

KUDELSKI GROUP  
FINANCIAL STATEMENTS  
2018



# CONTENTS

---

## KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017	P. 4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017	P. 5
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017	P. 6
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017	P. 7
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017	P. 8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018	P. 9
REPORT OF THE STATUTORY AUDITOR	P. 64

---

## KUDELSKI SA FINANCIAL STATEMENTS

BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017	P. 70
INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2018	P. 71
NOTES TO THE FINANCIAL STATEMENTS 2018	P. 72
REPORT OF THE STATUTORY AUDITOR	P. 78

# CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017)

In USD'000	Notes	2018	Restated 2017
Revenues	6	908 205	993 040
Other operating income	7	11 482	19 051
<b>Total revenues and other operating income</b>		<b>919 687</b>	<b>1 012 090</b>
Cost of material, licenses and services		-270 791	-309 537
Employee benefits expense	8	-448 087	-462 648
Other operating expenses	9	-165 053	-179 559
<b>Operating income before depreciation, amortization and impairment</b>		<b>35 756</b>	<b>60 347</b>
Depreciation, amortization and impairment	10	-43 059	-38 566
<b>Operating income</b>		<b>-7 303</b>	<b>21 781</b>
Interest expense	11	-10 440	-8 500
Other finance income, net	12	-310	-2 615
Share of result of associates	17	1 495	888
<b>Income before tax</b>		<b>-16 558</b>	<b>11 553</b>
Income tax expense	13	-7 741	-12 929
<b>Net income for the period from continuing operations</b>		<b>-24 299</b>	<b>-1 376</b>
Net result from discontinued operations	37	4 278	-9 412
<b>Net income for the period</b>		<b>-20 020</b>	<b>-10 788</b>
<b>Attributable to:</b>			
- Equity holders of the company		-28 453	-14 770
- Non-controlling interests		8 433	3 982
<b>Earnings per share (in USD)</b>			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	14	-0.5218	-0.2716
- Continuing operations		-0.5826	-0.1380
- Discontinued operations		0.0608	-0.1336
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	14	-0.0522	-0.0272
- Continuing operations		-0.0583	-0.0138
- Discontinued operations		0.0061	-0.0134

The accompanying notes form an integral part of the consolidated financial statements. Prior year figures have been restated (refer to note 4 for additional information).

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017)

In USD'000	Notes	2018	Restated 2017
<b>Net income</b>		<b>-20 020</b>	<b>-10 788</b>
<b>Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:</b>			
Currency translation differences		-14 371	23 271
Cash flow hedges, net of income tax		-244	-38
		<b>-14 615</b>	<b>23 232</b>
<b>Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:</b>			
Change in fair value of equity investments at fair value through other comprehensive income		-153	-196
Remeasurements on post employment benefit obligations, net of income tax		-9 095	12 834
		<b>-9 248</b>	<b>12 638</b>
<b>Total other comprehensive income, net of tax</b>		<b>-23 863</b>	<b>35 870</b>
<b>Total comprehensive income</b>		<b>-43 883</b>	<b>25 082</b>
<b>Attributable to:</b>			
Shareholders of Kudelski SA		-52 018	20 354
- Continuing operations		-54 883	25 862
- Discontinued operations		2 865	-5 508
Non-controlling interests		8 135	4 728

The accompanying notes form an integral part of the consolidated financial statements. Prior year figures have been restated (refer to note 4 for additional information).

# CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2018 AND 2017)

In USD'000	Notes	31.12.2018	Restated 31.12.2017	Restated 1.1.2017
<b>ASSETS</b>				
<b>Non-current assets</b>				
Tangible fixed assets	15	128 176	136 668	145 770
Intangible assets	16	431 723	451 136	427 722
Investments in associates	17	6 191	5 858	4 939
Deferred income tax assets	18	61 612	57 746	63 774
Financial assets at fair value through comprehensive income	19	508	1 344	1 498
Financial assets at amortized cost	19	67 251	53 239	28 645
Other non-current assets	19	1 227	1 444	1 694
<b>Total non-current assets</b>		<b>696 687</b>	<b>707 436</b>	<b>674 043</b>
<b>Current assets</b>				
Inventories	20	59 868	58 997	53 221
Trade accounts receivable	21	257 092	287 351	239 206
Contract assets	21	59 987	44 775	37 273
Other financial assets at amortized cost	22	41 021	30 217	40 080
Other current assets	23	22 915	22 622	24 696
Derivative financial instruments	35	64	475	350
Cash and cash equivalents	24	85 979	71 911	174 440
<b>Total current assets</b>		<b>526 926</b>	<b>516 348</b>	<b>569 266</b>
<b>Assets classified as held for sale</b>	<b>37</b>	<b>14 401</b>	<b>62 650</b>	<b>–</b>
<b>Total assets</b>		<b>1 238 014</b>	<b>1 286 433</b>	<b>1 243 309</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	25	333 456	332 222	331 091
Reserves		73 164	136 947	135 212
<b>Equity attributable to equity holders of the parent</b>		<b>406 620</b>	<b>469 169</b>	<b>466 303</b>
Non-controlling interests	26	36 541	22 456	23 297
<b>Total equity</b>		<b>443 162</b>	<b>491 625</b>	<b>489 600</b>
<b>Non-current liabilities</b>				
Long-term financial debt	27	398 161	357 528	343 595
Deferred income tax liabilities	18	6 878	9 014	10 847
Employee benefits liabilities	29	66 319	52 311	66 379
Provisions for other liabilities and charges	36	97	10	–
Other long-term liabilities	30	12 946	9 998	23 987
<b>Total non-current liabilities</b>		<b>484 400</b>	<b>428 861</b>	<b>444 808</b>
<b>Current liabilities</b>				
Short-term financial debt	31	64 122	66 902	31 471
Trade accounts payable	32	79 608	88 696	66 797
Contract liabilities	33	50 570	41 279	56 704
Other current liabilities	34	95 746	118 410	129 276
Current income taxes		8 848	7 502	14 608
Derivative financial instruments	35	190	202	97
Provisions for other liabilities and charges	36	11 368	10 420	9 948
<b>Total current liabilities</b>		<b>310 452</b>	<b>333 412</b>	<b>308 901</b>
<b>Liabilities classified as held for sale</b>	<b>37</b>	<b>–</b>	<b>32 535</b>	<b>–</b>
<b>Total liabilities</b>		<b>794 853</b>	<b>794 808</b>	<b>753 709</b>
<b>Total equity and liabilities</b>		<b>1 238 014</b>	<b>1 286 433</b>	<b>1 243 309</b>

The accompanying notes form an integral part of the consolidated financial statements. Prior year figures have been restated (refer to note 4 for additional information).

# CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017)

In USD'000	Notes	2018	Restated 2017
<b>Net income for the year</b>		<b>-20 020</b>	<b>-10 788</b>
Adjustments for net income non-cash items:			
- Current and deferred income tax		8 108	13 322
- Interests, allocation of transaction costs and foreign exchange differences		12 725	9 367
- Depreciation, amortization and impairment		43 059	42 529
- Share of result of associates	17	-1 495	-888
- Non-cash employee benefits (income) / expense		4 954	1 752
- Deferred cost allocated to income statement		289	8 993
- Additional provisions net of unused amounts reversed		8 762	14 186
- Non-cash government grant income		-4 305	-14 921
- Other non cash (income) / expenses		16 914	2 922
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		-12 431	133
- Other non-operating cash items		127	-45
Adjustments for change in working capital:			
- Change in inventories		212	-10 779
- Change in trade accounts receivable		723	-70 412
- Change in trade accounts payable		-16 171	23 403
- Change in accrued expenses		-23 159	-602
- Change in deferred costs and other net current working capital headings		-17 113	-55 769
Government grant from previous periods received		6 664	10 215
Dividends received from associated companies	17	937	175
Interest paid		-8 200	-7 238
Interest received		1 328	888
Income tax paid		-6 628	-10 626
<b>Cash flow from operating activities</b>		<b>-4 722</b>	<b>-54 183</b>
Purchases of intangible fixed assets		-9 268	-17 343
Purchases of tangible fixed assets		-15 659	-20 112
Proceeds from sales of tangible and intangible fixed assets		641	-1 640
Investment in financial assets and loans granted		-2 729	-3 328
Divestment of financial assets and loan reimbursement		3 046	2 226
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Cash consideration arising from current year business combinations	5	-3 893	-13 457
- Cash acquired from business combinations	5	3 332	2 809
- Payment arising from current years business combinations		-1 956	-
- Payment arising from prior years business combinations		-11 880	-8 208
Disposal of subsidiaries and operations		20 556	-266
<b>Cash flow from investing activities</b>		<b>-17 811</b>	<b>-59 318</b>
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-23 225	-4 757
Increase in bank overdrafts, long term loans and other non-current liabilities		68 444	31 225
Proceeds from employee share purchase program	40	138	114
Acquisition of non-controlling interests			-281
Dividends paid to non-controlling interests		-382	-5 286
Dividends paid to shareholders	39	-5 568	-19 329
<b>Cash flow from financing activities</b>		<b>39 407</b>	<b>1 685</b>
Effect of foreign exchange rate changes on cash and cash equivalents		-2 807	9 287
<b>Net movement in cash and cash equivalents</b>		<b>14 068</b>	<b>-102 529</b>
Cash and cash equivalents at the beginning of the year	24	71 911	174 440
Cash and cash equivalents at the end of the year	24	85 979	71 911
<b>Net movement in cash and cash equivalents</b>		<b>14 068</b>	<b>-102 529</b>

