LLC Direct Debit Georgia

IFRS Financial statements

For the year ended 31 December 2017
With Independent Auditor's Report

CONTENTS

EY
Building a better working world

EY Georgia LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი საქართველო
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Owner and Management of LLC Direct Debit Georgia

Opinion

We have audited the financial statements of LLC Direct Debit Georgia (the Company), which comprise the statement of financial position as at 31 December 2017, 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 2017 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 (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the 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.

Management is responsible for overseeing the Company's financial reporting process.

Building a better
working world

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 management 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 partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili

For and on behalf of EY Georgia LLC

Tbilisi, Georgia

10 May 2018

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*1 January 2016*
Assets				
Non-current assets				
Property and equipment	4	10,816	10,912	10,575
Intangible assets	5	476	588	684
		11,292	**11,500**	**11,259**
Current assets				
Inventories	6	1,361	1,756	2,378
Prepayments and other current assets		248	118	130
Accounts receivable	7	831	566	1,462
Amounts due from credit institutions	8	1,018	529	479
Cash and cash equivalents	9	36,101	25,658	18,436
		39,559	**28,627**	**22,885**
Total assets		**50,851**	**40,127**	**34,144**
Equity				
Charter capital	10	15,244	15,244	15,244
Retained earnings	10	608	376	940
Total equity		**15,852**	**15,620**	**16,184**
Non-current liabilities				
Deferred tax liability		–	–	282
		–	**–**	**282**
Current liabilities				
Accounts payable	11	34,964	24,400	17,622
Operating taxes payable		35	107	56
		34,999	**24,507**	**17,678**
Total liabilities		**34,999**	**24,507**	**17,960**
Total equity and liabilities		**50,851**	**40,127**	**34,144**

The financial statements on pages 1 to 15 were approved by the management of LLC Direct Debit Georgia on 10 May 2018 and signed on its behalf by:

Irakli Kodua Director

10 May 2018

The accompanying notes on pages 5 to 15 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	2017	2016
Revenue from transaction processing		8,502	7,516
Revenue from maintenance services		791	371
Total revenues	12	**9,293**	**7,887**
Other operating income	13	311	353
Salaries and other employee benefits	14	(4,032)	(3,538)
Rent		(1,091)	(983)
Depreciation and amortisation		(1,675)	(1,589)
Other operating expenses	13	(2,667)	(3,142)
Operating profit/(loss)		**139**	**(1,012)**
Interest income		18	3
Foreign exchange gain		75	163
Profit/(loss) before income tax expense		**232**	**(846)**
Income tax benefit	15	–	282
Profit/(loss) and total comprehensive income/(loss) for the year		**232**	**(564)**

The accompanying notes on pages 5 to 15 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari unless otherwise stated)

	Charter Capital	*Retained earnings*	*Total*
1 January 2016	**15,244**	**940**	**16,184**
Total comprehensive loss for the year	–	(564)	(564)
31 December 2016	**15,244**	**376**	**15,620**
Total comprehensive income for the year	–	232	232
31 December 2017	**15,244**	**608**	**15,852**

The accompanying notes on pages 5 to 15 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*2017*	*2016*
Cash flows from operating activities			
Profit/(loss) before tax		232	(846)
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation and amortisation		1,675	1,589
Loss/(gain) on disposal of property and equipment	13	15	(236)
Working capital adjustments:			
Decrease in inventories		395	622
(Increase)/decrease in prepayments and other current assets		(130)	12
(Increase)/decrease in accounts receivable		(265)	896
Increase in accounts payable and operating taxes payable		10,492	6,829
Net cash flows from operating activities before income tax		**12,414**	**8,866**
Income tax paid		–	–
Net cash flows from operating activities		**12,414**	**8,866**
Cash flows used in investing activities			
Purchase of property and equipment and intangible assets		(1,926)	(2,163)
Proceeds from sale of property and equipment		444	569
Placements of amounts due from credit institutions		(489)	(50)
Net cash used in investing activities		**(1,971)**	**(1,644)**
Net increase in cash and cash equivalents		**10,443**	**7,222**
Cash and cash equivalents, beginning	9	**25,658**	**18,436**
Cash and cash equivalents, end	9	**36,101**	**25,658**

The accompanying notes on pages 5 to 15 form an integral part of these financial statements.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

LLC Direct Debit Georgia ("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.

