Direct Debit Georgia LLC

IFRS Financial statements

For the year ended 31 December 2018
With Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

To the Owner and the Management of Direct Debit Georgia LLC:

Opinion

We have audited the accompanying financial statements of Direct Debit Georgia LLC (the "Company"), which comprise the statement of financial position as at 31 December 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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 17 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 does not materially comply 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 2018; 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with "ISAs", we exercise professional judgment and maintain professional 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Other Matter

The financial statements of the Company for the year ended 31 December 2017 were audited by another auditor who expressed unmodified opinion on those statements on 10 May 2018.

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

On behalf of Nexia TA LLC

April 30, 2019

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(Thousands of Georgian Lari)

	Notes	*2018*	*2017*
Assets			
Non-current assets			
Property and equipment	4	10,021	10,816
Intangible assets	5	359	476
		10,380	**11,292**
Current assets			
Inventories	6	3,148	1,361
Prepayments and other current assets		236	248
Accounts receivable	7	955	831
Amounts due from credit institutions	8	535	1,018
Cash and cash equivalents	9	25,812	36,101
		30,686	**39,559**
Total assets		**41,066**	**50,851**
Equity			
Charter capital	10	15,244	15,244
Retained earnings	10	459	608
Total equity		**15,703**	**15,852**
Current liabilities			
Accounts payable	11	25,326	34,964
Operating taxes payable		37	35
Total liabilities		**25,363**	**34,999**
Total equity and liabilities		**41,066**	**50,851**

The financial statements on pages 4 to 19 were approved by the management of Direct Debit Georgia LLC on 30 April 2019 and signed on its behalf by:

Irakli Kodua Director

April 30, 2019

The accompanying notes on pages 8 to 19 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

	Notes	*2018*	*2017*
Revenue from transaction processing		9,507	8,502
Revenue from maintenance services		740	791
Total revenues	12	**10,247**	**9,293**
Other operating income	13	598	311
Salaries and other employee benefits	14	(4,707)	(4,032)
Rent		(1,191)	(1,091)
Depreciation and amortisation		(1,763)	(1,675)
Other operating expenses	13	(3,324)	(2,667)
Operating profit/(loss)		**(140)**	**139**
Interest income		23	18
Foreign exchange gain		(32)	75
Profit/(loss) before income tax expense		**(149)**	**232**
Income tax expense	15	–	–
Profit/(loss) and total comprehensive income/(loss) for the year		**(149)**	**232**

The accompanying notes on pages 8 to 19 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

	Charter Capital	*Retained earnings*	*Total*
31 December 2016	**15,244**	**376**	**15,620**
Total comprehensive income for the year	-	232	232
31 December 2017	**15,244**	**608**	**15,852**
Total comprehensive loss for the year	-	(149)	(149)
31 December 2018	**15,244**	**459**	**15,703**

The accompanying notes on pages 8 to 19 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

	Notes	2018	2017
Cash flows from operating activities			
Profit/(loss) before tax		(149)	232
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation and amortisation		1,763	1,675
Loss/(gain) on disposal of property and equipment		(327)	15
Allowance expenses		23	-
Working capital adjustments:			
Change in inventories		(1,787)	395
Change in prepayments and other current assets		(11)	(130)
Change in accounts receivable		(124)	(265)
Change in accounts payable and operating taxes payable		(9,636)	10,492
Net cash flows from operating activities before income tax		**(10,248)**	**12,414**
Income tax paid		-	-
Net cash flows from operating activities		**(10,248)**	**12,414**
Cash flows used in investing activities			
Purchase of property and equipment		(1,426)	(1,924)
Purchase of intangible assets		(1)	(2)
Proceeds from sale of property and equipment		903	444
Withdrawal/(Placements) of amounts due from credit institutions		483	(489)
Net cash used in investing activities		**(41)**	**(1,971)**
Net increase/(decrease) in cash and cash equivalents		**(10,289)**	**10,443**
Cash and cash equivalents, beginning	9	**36,101**	**25,658**
Cash and cash equivalents, end	9	**25,812**	**36,101**

The accompanying notes on pages 8 to 19 form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

1. Background

Direct Debit Georgia LLC (“the Company”) is a limited liability company incorporated on 7 March 2006 with legal address at 106 Beliashvili Street, Tbilisi, Georgia. The Company offers payment services via cash desks or self service terminals as well as maintenance services of self service terminals.