The accompanying notes form an integral part of the consolidated financial statements. Prior year figures have been restated (refer to note 4 for additional information).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
<b>January 1, 2017 (published)</b>		<b>331 091</b>	<b>98 464</b>	<b>39 591</b>	<b>-2 535</b>	<b>3 169</b>	<b>21 839</b>	<b>491 618</b>
Change in accounting policy	4	-	-	-3 645	169	-	1 458	-2 018
<b>January 1, 2017 (restated)</b>		<b>331 091</b>	<b>98 464</b>	<b>35 946</b>	<b>-2 367</b>	<b>3 169</b>	<b>23 297</b>	<b>489 600</b>
Net income		-	-	-14 770	-	-	3 982	-10 788
Other comprehensive income		-	-	12 835	-234	22 523	747	35 870
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-1 935</b>	<b>-234</b>	<b>22 523</b>	<b>4 728</b>	<b>25 082</b>
Employee share purchase program	40	110	53	-	-	-	-	163
Shares issued to employees	40	1 020	635	-	-	-	-	1 656
Dividends paid to shareholders		-	-13 807	-5 523	-	-	-	-19 330
Dividends paid to non-controlling interests		-	-	-	-	-	-5 286	-5 286
Transactions with non-controlling interests		-	-	23	-	-	-304	-281
Sale of non-controlling interest		-	-	-	-	-	-21	-21
Equity contribution from non-controlling interest		-	-	-	-	-	42	42
<b>December 31, 2017</b>		<b>332 222</b>	<b>85 345</b>	<b>28 512</b>	<b>-2 601</b>	<b>25 691</b>	<b>22 456</b>	<b>491 625</b>
<b>January 1, 2018 (published)</b>		<b>332 222</b>	<b>85 345</b>	<b>35 549</b>	<b>-2 627</b>	<b>26 187</b>	<b>21 653</b>	<b>498 330</b>
Change in accounting policy	4	-	-	-9 172	26	-496	803	-8 840
<b>January 1, 2018 (restated)</b>		<b>332 222</b>	<b>85 345</b>	<b>26 376</b>	<b>-2 601</b>	<b>25 691</b>	<b>22 456</b>	<b>489 489</b>
Net income		-	-	-28 453	-	-	8 433	-20 020
Other comprehensive income		-	-	-9 120	-397	-14 048	-298	-23 863
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-37 573</b>	<b>-397</b>	<b>-14 048</b>	<b>8 135</b>	<b>-43 883</b>
Employee share purchase program	40	218	-19	-	-	-	-	199
Shares issued to employees	40	1 016	133	-	-	-	-	1 150
Dividends paid to shareholders		-	-5 568	-	-	-	-	-5 568
Dividends paid to non-controlling interests		-	-	-	-	-	-382	-382
Transactions with non-controlling interests	5	-	-	-4 176	-	-	4 176	-
Sale of non-controlling interest		-	-	-	-	-	-2	-2
Non controlling interests arising on business combinations		-	-	-	-	-	2 158	2 158
<b>December 31, 2018</b>		<b>333 456</b>	<b>79 892</b>	<b>-15 373</b>	<b>-2 998</b>	<b>11 643</b>	<b>36 541</b>	<b>443 162</b>

Fair value and other reserves as of December 31, 2018 include kUSD -2 998 (2017: kUSD -2 845) of unrealized loss on financial assets at fair value through other comprehensive income and an unrealized gain of kUSD 0 (2017: kUSD 244) relating to cash flow hedges.

The accompanying notes form an integral part of the consolidated financial statements. Prior year figures have been restated (refer to note 4 for additional information).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (A) Basis of preparation

The consolidated financial statements of the Kudelski Group (“Group” or “Company”) have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all years presented, except for the changes in accounting policies described in note 4. Prior year figures have been reclassified where necessary to better enable comparison. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

### (B) Group accounting

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises power to govern

their financial and operating policies and bears an over-proportional responsibility for the main risks. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities assumed by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible assets. When determining the purchase price allocation, the Group primarily considers development technologies, customer lists, trademarks and brands as intangibles.

Any contingent consideration which depends on the future financial perfor-

mance of the acquired company (“earn out clause”) is recognized at fair value on the acquisition date using management’s best estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve months after the balance sheet date is discounted to its present value and disclosed within other long-term liabilities.

The Group recognizes non-controlling interests as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate value of the consideration transferred plus the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. The difference between the fair value of any consideration paid and the relevant acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### (c) Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

**d) Associates**

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the control of those policies. Significant influence is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(C) Foreign currencies**

The consolidated financial statements of the Group are expressed in U.S. Dollars ("USD"), which is the presentation currency.

The local currency is generally the functional currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate prevailing at the balance sheet date. Transactions contracted in a currency other than the functional currency are recorded using the exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.

Income, expense and cash flows of the consolidated companies have been translated into U.S. dollars using average exchange rates. Assets and liabilities are translated at the closing rate at the date of the balance sheet. All resulting translation differences, including those arising from the translation of any net investment in foreign entities, are recognized in other comprehensive income. The loss of control or total disposal of a subsidiary results in the reclassification of any translation difference to the income statement.

**(D) Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer, and is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale, and after eliminating sales within the Group. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer.

The Group sells hardware and software products on both a stand-alone basis without any services and as solutions bundled with services.

Generally, when we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under the contract as distinct goods and services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a customer. Observable stand-alone selling prices are used

when readily available. If not available, we estimate the price based on observable inputs, including direct labor hours and allocable costs.

**(a) Hardware**

Revenue from hardware sales is recognized when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to a specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the agreement, the acceptance provisions have lapsed, or the Group has objective evidence that all the criteria for acceptance have been satisfied. In certain instances, we leverage drop-shipment arrangements with our partners and suppliers to deliver products to our clients without having to physically hold the inventory at our warehouses. We recognize revenue for drop-shipment arrangements on a gross basis as the principal in the transaction when the product is received by the customer because we control the product prior to transfer to the customer. We also assume primary responsibility for fulfillment in the arrangement, we assume inventory risk if the product is returned, we set the price charged to the customer and we work closely with our customers to determine their hardware needs.

**(b) Software, licenses and royalties**

Revenue from software sales is recognized at the point in time when the customer acquires the right to use the software under license and control transfers to the customer. Revenue from licensing arrangements is recognized upon commencement of the term of the license

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

agreement or when the renewal term begins, as applicable. Royalty revenue is recognized upon sale or usage of the product to which the royalty relates.

## (c) Services

We design, implement and manage security and access solutions that combine hardware, software and services for our customers. Such services rendered may include system integrations, specific developments and customization, maintenance and training, and may be provided by us or by third-parties as part of bundled arrangements or on a stand-alone basis as consulting or managed service engagements.

If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, revenue from service engagements is recognized over time as we perform the underlying services by measuring progress toward complete satisfaction of the performance obligation. In contracts that contain a fixed fee per user, revenue is recognized in the amount in which we have the right to invoice the customer for services performed.

Specific revenue recognition practices for certain of our service offerings are described in further detail below.

(i) **Time and materials service contracts.** Revenue for service engagements that are on a time and materials basis is recognized based upon the hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end.