First time adoption of International financial reporting standards (IFRS)

These financial statements, for the year ended 31 December 2017, are the first financial statements prepared in accordance with IFRS by the Company. Accordingly, these financial statements have been prepared to comply with IFRS applicable at the end of its first reporting period, being 31 December 2017, together with the comparative period data as at 31 December 2016 and 1 January 2016 and for the years ended 31 December 2017 and 2016. The Company did not present financial statements for previous periods, therefore, no reconciliation with previously reported financial statements are provided. The Company did not use any exemptions from retrospective application provided by IFRS 1 *First Time Adoption of International Financial Reporting Standards*. The Company early adopted IFRS 15 *Revenue from Contracts with Customers* starting from 1 January 2016.

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.

(Thousands of Georgian Lari unless otherwise stated)

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 assets

Financial assets in the scope of IAS 39 are classified either as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets upon initial recognition. The Company does not have any financial assets designated as available-for-sale or at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the profit or loss when loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised initially at the transaction price deemed to be fair value at origination date.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the 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.

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.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. The Company has not offset any of its assets and liabilities or income and expenses.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Offsetting (continued)

The right of offset must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

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

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service to a customer.

For multiple-element arrangements, the Company accounts for individual services separately if they are distinct. The consideration is allocated between separate services on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Company sells its transactions processing and maintenance services.

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 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 2017 and 2016 were 2.5922 and 2.6468 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 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Company will adopt the new standard from the effective date by recognising the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. Based on the data as at 31 December 2017, the Company estimates that the adoption of IFRS 9 will not impact significantly the equity as at 1 January 2018.

(a) Classification and measurement

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at amortised cost all financial assets and liabilities currently held at amortised cost.

Accounts receivable are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment of financial assets

IFRS 9 will also fundamentally change the approach to impairment of accounts receivable. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset. The Company has determined that the allowance for impairment of accounts receivable will not increase significantly. Due to the short-term and highly liquid nature of cash and cash equivalents and amounts due from credit institutions, the Company has assessed corresponding expected credit losses to be immaterial.

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).

(Thousands of Georgian Lari unless otherwise stated)

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. In 2018, the Company will assess the potential effect of IFRS 16 on its financial statements.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation, or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

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							
1 January 2016	**12,497**	**37**	**298**	**165**	**147**	**51**	**13,195**
Additions	2,064	5	38	12	20	6	2,145
Disposals	(440)	–	(12)	–	–	(25)	(477)
31 December 2016	**14,121**	**42**	**324**	**177**	**167**	**32**	**14,863**
Additions	1,771	6	42	76	25	4	1,924
Disposals	(458)	(10)	(60)	(57)	–	(11)	(596)
31 December 2017	**15,434**	**38**	**306**	**196**	**192**	**25**	**16,191**
Accumulated depreciation and impairment							
1 January 2016	**2,460**	**18**	**74**	**34**	**2**	**32**	**2,620**
Depreciation charge	1,332	4	63	35	30	11	1,475
Disposals	(107)	–	(12)	–	–	(25)	(144)
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**
Net book value:							
1 January 2016	**10,037**	**19**	**224**	**131**	**145**	**19**	**10,575**
31 December 2016	**10,436**	**20**	**199**	**108**	**135**	**14**	**10,912**
31 December 2017	**10,377**	**22**	**177**	**104**	**124**	**12**	**10,816**

(Thousands of Georgian Lari unless otherwise stated)