The Company is fully owned by JSC Georgian Card (“the Parent”) and the ultimate controlling party is BGEO 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

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

3. Summary of significant accounting policies

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.

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 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.

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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
Self service terminals 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.

Self service terminals and spare parts may include uninstalled major spare parts. These assets are depreciated since they are installed to self service terminals.

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 and licenses.

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 spare parts 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.

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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

• 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.

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group 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.

Cash and cash equivalents and settlement-related accounts payable

Cash and cash equivalents consist of cash in transit, cash at banks, cash on hand and short-term depostits 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.

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Cash and cash equivalents and settlement-related accounts payable (continued)

Cash and cash equivalents include settlement-related cash-in-transit and cash at bank. Settlement-related cash balances represent cash amounts paid by an individual and placed either in self service terminals or cash desks or transferred to the Company's bank account from such self service terminals or cash desks. Simultaneously with payment made by an individual using self service terminal or cash desk, a related party bank transfers funds to a merchant, resulting in a settlement-related payables recognition. Settlement-related cash in transit are initially placed at the Company's bank account opened in the related party bank and then are used in settlement of processing obligations to the related party bank the following working three days.

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.

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.

Revenue recognition

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.

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

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from transaction processing

The Company provides transaction processing services that include receipt of cash amounts from an individual either via self service terminal or cash desk for service(s) provided by a mechant and further transfer of such cash amounts to the related party bank which funds mechants simoultaneously with completion of payment transaction at self service terminal or cash desk. Revenue from transaction processing is generated by services priced as a percentage of transaction value or a specified fee per transaction. Such revenue is recognised upon satisfaction of performance obligation on completion of the underlying transaction.

Revenue from maintenance services

The Company provides maintenance services to the related party bank operating its own self service terminals.The Company undertakes to repair specified equipment after a malfunction for a montly fixed fee per self service terminal. Accordingly, revenue from maintenance services is earned as a result of standing ready to provide services during a stipulated time period, not as a result of actually providing the maintenance services. Stand ready obligations are satisfied and revenue is recognised based on the passage of time over the term of the contract.

Interest income

For all financial instruments measured at amortised cost classified as accounts receivable, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in the profit or loss.

Foreign currency translation

The Company's functional currency is 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 2018 and 2017 were 2.6766 and 2.5922 GEL to USD, respectively.

Standards issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted. Such standards that are expected to have an impact on the Company, or the impacts of which are currently being assessed, are as follows:

IFRS 16 Leases

IFRS 16 *Leases* 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*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for 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 recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 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.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

4. Property and equipment

The movements in property and equipment were as follows:

	Self service terminals and spare parts	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Other equipment*	*Total*
Cost							
31 December 2016	**14,121**	**42**	**323**	**177**	**167**	**32**	**14,862**
Additions	1,771	6	43	76	25	4	1,925
Disposals	(458)	(10)	(60)	(57)	-	(11)	(596)
31 December 2017	**15,434**	**38**	**306**	**196**	**192**	**25**	**16,191**
Additions	1,180	39	101	65	39	2	1,426
Disposals	(775)	(2)	(21)	(64)	-	(20)	(882)
31 December 2018	**15,839**	**75**	**386**	**197**	**231**	**7**	**16,735**
Accumulated depreciation and impairment							
31 December 2016	**3,685**	**22**	**125**	**69**	**32**	**18**	**3,951**
Depreciation charge	1,418	4	64	33	36	6	1,561
Disposals	(46)	(10)	(60)	(10)	-	(11)	(137)
31 December 2017	**5,057**	**16**	**129**	**92**	**68**	**13**	**5,375**
Depreciation charge	1,483	11	66	39	42	4	1,645
Disposals	(204)	(2)	(21)	(63)	-	(16)	(306)
31 December 2018	**6,336**	**25**	**174**	**68**	**110**	**1**	**6,714**
Net book value:							
31 December 2017	**10,377**	**22**	**177**	**104**	**124**	**12**	**10,816**
31 December 2018	**9,503**	**50**	**212**	**129**	**121**	**6**	**10,021**