(ii) **Fixed fee service contracts.** Revenue from fixed fee service contracts is rec-

ognized using a proportional performance method based on the ratio of direct labor hours and other allocated costs incurred to total estimated direct labor hours and other allocated costs.

Certain software maintenance agreements provide our customers the right to obtain software upgrades, help desk and other support services directly from the third-party software provider during the term of the agreement. We act as the selling agent in these arrangements and do not assume any performance obligation to the customer under the arrangement. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the service is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction.

## (d) Significant financing components

Certain contracts with our customers may include payment terms that exceed one year. To the extent that a significant financing component exists in these arrangements, we record interest income associated with the financing component of the arrangement over the associated payment terms based on the prevailing market interest rate at the date of the transaction.

## (e) Variable consideration

For contracts that contain variable pricing elements, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration generally increases the amount of revenue that will be deferred. Variable consideration is reviewed at each reporting period and is measured using the most likely amount method

which includes management appropriate estimates.

## (f) Payments to customers

Payments made by the Group to customers to enter into or to renew existing customer relationships are generally treated as a reduction to the transaction price of the contract and are recognized to the income statement at the later of when the Group recognizes the revenue for the transfer of the related goods and services or when the Group pays the consideration.

## (g) Interest income

Interest income is recognized according to the effective interest rate method.

## (E) Government grants

Grants from governments or similar organizations are recognized at their fair value when there is a reasonable assurance that the Group complies with all conditions associated with their grants receipt and use. Where a government grant is subject to audit before payment, the fair value is determined using management's best estimate of the audit risk. Grants are recognized in the income statement as operating income unless they are linked to a capitalized fixed asset, in which case they are deducted from the cost of the fixed asset.

## (F) Cost of material, licenses and services

The cost of material, licenses and services includes direct costs which are attributable to selected revenues. The cost of material includes only the cost of materials paid to external suppliers in connection with recognized sales transactions. It therefore does not include other direct and indirect costs associated with the manufacturing process, such as labor costs, utilities or depreciation of manufacturing assets.

Cost of licenses includes amounts charged by external suppliers for sub-licenses on a per-unit basis for each unit of delivered product (e.g. CODEC licenses charged on each set-top-box sold). It therefore specifically excludes licenses paid independently of the number of units sold, deployed or used in a development process. Cost of services includes outsourced services that are directly connected to a recognized sales transaction, such as subcontracting a portion of a maintenance agreement or outsourcing the implementation of a revenue-generating customer solution.

#### **(G) Derivative financial instruments**

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered in to and subsequently remeasured to fair value at the end of each reporting period. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The currency instruments that are generally used include forward foreign exchange contracts, currency swaps and zero cost option strategies with terms generally not exceeding one year. Derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

#### **(a) Derivatives that do not qualify for hedge accounting**

Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IFRS 9. Changes in the fair value of derivative instruments that do not qualify for hedge

accounting under IFRS 9 are recognized immediately in the income statement as part of 'other finance income/(expense), net'.

#### **(b) Cash flow hedge**

The Group designates the derivatives which qualify as hedges of a forecast transaction (cash flow hedge). The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both hedge inception and on an ongoing basis, of whether the economic relationship exists between the hedged item and the hedging instrument. The Group enters into hedging instruments that have similar critical terms as the hedged items, such as reference rates, notional amounts and maturities.

Changes in intrinsic value of derivative financial instruments that meet hedge qualifying criteria are recognized in the "cash flow hedge reserve" within equity. Changes in fair value of derivative instruments attributable to time value are recognized in the "cost of hedging reserve" within equity. The amounts accumulated in hedging reserves of OCI are reclassified to profit or loss in the same period during which the hedged expected future cash flow affects the income statement.

In hedges of highly probable future sales transactions, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are any changes in the credit risk of the derivative counterparty.

When a cash flow hedge no longer meets the criteria for hedge account-

ing, the gains and losses that were previously recorded in equity remain deferred in equity until the hedged cash flow is recognized in the income statement. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging are immediately reclassified to the income statement. Gain or loss, as well as cost of hedging, related to the ineffective portion is recognized in the income statement within 'other finance income/(expense), net'.

#### **(H) Taxes**

Taxes reported in the consolidated income statements include current and deferred taxes on profit, as well as non-reimbursable withholding taxes and tax adjustments relating to prior years. Income tax is recognized in the income statement, except to the extent that it relates to items directly taken either to equity or to other comprehensive income, in which case it is recognized either in equity or in other comprehensive income. Taxes on income are accrued in the same periods as the revenues and expenses to which they relate.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred taxes are determined using the comprehensive liability method and are calculated on the temporary differences at the substantively enacted rates of tax expected to prevail when the temporary differences reverse, except for those temporary differences related to investments in subsidiaries where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences and tax losses

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

carried forward are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Temporary differences and tax losses which generate deferred tax assets and liabilities based on their future probable use are combined within each legal entity to provide a net deferred tax asset or liability amount.

Deferred income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

## (I) Tangible fixed assets

### (a) General

Property, plant and equipment is measured at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes any expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Building acquisitions or construction and building improvements are allocated to components. The costs less residual values are depreciated over their useful lives on a straight-line basis. Such useful lives may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.

Depreciation is calculated on a straight-line basis over each asset's useful life, according to the following schedule:

### Technical equipment and machinery

#### Useful life in years

Machinery and measurement instruments	4 - 7
Digital material and equipment	4 - 5
Computer and information networks	4
Fixed assets made available to clients	4 - 10

### Other equipment

#### Useful life in years

Office furniture and equipment	5 - 7
Vehicles	4 - 5

Each assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is impaired immediately if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts, and are included in the consolidated income statements.

### (b) Leased tangible fixed assets

Assets acquired under long-term finance leases are capitalized and depreciated over the shorter of the asset's useful life or the lease period in accordance with the Group's policy on property, plant and equipment. The financial commitments associated with long-term finance leases are reported as other current and long-term liabilities. Rentals payable under operating leases are charged to the income statement as incurred.

### (c) Fixed assets made available to clients

The Group makes equipment as well as

smart cards available to clients within the scope of complete security solutions. The assets given to these clients remain the property of the Group and are initially recognized at cost and disclosed in the balance sheet under technical equipment and machinery. These assets are depreciated over the shorter of the duration of the contract and the economic life of the individual components, and the related expense is disclosed under depreciation.

### (d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production assets which take a substantial period of time to be ready for their intended use of sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

## (J) Intangible assets

### (a) Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. It is denominated in the functional currency of the related acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets, while goodwill on acquisition of associates is included in investments in associates. All goodwill is considered to have an indefinite life, tested at least annually for impairment, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for



the purpose of impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill associated with the entity sold.

**(b) Internal research and development**

Internal research and development expenses are fully charged to the income statement when incurred. The Group considers that economic uncertainties inherent in the development of new products preclude it from capitalizing such costs.

**(c) External research and development**

Expenditures with external parties for research and development, application software and technology contracts are charged to the income statement as incurred if they do not qualify for capitalization. When capitalized, they are amortized over 4 to 10 years once development is achieved and the resulting products are ready for sale .

**(d) Computer software**

Acquired computer software licenses are capitalized in the amount expended to acquire the software and ready it for its intended use. These costs are amortized on a straight-line basis over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as expense as incurred.

**(e) Customer lists, Trademarks and Brands**

Customer lists, trademarks and brands not acquired through a business combination are initially measured at cost. Following initial recognition, they are carried at cost less any accumulated amortisation and impairment losses, and are amortised over their useful economic life. Internally generated customer lists, trademarks and brands are not capitalised.

**(f) Other intangibles in connection with business combinations**

Under IFRS 3, in-process research and development, core development technologies, customer lists and trademarks are valued as part of the process of allocating the purchase price in a new business combination. The respective values are recorded separately from goodwill and are allocated to cash-generating units. Acquired intangibles are amortized on a straight-line basis over the following periods, with the expense recorded in the income statement:

**Over the useful life, in years**

Core development technologies	4 - 10
Customer lists	<u>10</u>
Trademarks and brands	<u>5</u>

**(K) Financial assets**

**(a) Classification**

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities measured at fair value (either through OCI, or through profit or loss), and financial assets or financial liabilities measured at amortized cost. The classification depends on the Group’s business model for managing the financial assets and liabilities and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss, or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through OCI.