5. Intangible assets

The movements in intangible assets were as follows:

	Cost	Amortisation charge	Net book value
1 January 2016	**727**	**(43)**	**684**
Additions / (Amortisation charge)	18	(114)	
31 December 2016	**745**	**(157)**	**588**
Additions / (Amortisation charge)	2	(114)	
31 December 2017	**747**	**(271)**	**476**

6. Inventories

	2017	2016	1 January 2016
Spare parts	960	1,275	2,172
Others	401	481	206
Total inventories	**1,361**	**1,756**	**2,378**

7. Accounts receivable

	2017	2016	1 January 2016
Receivables from related parties (Note 17)	723	546	1,454
Other receivables	108	20	8
	831	**566**	**1,462**
Less – Allowance for impairment	–	–	–
Total accounts receivable, net	**831**	**566**	**1,462**

As at 31 December 2017, 31 December 2016 and 1 January 2016, the carrying amounts disclosed above reasonably approximate their fair values and there were no overdue amounts. Payment terms are in range between 5 to 25 calendar days.

8. Amounts due from credit institutions

As at 31 December 2017, amounts due from credit institutions were represented by short-term placements with banks with original maturity from 6 to 12 months. In 2017 and 2016, the Company earned interest income of GEL 18 and GEL 3, respectively.

9. Cash and cash equivalents

	2017	2016	1 January 2016
Settlement-related cash in transit	15,561	11,667	10,648
Settlement-related cash on a related party bank account (Note 17)	18,377	11,623	5,947
Cash on hand	1,270	968	1,102
Cash on a related party bank account (Note 17)	893	1,400	739
Total cash and cash equivalents	**36,101**	**25,658**	**18,436**

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 (2017, 2016 and 1 January 2016: GEL 8,630, GEL 7,221 and GEL 4,749, respectively) or at servicing related party bank before they are counted and deposited on the account (2017, 2016 and 1 January 2016: GEL 6,931, GEL 4,446 and GEL 5,899, respectively).

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 2017, 31 December 2016 and 1 January 2016, the Company had fully contributed charter capital of GEL 15,244. In 2017 and 2016, no dividends were declared or distributed. The Company does not have a formal capital management policy.

(Thousands of Georgian Lari unless otherwise stated)

11. Accounts payable

	2017	2016	1 January 2016
Settlement-related payables to related parties (Note 17)	34,737	24,156	17,492
Accruals for employee compensation	144	133	64
Other payables	83	111	66
Total accounts payable	**34,964**	**24,400**	**17,622**

As at 31 December 2017, 31 December 2016 and 1 January 2016, the carrying amounts disclosed above reasonably approximate their fair values.

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:

	2017	2016	1 January 2016
Accounts receivable*	831	566	1,462

** As at 31 December 2016, accounts receivable droped principally due to decrease in number of transactions processed as in September 2016 the related party servicing bank had started to charge additional commission from individuals. In 2017, the Company increased fee for transaction processing to be paid by the related party servicing by approximately 50% which led to increase in accounts receivable as at 31 December 2017 accordingly.*

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

	2017	2016
Net gain from sale of refurbishement services and equipment	166	273
Other operating income	145	80
Total other operating income	**311**	**353**
Repair and maintenance	(881)	(639)
Cost of inventory used	(655)	(1,330)
Cash collection	(348)	(323)
Stolen and damaged banknotes	(187)	(279)
Commission fees	(135)	(74)
Electricity	(127)	(132)
Operating taxes	(129)	(124)
Communication networking	(96)	(113)
Net loss from disposal of property and equipment	(15)	–
Other operating expense	(94)	(128)
Total other operating expense	**(2,667)**	**(3,142)**

In 2016, net gain from sale of refurbishement and equipment comprised GEL 236 of net gain from sale of property and equipment.