5. Intangible assets

The movements in intangible assets were as follows:

	Cost	*Amortisation charge*
31 December 2016	**745**	**(157)**
Additions / (Amortisation charge)	2	(114)
31 December 2017	**747**	**(271)**
Additions / (Amortisation charge)	1	(118)
31 December 2018	**748**	**(389)**

(Thousands of Georgian Lari)

6. Inventories

	2018	2017
Spare parts	2,551	960
Others	597	401
Total inventories	**3,148**	**1,361**

7. Accounts receivable

	2018	2017
Receivables from related parties (Note 17)	757	723
Other receivables	221	108
	978	**831**
Less – Allowance for impairment	(23)	-
Total accounts receivable, net	**955**	**831**

As at 31 December 2018 and 31 December 2017, the carrying amounts disclosed above reasonably approximate their fair values. Payment terms are in range between 5 to 25 calendar days. As at 31 December 2018, accounts receivable with initial carrying value of GEL 23 were impaired and fully provided for.

8. Amounts due from credit institutions

As at 31 December 2018, amounts due from credit institutions were represented by a placements with banks with original maturity of 12 months. In 2018 and 2017, the Company earned interest income of GEL 23 and GEL 18, respectively.

9. Cash and cash equivalents

	2018	2017
Settlement-related cash in transit	24,048	15,561
Settlement-related cash on a related party bank account (Note 17)	-	18,377
Cash on hand	992	1,227
Cash on a related party bank account (Note 17)	575	893
Cash on non-related party bank account	197	43
Total cash and cash equivalents	**25,812**	**36,101**

Settlement-related cash in transit represents cash received from individuals before its deposit on the servicing related party bank's account. Depending on the operating cycle settlement-related cash in transit can be either in self-service terminals before collection (2018 and 2017: GEL 4,544 and GEL 8,630 respectively) or at servicing related party bank before they are counted and deposited on the account (2018 and 2017: GEL 19,547 and GEL 6,931 respectively).

According to the requirements of the law of Georgia on Payment Systems and Payment Services, on 11 April 2018 the Company made new bank account with nominal ownership, which means that it is separated from own funds and it can not be used to secure the Company's obligations. Due to this law, the Company made an ofsset Settlement-related cash on a related party bank account against relevant Accounts payable (Note 11) as at 31 December 2018.

Cash on bank accounts 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.

10. Equity

As at 31 December 2018 and 31 December 2017 the Company had fully contributed charter capital of GEL 15,244. In 2018 and 2017, no dividends were declared or distributed. The Company does not have a formal capital management policy.

11. Accounts payable

	2018	2017
Settlement-related payables to related parties (Note 17)	25,042	34,737
Accruals for employee compensation	193	144
Other payables	91	83
Total accounts payable	**25,326**	**34,964**

As at 31 December 2018 and 31 December 2017, the carrying amounts disclosed above reasonably approximate their fair values.

(Thousands of Georgian Lari)

12. Revenues from contracts with customers

The Company provides services on network operation and maintenance and transaction processing services to its customers, i.e. JSC Bank of Georgia through network of self service terminals and other customers via cash desks. 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.

Contract assets and liabilities

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

	2018	*2017*
Accounts receivable	955	831

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 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.

13. Other operating income and expense

	2018	*2017*
Net gain from sale of refurbishement services and equipment	428	166
Other operating income	170	145
Total other operating income	**598**	**311**
Repair and maintenance	(784)	(881)
Cost of inventory used	(1,250)	(655)
Cash collection	(360)	(348)
Stolen and damaged banknotes	(170)	(187)
Commission fees	(199)	(135)
Electricity	(136)	(127)
Operating taxes	(123)	(129)
Communication networking	(95)	(96)
Net loss from disposal of property and equipment	(1)	(15)
Audit expenses	(35)	-
Allowance For receivables	(23)	-
Other operating expense	(148)	(94)
Total other operating expense	**(3,324)**	**(2,667)**

14. Salaries and other employee benefits

	2018	*2017*
Salaries and other benefits	4,514	3,884
Cash bonuses	193	148
Total salaries and other employee benefits	**4,707**	**4,032**

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(Thousands of Georgian Lari)

15. 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 distributions 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 liability 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 2018 and 2017, 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. .