**(b) Measurement**

At initial recognition, the Group measures financial assets and liabilities at

fair value plus or minus any transaction costs that are directly attributable to the acquisition of the instrument. For financial assets that are carried at fair value through profit or loss, transaction costs are expensed as incurred.

Subsequent measurement of loans and debt instruments depends on the Group’s business model for managing the financial instrument and the cash flow characteristics of the asset or liability. The Group classifies its debt instruments into three measurement categories, amortized cost, fair value through profit or loss, or fair value through OCI.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these assets is included in ‘other finance income/(expense), net’ using the effective interest rate method. Any gain or loss arising on derecognition is recognized in profit or loss and presented in ‘other operating expenses’. Foreign exchange gains and losses are presented in ‘other finance income/(expense), net’.

Assets that are held for collection of contractual cash flows and for selling the financing assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognized in profit or loss. When the financing asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in ‘other finance income/(expense), net’. Interest income from these financial assets

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

is included in 'finance income' using the effective interest rate method. Foreign exchange gains or losses are presented in 'other finance income/(expense), net'.

Assets that do not meet the criteria for amortized cost or fair value through OCI are measured at fair value through profit or loss and presented as 'other finance income/(expense), net' in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as 'other finance income/(expense), net' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other finance income/(expense), net' in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through OCI are not reported separately from other changes in value.

## **(c) Impairment**

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Beginning January 1, 2018, the Group applies the simplified approach permitted by IFRS 9 for trade accounts receivables and contract assets, which requires

expected lifetime credit losses to be recognized from initial recognition of the receivables.

To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit characteristics and days past due. The Group therefore concludes that the expected loss rates for trade accounts receivables are a reasonable approximation of the loss rates for contract assets.

Expected loss rates are based on the payment profiles of sales over the 36 month period preceding the financial statement reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables.

Prior to January 1, 2018, the impairment of trade accounts receivables was assessed on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

## **(L) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of work in progress and manu-

factured finished goods is comprised of direct production costs and an appropriate proportion of production overhead and factory depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories which are no longer part of production and sales plans are charged to profit and loss.

## **(M) Deferred costs**

Deferred costs are measured at cost and are allocated to the income statement over the shorter of their useful life and the contract period. The portion of deferred cost to be expensed in the income statement during a period that exceeds 12 months from the balance sheet date is disclosed under other non-current assets.

## **(N) Trade accounts receivable**

Trade accounts receivable are initially measured at fair value and subsequently valued using the amortized cost method.

## **(O) Contract assets**

A contract asset is the entity's right to consideration in exchange for goods or services that the entity has transferred to the customer. A contract asset becomes a receivable when the entity's right to consideration is unconditional, which is the case when only the passage of time is required before payment of the consideration is due. Contract assets relate to unbilled work in progress and have substantially the same risk characteristics as trade receivables.

## **(P) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months or less which are readily con-

vertible to known amounts of cash. Bank overdrafts are included in short-term financial debt in current liabilities on the balance sheet.

### **(Q) Share capital**

Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital less directly attributable incremental costs and the nominal value of the share capital increase are considered as share premium and included in equity.

### **(R) Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid for the establishment of loan facilities are recognized as transaction costs of the loan if all of the facility will be drawn down. If there is no evidence that all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the loan facility.

### **(S) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obli-

gations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recognized when the Group has developed a formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

### **(T) Employee benefits**

#### **(a) Pension obligations**

The Group operates a number of defined benefit and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by their employer, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.

The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds

which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group's contributions to the defined contribution plans are charged to the income statement in the year during which they are made.

#### **(b) Other long-term employee benefits**

Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. The cost of such deferred compensation arrangements is recognized on an accrual basis and included within employee benefits expense.

#### **(c) Employee Share Purchase Program (ESPP)**

The Group's employee share purchase program allows certain employees to buy a specific number of shares on a preferential basis, subject to certain restrictions on the sales of the shares for a period of 3 years. The difference between the fair value of these shares and the employee's payments for the shares is expensed in the income statement on the subscription date. The fair value of the shares transferred is determined based on the market price of the shares adjusted for the estimated value of the restrictions on sales.

#### **(d) Profit sharing and bonus plan**

The Group recognizes a liability and an expense for bonuses and profit sharing where contractually obliged or where there is a past practice that has created a constructive obligation. In addition,



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

the Board of Directors may grant shares to certain employees. These shares may be subject to a blocking period of up to 7 years and are expensed in the income statement at their fair value at grant date taking into account the estimated value reduction due to the blocking period.

## **(e) Other employee benefits**

Salaries, wages, social contributions and other benefits are recognized on an accrual basis in employee benefits expense in the year in which the employees render the associated services.

## **(U) Trade accounts payable**

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **(V) Contract liabilities**

Contract liabilities represent the Group's current obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Contract liabilities primarily relate to billed work in progress and service contracts, whereby the customer has been invoiced in advance of the services being performed and are generally recognized within twelve months.

## **(W) Dividends**

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

## **(X) Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. The Group considers this condition to be met when management is committed to a sale and a sale is highly probable of being completed within one year from

the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell.

## **(Y) New and amended accounting standards and IFRIC interpretations Standards and Interpretations effective in the current period and change in accounting policies**

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations as of January 1, 2018 described below.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The impact of the adoption of these new standards are disclosed in note 4.

The Group has also applied the following amendments and interpretations effective from January 1, 2018:

- Classification and Measurement of Share-Based Payment Transactions - Amendments to IFRS 2
- Annual Improvement 2014-2016 cycle
- Transfers to Investment Property - Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The adoption of the amendments listed above had only limited impact on the Group's accounting policies, financial position and performance. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## **Standard and Interpretations in issue not yet adopted**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2019 or later periods, and which the Group has not early adopted:

- IFRS 16 – 'Leases' – IFRS 16 will substantially change the financial statements as it requires the majority of leases to be recognized on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases.

The Group will adopt IFRS 16 with an effective date of January 1, 2019 using the simplified transition approach. Upon adoption, the Group expects to recognize right-of-use assets and lease liabilities in a range consistent with its current operating lease commitments disclosed in note 43, noting that some lease commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. As of the date of these financial statements, the Group has not yet determined to what extent the new standard will affect the Group's profit and classification of cash flows.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group financial statements in the current or future reporting periods and on foreseeable future transactions.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's principal accounting policies are set out in note 1 of the Group's consolidated financial statements and conform to International Financial Reporting Standards (IFRS).

Significant judgments and estimates are used in the preparation of the consolidated financial statements which, to the extent that actual outcomes and results may differ from these assumptions and estimates, could significantly affect the accounting in the areas described in this section.

### Complete security solutions generating recurring service revenues

As defined in note 1 D, the Group provides complete security solutions which generate recurring service revenues. Depending on the contract terms with each client, the Group may replace the assets made available or transferred to the client for security or economic reasons. Early replacement due to technical obsolescence would result in an impairment of the assets made available to the client or of the deferred costs, which would impact the profitability of the Group.

### Litigation and product liability provisions

A number of Group subsidiaries can be subject to litigation and product liability claims arising out of the normal conduct of their businesses. As a result, claims could be made against them that might not be covered by existing provisions or by external insurance coverage. Management believes that the outcomes of such actions, if any, would not be material to the Group's financial condition but could be material to future results of operations in a given period.

### Income tax, deferred tax assets and government grants

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 18). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore significantly modify the deferred tax asset and the income taxes. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods which occur after the accounts have been approved might affect the tax asset capitalized.

A tax audit may also lead to significant adjustments, due to a rejection of key components of a tax return or a government grant (e.g. related to transfer pricing or the assessment of the eligibility of a project qualifying for a grant).

### Retirement benefit plans

The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. The factors include assumptions about the discount rate and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.

Assumptions used (note 29) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

## Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

The value in use calculation requires management's estimate of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

## 3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The

Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

## Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies a natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including forward foreign exchange contracts or option strategies to hedge the exchange rate risks and interest rate swaps to mitigate the risk of rising interest rates.

The Group does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded (it does not sell assets short). The Group only sells existing assets or hedges transactions and future transactions that are likely to happen. Future transaction hedges are contracted according to treasury policy based on a foreign exchange cash flow forecast. In the case of liquid funds, it writes options on assets it has, or on positions it wants to acquire, and for which it has the required liquidity. The Group therefore expects that any loss in value for these instruments would be generally offset by increases in the value of the hedged transactions.