14. Salaries and other employee benefits

	2017	2016
Salaries and other benefits	3,884	3,405
Cash bonuses	148	133
Total salaries and other employee benefits	4,032	3,538

(Thousands of Georgian Lari unless otherwise stated)

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 2017, the Company had no distributed profits (dividends). In 2016, the Company recognised income tax benefit resulting from reversal of deferred tax liability of GEL 282 in profit or loss.

The corporate income tax expense comprises:

	2017	*2016*
Current tax expense	–	–
Deferred tax benefit – origination and reversal of temporary differences	–	282
Income tax benefit	**–**	**282**

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 2017, 31 December 2016 and 1 January 2016, 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 2017, 31 December 2016 and 1 January 2016, the Company placed GEL 20,288, GEL 13,552 and GEL 7,165 with the related party bank, having 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 2017 and 31 December 2016 and 1 January 2016.

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 2017, 31 December 2016 and 1 January 2016, 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 unless otherwise stated)

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 2017, 31 December 2016 and 1 January 2016. 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.

	2017		2016		1 January 2016	
	Increase / (decrease) in currency rate	Effect on profit before tax	Increase / (decrease) in currency rate	Effect on profit before tax	Increase / (decrease) in currency rate	Effect on profit before tax
USD / GEL	+11.45%	90	+13.40%	72	+13.95%	107
USD / GEL	-11.45%	(90)	-13.40%	(72)	-13.95%	(107)
EUR / GEL	+17.19%	6	+10.40%	(1)	+22.61%	–
EUR / GEL	-17.19%	(6)	-10.40%	1	-22.61%	–

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:

	2017		*2016*		*1 January 2016*	
	*Parent**	*Entities under common control*	*Parent**	*Entities under common control*	*Parent**	*Entities under common control*
Assets						
Cash and cash equivalents	–	19,270	–	13,023	–	6,686
Amounts due from credit institutions	–	1,018	–	529	–	479
Accounts receivable	–	723	–	546	–	1,454
Prepayments and other current assets	–	4	–	4	–	4
	–	**21,015**	**–**	**14,102**	**–**	**8,623**
Liabilities						
Accounts payable	17	34,720	11	24,145	10	17,482
	17	**34,720**	**11**	**24,145**	**10**	**17,482**

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 unless otherwise stated)

17. Related party transactions (continued)

	2017		*2016*	
	Parent*	***Entities under common control***	***Parent****	***Entities under common control***
Sales				
Revenue from transaction processing services	–	8,175	–	7,501
Revenue from maintenance services	–	503	–	364
	–	**8,678**	**–**	**7,865**
Other operating income				
Income from sale of property and equipment (a)	–	444	–	569
Income from sale of inventory (b)	–	72	–	–
Other operating income		247		120
	–	**763**	**–**	**689**
Purchases and expenses				
Rent	440	218	427	222
Purchase of inventory	–	–	–	846
Other operating expenses	5	616	5	631
	445	**834**	**432**	**1,699**
Other items				
Interest income	–	18	–	3

* *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 2017 and 2016, compensation of key management personnel totalled GEL 54 and GEL 43, respectively.

18. Events after the reporting date

Subsequent to 31 December 2017, the Company is expected to install 450 self service terminals at Tbilisi bus stops. This is supported by the fact that in September 2017, JSC Bank of Georgia won a tender and signed an agreement with Tbilisi City Hall for the modernisation of the public transportation payment system in Tbilisi. The Company participated in the tender as sub-contractor to JSC Bank of Georgia and will retain its existing 800 self service terminals (out of 2200+ self service terminals network) placed at municipal bus stops in Tbilisi as well as 450 self service terminals to be installed during the next ten years.

On 12 February 2018, the Board of Directors of BGEO Group PLC approved the implementation of the demerger. The demerger is subject to shareholder approval at the 2018 Annual General Meeting of BGEO Group PLC and the process is currently expected to complete by 30 June 2018. As a result, the ultimate controlling party of the Company will change from BGEO Group PLC to Bank of Georgia Group PLC.