16. Risk arising from financial instruments

In the course of its ordinary activities, the Company is exposed to credit risk, liquidity risk and market risk.

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 2018 and 31 December 2017 the Company has no other significant financial assets subject to credit risk except for:

- Cash at banks and amounts due from credit institutions

  As at 31 December 2018 and 31 December 2017, the Company placed GEL 1,567 and GEL 20,245 with the related party bank, 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. No significant accounts receivable are either past due or impaired as at 31 December 2018 and 31 December 2017.

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 2018 and 31 December 2017, 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 exposure to currency risk.

Currency risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company's exposure to foreign exchange risk arises primarily with respect to USD and EUR.

(Thousands of Georgian Lari)

16. Risk arising from financial instruments (continued)

Market risk (continued)

***Currency risk** (continued)*

The tables below indicate the currencies to which the Company had significant exposure on its monetary assets and liabilities as at 31 December 2018 and 31 December 2017. The analysis calculates the effect of a reasonably possible movement of the currency rate against GEL, with all other variables held constant on the profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase. The effect on pre-tax equity is equal to effect on profit before tax as presented below.

	2018		2017	
	Increase / (decrease) in currency rate	**Effect on profit before tax**	**Increase / (decrease) in currency rate**	**Effect on profit before tax**
USD / GEL	+10%	151	+11.45%	90
USD / GEL	-10%	(151)	-11.45%	(90)
EUR / GEL	+15%	-	+17.19%	6
EUR / GEL	-15%	-	-17.19%	(6)

17. 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 have been conducted on an arm's length basis.

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

	2018		*2017*	
	Parent*	***Entities under common control***	***Parent****	***Entities under common control***
Assets				
Cash and cash equivalents	-	575	–	19,270
Amounts due from credit institutions	-	535	–	1,018
Accounts receivable	-	757	–	723
Prepayments and other current assets	-	5	–	4
	-	**1,872**	**–**	**21,015**
Liabilities				
Accounts payable	28	25,014	17	34,720
	28	**25,014**	**17**	**34,720**

Accounts receivable principally represent receivables for transaction processing from JSC Bank of Georgia with payment terms in range between 5 to 25 calendar days.

Accounts payable represent settlement-related payables to JSC Bank of Georgia, which initially transfers funds to a merchants simultaneously with payments made by individuals using self service terminal or cash desks. These payables are generally settled within 3 working days.

(Thousands of Georgian Lari)

17. Related party transactions (continued)

	2018		2017	
	*Parent**	*Entities under common control*	*Parent**	*Entities under common control*
Sales				
Revenue from transaction processing services	-	8,589	–	8,175
Revenue from maintenance services	-	740	–	503
	-	**9,329**	**–**	**8,678**
Other operating income				
Income from sale of property and equipment (a)	-	902	–	444
Income from sale of inventory (b)	-	59	–	72
Other operating income	-	12		247
	-	**973**	**–**	**763**
Purchases and expenses				
Rent	8	14	440	218
Purchase of inventory	-	-	–	–
Other operating expenses	6	1,191	5	616
	14	**1,205**	**445**	**834**
Other items				
Interest income	-	23	–	18

* *Parent* column comprised outstanding balances and turnovers with the Parent, JSC Georgian Card, as well as intermediate parent, JSC Express Technologies.

(a) Income from sale of property and equipment is included in net gain from sale of property and equipment within other operating income.

(b) Income from sale of inventory is included in net gain from sale of inventory within other operating income.

In 2018 and 2017, compensation of key management personnel totalled GEL 88 and GEL 54, respectively.

18. Events after the reporting date

On 6 April 2019 the Company purchased new (seven vehicles with each value 35 GEL) vehicles equipped with an armored cabin and special permissions to change cash collection method in Tbilisi. This method replaces the old method, according to which whole process is performed by cars without any special types of equipment and they are owned by Cash collectors.

On 8 April 2019 the Company took new loan with amount of 300 GEL from Related Party Company. Loan term is 36 month and interest rate is 10.7%.