### (a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statements in U.S. Dollars. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swiss franc and the Euro. Foreign exchange risk aris-

es from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts.

The Group enters into zero cost foreign currency option contracts to manage the risk associated with highly probable sales transactions for the next 12 months within a determined portion of the exposure generated, as defined in the treasury policy. These derivatives are generally qualified as cash flow hedges.

The Group also enters into foreign exchange forward and swap contracts in order to hedge the risk attributed to changes in value of recognized assets and liabilities. The Group qualifies these derivatives as held-for-trading with gains and losses recognized through profit and loss.

Net investments in Group affiliates with a functional currency other than the U.S. Dollar are of a long-term nature: the Group does not hedge such foreign currency translation exposures.

**(b) Interest rates**

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk exposure is evaluated regularly to align with interest rate views and the Group's defined risk appetite, which ensure that optimal hedging strategies are applied by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

**Other price risks**

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the department in charge.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as

having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

**Liquidity risk management**

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 4. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements. As a result of changes in the Group's accounting policies, prior year financial statements had to be restated. The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. With the exception of certain aspects of hedge accounting, the Group applied IFRS 9 prospectively and has adapted the classification and terminology of certain balance sheet headings to better align with IFRS 9 terminology. To improve comparability of the financial statements, December 31, 2017 comparative figures have been reclassified. The adjustments arising from the new impairment rules are not reflected in the restated balance sheet as of December 31, 2017, but are recognized in the opening balance sheet on January 1, 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

In USD'000	December 31, 2017				December 31, 2017		January 1, 2018
	As originally presented	Reclassification	IFRS 9 Hedging	IFRS 15	Restated	IFRS 9	
<b>Non-current assets</b>							
Deferred income tax assets	55 212	–	5	2 529	57 746	288	58 034
Financial assets and other non-current assets	56 405	-56 405	–	–	–	–	–
Financial asset at fair value through other comprehensive income	–	1 344	–	–	1 344	–	1 344
Financial asset at amortized cost	–	53 239	–	–	53 239	–	53 239
Other non-current assets	–	1 821	–	-377	1 444	–	1 444
<b>Current assets</b>							
Trade receivables	340 357	-54 611	–	1 605	287 351	-2 345	285 006
Contract assets	–	54 611	–	-9 836	44 775	-79	44 696
Other current assets	53 469	-30 217	–	-630	22 622	–	22 622
Other financial assets at amortized cost	–	30 217	–	–	30 217	–	30 217
<b>Total Assets</b>	<b>505 443</b>	<b>–</b>	<b>5</b>	<b>-6 710</b>	<b>498 738</b>	<b>-2 136</b>	<b>496 602</b>
<b>Equity</b>							
Reserves	144 455	–	5	-7 512	136 947	-2 136	134 811
Non-controlling interests	21 653	–	–	803	22 456	–	22 456
<b>Current liabilities</b>							
Contract liabilities	–	41 279	–	–	41 279	–	41 279
Other current liabilities	137 794	-19 384	–	–	118 410	–	118 410
Advances received from clients	21 895	-21 895	–	–	–	–	–
<b>Total equity and liabilities</b>	<b>325 797</b>	<b>–</b>	<b>5</b>	<b>-6 710</b>	<b>319 092</b>	<b>-2 136</b>	<b>316 956</b>

In USD'000	2017 As originally presented	IFRS 15	IFRS 9 Hedging	2017 Restated
Revenues	1 068 707	-56 616	–	1 012 090
Expenses	-1 043 069	52 760	–	-990 310
<b>Operating income</b>	<b>25 637</b>	<b>-3 857</b>	<b>–</b>	<b>21 781</b>
Finance costs	-10 371	–	143	-10 228
<b>Income before tax</b>	<b>15 266</b>	<b>-3 857</b>	<b>143</b>	<b>11 553</b>
Income tax	-12 595	-302	-31	-12 929
<b>Net income for the period before discontinued operations</b>	<b>2 672</b>	<b>-4 159</b>	<b>112</b>	<b>-1 376</b>
Net result from discontinued operations	-9 412	–	–	-9 412
<b>Net income from continuing operations</b>	<b>-6 741</b>	<b>-4 159</b>	<b>112</b>	<b>-10 788</b>
Attributable to:				
- Equity holders of the company	-11 378	-3 504	112	-14 770
- Non-controlling interests	4 637	-655	–	3 982
Earnings per share, basic and diluted in USD:				
- bearer shares	-0.2092	-0.0644	0.0021	-0.2716
- registered shares	-0.0209	-0.0064	0.0002	-0.0272
<b>Other comprehensive income</b>				
<b>Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:</b>				
Currency translation differences	23 766	-496	1	23 272
Cash flow hedges, net of income tax	105	–	-143	-38
<b>Total other comprehensive income, net of income tax</b>	<b>36 509</b>	<b>-496</b>	<b>-142</b>	<b>35 870</b>
<b>Total comprehensive income for the period</b>	<b>29 768</b>	<b>-4 654</b>	<b>-30</b>	<b>25 082</b>
Attributable to:				
- Equity holders of the company	24 385	-4 000	-30	20 354
- Non-controlling interests	5 383	-655	–	4 728
	<b>29 768</b>	<b>-4 655</b>	<b>-30</b>	<b>25 082</b>

### IFRS 9 Financial Instruments - Impact of Adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## Derivatives and hedging

The Group enters into foreign currency option contracts to reduce the exposure of its highly probable forecast transactions to foreign currency fluctuations. The foreign currency options in place as of January 1, 2018 qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. For foreign currency options, the Group only designates the intrinsic value as hedging instruments in the cash flow hedge relationships.

Prior to January 1, 2018, changes in intrinsic value were recognized in comprehensive income, while changes in the time value were recognized in the statement of profit or loss. Since the adoption of IFRS 9, the Group recognized changes in fair value of foreign currency options attributable to time value in the costs of hedging reserve within equity. This change has been applied retrospectively for foreign currency options in cash flow hedge relationships resulting in a reclassification of kUSD 169 from retained earnings to the costs of hedging reserves as of January 1, 2017 and kUSD 31 as of January 1, 2018 and a decrease in other comprehensive income ("OCI") of kUSD 143 for the year ended December 31, 2017.

## Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade accounts receivable
- Contract assets
- Financial assets carried at amortized costs, and
- Financial assets carried at fair value through OCI

The Group was required to revise its impairment methodology under IFRS 9 for each of these categories. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table above.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade accounts receivable and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in process and have substantially the same risk characteristics as the trade accounts receivable for the same types of contracts.

The loss allowances for trade accounts receivable and contract assets at December 31, 2017 reconcile to the opening loss allowance on January 1, 2018 as follows:

In USD'000	Contract assets	Trade accounts receivable
Loss allowance at December 31, 2017	30	26 453
Amounts restated through opening retained earnings	79	2 345
<b>Opening loss allowance at January 1, 2018</b>	<b>109</b>	<b>28 798</b>

Other financial assets carried at amortized costs and fair value through OCI are considered to have low credit risk, and any loss allowance recognized is therefore limited to 12 months expected credit losses. These assets include, among others, advance payments to suppliers, income and other tax receivables, the long-term portions of trade accounts receivable, including the discounted revenues related to the Group's intellectual property portfolio, equity investments and marketable securities. Instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.



## **IFRS 15 Revenue from Contracts with Customers - Impact of Adoption**

### **Presentation of assets and liabilities related to contracts with customers**

The Group has voluntarily changed the presentation of certain amounts in the comparative balance sheet to reflect the terminology of IFRS 15 and IFRS 9 as follows:

- Contract assets were previously presented as part of trade accounts receivable
- Contract liabilities were previously included in advances received from clients and other current liabilities

### **Principal versus agent considerations**

In sales transactions for certain security products that are sold with third-party delivered maintenance or software subscriptions, we changed our accounting to record revenue for these transactions on a net basis, as the agent in the arrangement. Under previous guidance, based on the Group's credit risk exposure in connection with the contractual obligations, the Group was deemed a principal and reported these revenues on a gross basis. This change has no effect on the reported gross profit associated with these transactions and resulted in a decrease of revenue and cost of material, licenses and services of kUSD 51 769 for the year ended December 31, 2017.

