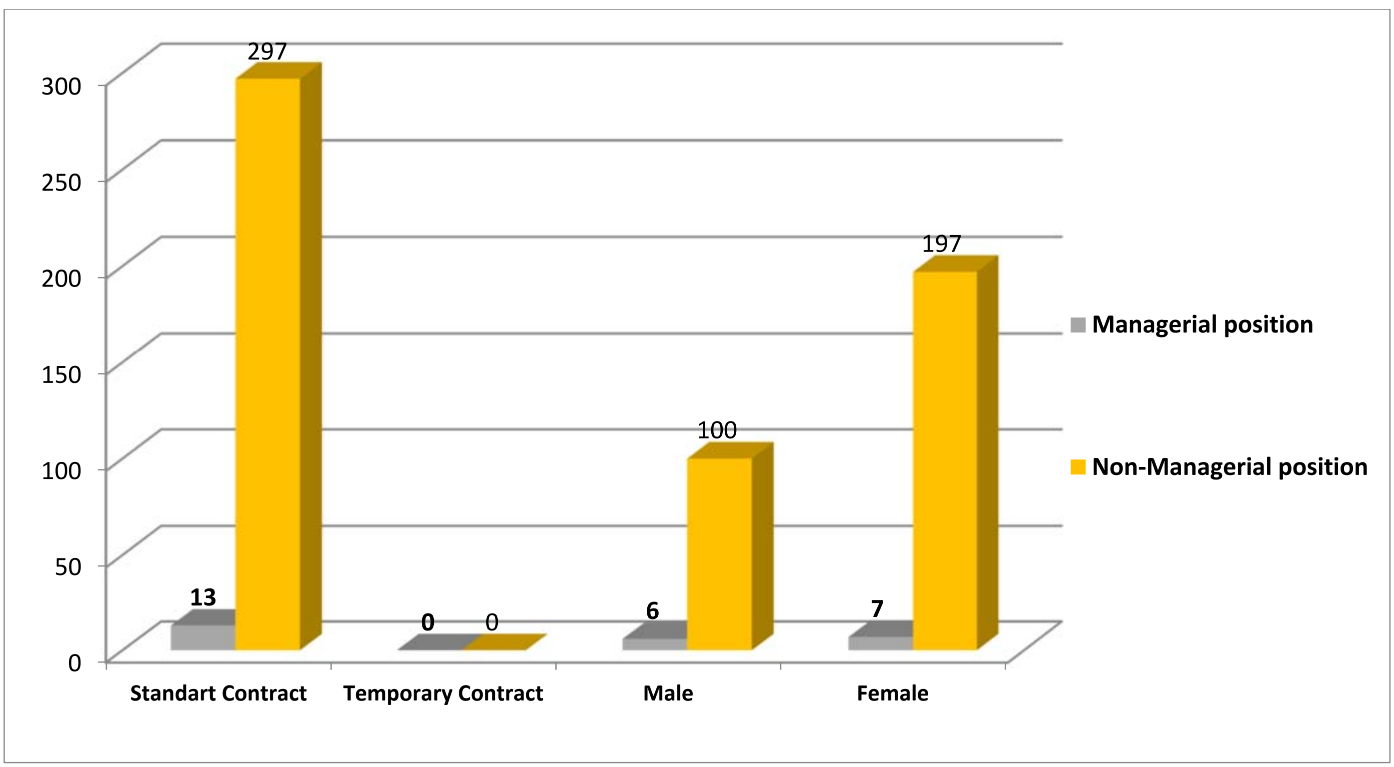
Ordinary meeting of partners is held once over the year, within two months upon completion of the economic year. Additional information on the body with managerial authority is given in the Charter of the Company.

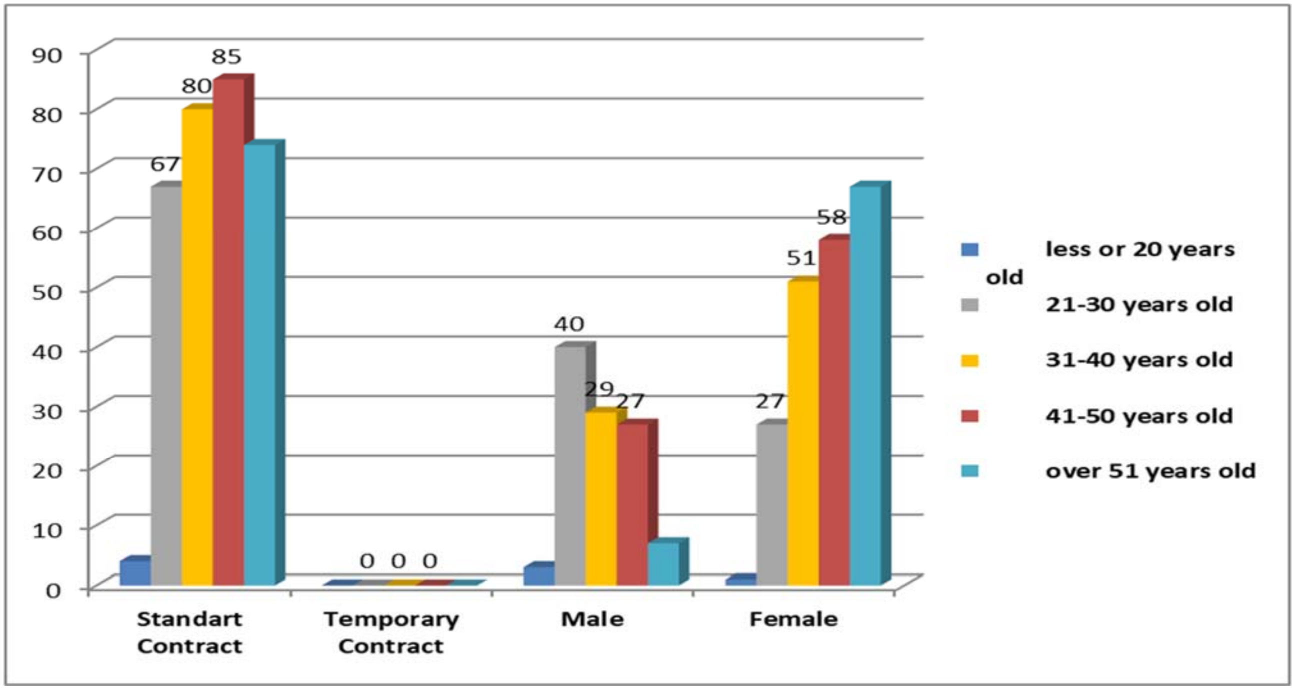
Non-Financial Reporting

Our Team

Our Company employs around 310 persons (average number of employees – 291; 242 in 2018). From a larger number of candidates, we favor 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.

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