### **Transfer of control versus risks and rewards of ownership**

In connection with a contract for a complete security solution, the Group bundled certain hardware, software and service elements whereby the consideration received for the hardware elements (smartcards) was based on the performance of the solution. Under previous guidance, revenue for these elements was recognized when earned. Under IFRS 15, we consider that control of the goods has passed to the customer and recognize revenue for the sale of smartcards upon delivery. The change related to this contract resulted in an increase in trade accounts receivable of kUSD 2 916, a decrease in other current assets of kUSD 1 796 and other minor adjustments to opening retained earnings and deferred tax assets.

### **Arrangements where revenue recognition criteria are not met**

IFRS 15 requires certain criteria be met for a contract to be accounted for using the five-step model in the revenue standard. Under previous guidance, the Group considered the criteria for recognizing revenue for a particular transaction had been met although a definitive contract had not been signed with the customer. Under IFRS 15, we consider that each party's rights and obligations were not sufficiently identified to allow for recognition under the revised standard. This change resulted in a decrease in revenue and contract assets of kUSD 3 798 for the year ended December 31, 2017.

### **Measuring progress towards complete satisfaction of a performance obligations**

Under previous guidance, the Group used a variety of ways to measure progress towards satisfaction of its performance obligations. IFRS 15 requires an entity to apply a single method of measuring progress for each performance obligation satisfied over time and apply that method consistently to similar performance obligations. Upon adopting IFRS 15, the Group revised its accounting policies to conform to the new standard and reviewed its calculations for measuring progress. As a result, the timing of revenue recognition for certain contracts changed to a later point in time. This change resulted in an opening retained earnings adjustment of kUSD 3 567, decreases of contract assets and deferred taxes of kUSD 5 726 and 2 159, respectively, at January 1, 2017 and a decrease in contract assets of kUSD 6 210 at December 31, 2017.

### **Other adjustments**

In addition to the adjustments described above, upon the adoption of IFRS 15, other items of the primary financial statements such as deferred taxes, income tax expense, and retained earnings were adjusted as necessary. Furthermore, exchange differences on translation of foreign operations were also adjusted.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 5. BUSINESS COMBINATIONS

On January 30, 2018, the Group, through its subsidiary SKIDATA, signed a share purchase agreement whereby it acquired 51% of Cytel (Shanghai) Ltd. for total consideration of kUSD 5 830. Founded in 1972, Cytel (Shanghai) Ltd. is a pioneer and the market leader in the sales, installation and maintenance of high-quality access systems in China. The company has a long history of developing parking solutions to meet the specific needs of the Chinese market and its network of 18 sales and service locations in China's urban centers is expected to broaden the customer and partnership base of SKIDATA.

The goodwill arising from the acquisition amounts to kUSD 3 463 and is allocated to the Public Access operating segment. The goodwill arises from a number of factors, including expected synergies resulting from acquiring an experienced workforce and valuable sales knowledge and expertise in the relevant market. The gross contractual amount of trade accounts receivable acquired is kUSD 4 888, of which kUSD 792 is expected to be uncollectible. Acquisition related costs of kUSD 62 are included in other operating expenses.

The fair values of the identifiable assets and liabilities as at the date of acquisition for the above business combination was as follows:

In USD'000	Fair value of net assets acquired 31.12.2018
Tangible fixed assets	77
Intangible fixed assets (Goodwill excl.)	2 389
Inventory	839
Trade accounts receivable	4 096
Other current assets	369
Cash and cash equivalents	3 332
Trade accounts payable	-521
Other current liabilities	-5 796
Deferred income tax liabilities	-145
<b>Total identified net assets</b>	<b>4 641</b>
Non-controlling interest resulting from a business combination	-2 274
Goodwill	3 463
<b>Total consideration</b>	<b>5 830</b>
Total consideration, of which:	
- cash	3 893
- deferred	1 937
<b>Total consideration</b>	<b>5 830</b>

### Proforma information

From the date of acquisition, Cytel (Shanghai) Ltd. has contributed kUSD 2 797 to revenues and kUSD -176 to the net income from continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kUSD 908 753 and the net income from continuing operations for the year would have been approximately kUSD -24 381.

### Transaction with non-controlling interests

On December 21, 2018, the Group acquired the remaining 22.5% of SmarDTV SA, for no consideration. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kUSD -4 176 and non-controlling interests for kUSD 4 176.

## 6. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker. Group operating segments represent strategic business units that offer products and services for which such internal reporting is maintained. The chief operating decision maker reviews the internal segment reporting in order to allocate resources to the segments and assess their performance.

Starting 2018, the Group manages the Digital TV, Cybersecurity and Internet of Things (IoT) as three distinct businesses that were previously included into one single operating segment. The chief operating decision maker now receives distinct profitability reports for each of these businesses and allocates resources accordingly. A clear cost allocation to each business has been defined and implemented. As a result, the Group reports four operating segments which are reflected in internal management reporting as follows:

- Digital TV
- Cybersecurity
- Internet of Things (IoT)
- Public Access

The Digital TV division provides end-to-end integrated solutions, including open conditional access solutions, which allow TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform, and middleware software solutions for set-top-boxes and other consumer devices, enabling an advanced end-user experience. The Digital TV operating segment also includes the Group's Intellectual Property activities. Prior to 2018, the Integrated Digital Television division included the activities of the Group's Cybersecurity and IoT divisions, which have now been separated based on reporting criteria of IFRS 8.

The Cybersecurity division provides end-to-end cybersecurity solutions to a wide range of customers across multiple sectors, including advisory services, technology and resale services, managed security and custom developed proprietary solutions in domains not covered by existing commercial products. The Cybersecurity division is a combination of organic developments and the former acquisitions of Milestone Systems, Inc. and M&S Technologies.

The IoT division extends the existing Digital Television secure platform into new domains, enabling device security through identity authentication and firmware protection, data security to ensure the confidentiality, integrity and authenticity of sensitive data, and access management and active security protections to enable secure processing, local decision making and threat detection and response.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and other major events.

The measure of income presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that intersegment sales are eliminated at the consolidation level. Income and expenses relating to Corporate include the costs of Group headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions". Reportable segment assets include total assets allocated by segment with the exclusion of intersegment balances, which are eliminated. Unallocated assets include assets managed on a centralized basis, included in the reconciliation to balance sheet assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

In USD'000	Digital TV	Public	Cyber-	Internet of	Total
	2018	Access	security	Things	2018
Revenues from external customers	443 520	368 395	94 290	1 999	908 205
Other operating income	9 156	2 115	91	120	11 482
<b>Total segment revenues and other operating income</b>	<b>452 676</b>	<b>370 511</b>	<b>94 381</b>	<b>2 119</b>	<b>919 687</b>
Cost of materials, licenses and services	-57 633	-157 863	-55 292	-4	-270 791
Operating expenses	-323 366	-191 562	-60 431	-21 589	-596 947
<b>Operating income before depreciation, amortization and impairment</b>	<b>71 678</b>	<b>21 086</b>	<b>-21 342</b>	<b>-19 474</b>	<b>51 949</b>
Depreciation, amortization and impairment	-27 497	-10 407	-4 355	-800	-43 059
<b>Operating income - excluding corporate common functions</b>	<b>44 181</b>	<b>10 679</b>	<b>-25 697</b>	<b>-20 273</b>	<b>8 890</b>
Corporate common functions					-16 193
Interest expense and other Finance income/(expense), net					-10 750
Share of result of associates	355	1 140	-	-	1 495
<b>Income before tax from continuing operations</b>					<b>-16 558</b>
<b>Total segment Assets</b>	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	<b>671 105</b>	<b>351 272</b>	<b>148 105</b>	<b>36 290</b>	<b>1 206 772</b>
In USD'000	Digital TV	Public	Cyber-	Internet of	Total
	Restated 2017	Access Restated 2017	security Restated 2017	Things Restated 2017	Restated 2017
Revenues from external customers	515 578	361 552	115 226	684	993 040
Other operating income	19 947	-1 547	589	62	19 051
<b>Total segment revenue and other operating income</b>	<b>535 525</b>	<b>360 005</b>	<b>115 815</b>	<b>746</b>	<b>1 012 090</b>
Cost of materials, licenses and services	-75 083	-156 954	-77 483	-16	-309 537
Operating expenses	-372 697	-171 301	-61 642	-19 136	-624 776
<b>Operating income before depreciation, amortization and impairment</b>	<b>87 745</b>	<b>31 750</b>	<b>-23 311</b>	<b>-18 406</b>	<b>77 778</b>
Depreciation, amortization and impairment	-23 073	-10 397	-4 636	-461	-38 566
<b>Operating income - excluding corporate common functions</b>	<b>64 672</b>	<b>21 353</b>	<b>-27 946</b>	<b>-18 867</b>	<b>39 211</b>
Corporate common functions					-17 431
Interest expense and other Finance income/(expense), net					-11 116
Share of result of associates	6	882	-	-	888
<b>Income before tax from continuing operations</b>					<b>11 553</b>
<b>Total segment Assets</b>	Restated 31.12.2017	Restated 31.12.2017	Restated 31.12.2017	Restated 31.12.2017	Restated 31.12.2017
	<b>783 901</b>	<b>344 314</b>	<b>89 061</b>	<b>1 125</b>	<b>1 218 401</b>

In USD'000	Restated	
	31.12.2018	31.12.2017
Total Segment Assets	1 206 772	1 218 401
Cash & Cash equivalents	13 021	2 580
Other current assets	1 193	85
Financial assets and other non-current assets	2 627	2 717
Asset of disposal group classified as held for sale	14 401	62 650
<b>Total Assets as per Balance Sheet</b>	<b>1 238 014</b>	<b>1 286 433</b>

## GEOGRAPHICAL INFORMATION

The company's country of domicile is Switzerland. The Group's revenue from external customers and information about its non-current assets by country are presented below:

In USD'000	Revenues from external customers		Non-current assets	
	2018	Restated 2017	31.12.2018	Restated 31.12.2017
	Switzerland	35 672	41 827	76 126
United States of America	269 544	345 420	249 459	252 760
France	53 836	49 053	10 687	12 176
Norway	11 228	9 993	139 638	156 686
Rest of the world	537 925	546 748	91 021	91 302
	<b>908 205</b>	<b>993 040</b>	<b>566 931</b>	<b>595 106</b>

Non-current assets exclude financial instruments, deferred tax assets and employment benefit assets. Revenues are allocated to countries on the basis of the end-customer's location.

## INFORMATION ABOUT MAJOR CUSTOMERS

No aggregate revenues resulting from transactions with a single external customer amount to 10% of the Group's total revenues.

## REVENUE CATEGORIES

In USD'000	Digital TV		Public Access		Cybersecurity		Internet of Things	
	31.12.2018	Restated 31.12.2017	31.12.2018	Restated 31.12.2017	31.12.2018	Restated 31.12.2017	31.12.2018	Restated 31.12.2017
	Europe	172 166	171 755	183 309	179 202	12 713	8 094	1 999
Americas	175 476	219 869	110 251	121 507	81 577	107 132	-	-
Asia & Africa	95 878	123 954	74 835	60 843	-	-	-	-
	<b>443 520</b>	<b>515 578</b>	<b>368 395</b>	<b>361 552</b>	<b>94 290</b>	<b>115 226</b>	<b>1 999</b>	<b>684</b>
Sale of goods	116 650	128 446	230 344	239 415	30 532	51 302	-	-
Services rendered	223 156	230 655	103 806	89 001	37 965	39 063	1 999	684
Royalties and licenses	103 715	156 477	34 245	33 136	25 793	24 861	-	-
	<b>443 520</b>	<b>515 578</b>	<b>368 395</b>	<b>361 552</b>	<b>94 290</b>	<b>115 226</b>	<b>1 999</b>	<b>684</b>

2018 total revenues and other operating income including revenues from discontinued operations amount to kUSD 981 029 (2017: kUSD 1 138 128).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 7. OTHER OPERATING INCOME

In USD'000	2018	Restated 2017
Government grants (research, development and training)	5 878	13 498
Gain on sale of subsidiary	790	–
Income from rental of property	3 634	2 770
Gains/(losses) on disposal of assets	-127	45
Others	1 307	2 738
	<b>11 482</b>	<b>19 051</b>

## 8. EMPLOYEE BENEFITS EXPENSE

In USD'000	Note	2018	Restated 2017
Wages and salaries		358 125	374 684
Social security costs		51 074	52 816
Defined benefit plans expenses	29	10 659	7 781
Defined contribution plans expenses		10 091	10 169
Other personnel expenses		18 139	17 197
		<b>448 087</b>	<b>462 648</b>

## 9. OTHER OPERATING EXPENSES

In USD'000	2018	2017
Development and engineering expenses	17 755	12 267
Travel, entertainment and lodging expenses	34 833	37 496
Legal, experts and consultancy expenses	25 565	45 176
Administration expenses	26 223	28 870
Building and infrastructure expenses	30 533	28 880
Marketing and sales expenses	6 405	10 572
Taxes other than income tax	3 908	3 767
Change in provisions	8 850	1 060
Insurance, vehicles and others	10 980	11 472
	<b>165 053</b>	<b>179 559</b>

## 10. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In USD'000	Note	2018	2017
Land and buildings	15	5 050	4 288
Equipment and machines	15	11 751	13 606
<b>Total depreciation and impairment of tangible fixed assets</b>		<b>16 801</b>	<b>17 894</b>
Intangible assets	16	26 258	20 672
<b>Total amortization and impairment on intangible fixed assets</b>		<b>26 258</b>	<b>20 672</b>
<b>Depreciation, amortization and impairment</b>		<b>43 059</b>	<b>38 566</b>

## 11. INTEREST EXPENSE

In USD'000	Note	2018	2017
<b>Interest expense:</b>			
- Bond 2015-2022	28	3 976	3 952
- Bond 2016-2024	28	2 397	2 383
- Net interest expense recognized on defined benefit plans	29	609	689
- Other and bank charges		3 458	1 476
		<b>10 440</b>	<b>8 500</b>

## 12. OTHER FINANCE INCOME, NET

In USD'000	Note	2018	Restated 2017
Interest income		3 007	1 549
Net gains/(losses) on foreign exchange related derivative financial instruments		246	-594
Net foreign exchange transaction gains/(losses)		-2 299	-3 180
Others		-1 264	-390
		<b>-310</b>	<b>-2 615</b>

Changes in the fair value of financial assets at fair value through OCI were kUSD -153 (2017: kUSD -196) and recognized directly in other comprehensive income.

## 13. INCOME TAX EXPENSE

In USD'000	Note	2018	Restated 2017
Current income tax		-12 365	-12 200
Deferred income tax	18	6 643	486
Non refundable withholding tax		-2 019	-1 215
		<b>-7 741</b>	<b>-12 929</b>

The tax on the Group's income before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

In USD'000	2018	Restated 2017
<b>Income before taxes</b>	<b>-16 558</b>	<b>11 553</b>
Expected tax calculated at domestic tax rates in the respective countries	4 835	-2 842
Effect of income not subject to income tax or taxed at reduced rates	2 280	4 809
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	4 435	8 966
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-14 207	-400
Effect of changes in tax rates	1 299	-20 859
Effect of associates' result reported net of tax	285	66
Effect of disallowed expenditures	-6 163	-3 564
Effect of prior year income taxes	-329	-368
Effect of non-refundable withholding tax	-2 019	-1 215
Other	1 843	2 478
<b>Tax expense</b>	<b>-7 741</b>	<b>-12 929</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose taxes are paid by the subsidiaries' shareholders. However, the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kUSD 1 426 (2017: kUSD 2 574) and is disclosed under 'Other' in the above table.

The weighted average applicable tax rate increased from 24.6% in 2017 to 29.2% in 2018. The increase can be explained by a different revenue split between countries.

## 14. EARNINGS PER SHARE (EPS)

### Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares outstanding during the year.

In USD'000	2018	Restated 2017
Net income attributable to bearer shareholders	-26 037	-13 513
- Continuing operations	-29 071	-6 868
- Discontinued operations	3 034	-6 645
Net income attributable to registered shareholders	-2 416	-1 257
- Continuing operations	-2 698	-639
- Discontinued operations	282	-618
<b>Total net income attributable to equity holders</b>	<b>-28 453</b>	<b>-14 770</b>
Weighted average number of bearer shares outstanding	49 897 528	49 751 978
Weighted average number of registered shares outstanding	46 300 000	46 300 000
<b>Basic and diluted earnings per share (in USD)</b>		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.5218	-0.2716
- Continuing operations	-0.5826	-0.1380
- Discontinued operations	0.0608	-0.1336
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0522	-0.0272
- Continuing operations	-0.0583	-0.0138
- Discontinued operations	0.0061	-0.0134

The company has no share options nor share subscription rights outstanding which could lead to a dilution of earnings per share.

## 15. TANGIBLE FIXED ASSETS

In USD'000	31.12.2018	31.12.2017
Land and buildings	94 952	97 941
Equipment and machines	33 224	38 728
	<b>128 176</b>	<b>136 668</b>

### LAND AND BUILDINGS

In USD'000	Land	Buildings improvements	Building	Total
<b>GROSS VALUES AT COST</b>				
<b>As of January 1, 2017</b>	<b>23 892</b>	<b>113 773</b>	<b>16 276</b>	<b>153 942</b>
Additions	–	5 536	2 823	8 359
Impact of business combinations	–	–	94	94
Disposals and retirements	–	–	-456	-456
Classified as held for sale	-2 816	-13 392	-4	-16 212
Currency translation effects	567	4 171	676	5 414
Reclassification & others	–	–	-273	-273
<b>As of January 1, 2018</b>	<b>21 644</b>	<b>110 088</b>	<b>19 137</b>	<b>150 869</b>
Additions	–	2 362	1 655	4 017
Disposals and retirements	–	-157	-4 877	-5 034
Currency translation effects	-135	-1 428	-382	-1 945
Reclassification & others	–	-1 288	315	-973
<b>As of December 31, 2018</b>	<b>21 509</b>	<b>109 577</b>	<b>15 848</b>	<b>146 934</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>				
<b>As of January 1, 2017</b>	<b>–</b>	<b>-36 351</b>	<b>-10 862</b>	<b>-47 214</b>
Systematic depreciation	–	-2 635	-1 653	-4 288
Disposals and retirements	–	-79	424	346
Classified as held for sale	–	786	4	789
Currency translation effects	–	-2 106	-481	-2 587
Reclassification & others	–	–	26	26
<b>As of January 1, 2018</b>	<b>–</b>	<b>-40 385</b>	<b>-12 543</b>	<b>-52 928</b>
Systematic depreciation	–	-3 174	-1 876	-5 050
Disposals and retirements	–	437	4 601	5 038
Currency translation effects	–	691	197	888
Reclassification & others	–	79	-8	71
<b>As of December 31, 2018</b>	<b>–</b>	<b>-42 352</b>	<b>-9 629</b>	<b>-51 981</b>
<b>Net book values as of December 31, 2017</b>	<b>21 644</b>	<b>69 703</b>	<b>6 595</b>	<b>97 941</b>
<b>Net book values as of December 31, 2018</b>	<b>21 509</b>	<b>67 224</b>	<b>6 220</b>	<b>94 952</b>
Useful life in years	Indefinite	10 – 50	4 – 8	

In USD'000	31.12.2018	31.12.2017
Corporate buildings on land whose owner has granted a permanent and specific right of use	14 033	12 318



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## EQUIPMENT AND MACHINES

In USD'000

### GROSS VALUES AT COST

As of January 1, 2017

	Technical equipment and machinery	Other equipment	Total
As of January 1, 2017	163 893	13 529	177 423
Additions	9 390	1 748	11 138
Impact of business combinations	34	107	142
Disposals and retirements	-9 127	-416	-9 543
Classified as held for sale	-5 347	-601	-5 948
Currency translation effects	9 452	567	10 018
Reclassification & others	290	-17	273

As of January 1, 2018

As of January 1, 2018	168 584	14 917	183 501
Additions	9 636	1 892	11 528
Impact of business combinations	77	-	77
Disposals and retirements	-75 319	-3 806	-79 125
Currency translation effects	-1 829	-605	-2 434
Reclassification & others	-4 351	4 800	450

As of December 31, 2018

As of December 31, 2018	96 800	17 197	113 997
-------------------------	--------	--------	---------

### ACCUMULATED DEPRECIATION AND IMPAIRMENT

As of January 1, 2017

As of January 1, 2017	-129 319	-9 061	-138 381
Systematic depreciation	-11 655	-1 775	-13 430
Impairment	-156	-20	-176
Disposals and retirements	10 034	288	10 322
Classified as held for sale	3 685	600	4 285
Currency translation effects	-6 979	-389	-7 368
Reclassification & others	-77	51	-26

As of January 1, 2018

As of January 1, 2018	-134 466	-10 307	-144 774
Systematic depreciation	-9 573	-2 036	-11 609
Impairment	-142	-	-142
Disposals and retirements	71 001	3 726	74 727
Currency translation effects	714	388	1 102
Reclassification & others	3 499	-3 576	-76

As of December 31, 2018

As of December 31, 2018	-68 967	-11 806	-80 773
-------------------------	---------	---------	---------

Net book values as of December 31, 2017

Net book values as of December 31, 2017	34 118	4 610	38 728
---	--------	-------	--------

Net book values as of December 31, 2018

Net book values as of December 31, 2018	27 832	5 392	33 224
---	--------	-------	--------

Useful life in years

Useful life in years	4 – 10	4 – 7	
----------------------	--------	-------	--

Technical equipment and machinery is comprised of assets made available to clients which generates recurring service revenue. 2018 disposals and retirements relate to assets made available to customers where the customer agreements have been renegotiated and the assets are no longer made available to such customers.

## 16. INTANGIBLE ASSETS

In USD'000	Technol- ogy	Customer lists, Trade- marks & Brands	Software	Goodwill	Other intangibles	Total
<b>GROSS VALUES AT COST</b>						
<b>As of January 1, 2017</b>	<b>137 456</b>	<b>63 432</b>	<b>78 241</b>	<b>337 798</b>	<b>683</b>	<b>617 610</b>
Additions	4 322	1	11 554	–	–	15 877
Impact of business combinations	–	6 944	25	12 239	–	19 207
Disposals and retirements	–	–	-3 002	–	-238	-3 239
Classified as held for sale	-17 714	-767	-882	-1 515	–	-20 877
Reclassification & others	-1	–	-0	–	–	-1
Currency translation effects	6 922	2 774	3 581	10 477	58	23 811
<b>As of January 1, 2018</b>	<b>130 985</b>	<b>72 383</b>	<b>89 517</b>	<b>358 999</b>	<b>503</b>	<b>652 388</b>
Additions	1 979	3 322	7 087	–	–	12 388
Impact of business combinations	–	2 389	–	3 464	–	5 853
Disposals and retirements	-0	–	-3 831	–	-0	-3 831
Classified as held for sale	–	–	–	–	–	–
Reclassification & others	57	-3 322	3 844	–	-57	522
Currency translation effects	-3 106	-3 203	-1 230	-9 245	-15	-16 798
<b>As of December 31, 2018</b>	<b>129 915</b>	<b>71 570</b>	<b>95 387</b>	<b>353 217</b>	<b>431</b>	<b>650 521</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
<b>As of January 1, 2017</b>	<b>-108 074</b>	<b>-17 605</b>	<b>-63 539</b>	<b>–</b>	<b>-669</b>	<b>-189 888</b>
Systematic amortization	-8 733	-8 756	-3 051	–	-5	-20 545
Impairment	-128	–	–	–	–	-128
Recovery of amortization on disposal and retirements	1 020	–	3 015	–	238	4 273
Classified as held for sale	11 912	767	837	–	–	13 516
Currency translation effects	-4 923	-826	-2 674	–	-56	-8 479
<b>As of January 1, 2018</b>	<b>-108 926</b>	<b>-26 420</b>	<b>-65 412</b>	<b>–</b>	<b>-492</b>	<b>-201 250</b>
Systematic amortization	-7 951	-9 402	-8 483	–	-5	-25 841
Impairment	-398	–	-19	–	–	-417
Recovery of amortization on disposal and retirements	–	–	3 809	–	–	3 809
Classified as held for sale	–	–	–	–	–	–
Reclassification & others	-52	–	–	–	57	5
Currency translation effects	2 546	1 498	840	–	14	4 898
<b>As of December 31, 2018</b>	<b>-114 782</b>	<b>-34 324</b>	<b>-69 264</b>	<b>–</b>	<b>-426</b>	<b>-218 797</b>
<b>Net book values as of December 31, 2017</b>	<b>22 059</b>	<b>45 963</b>	<b>24 105</b>	<b>358 999</b>	<b>10</b>	<b>451 137</b>
<b>Net book values as of December 31, 2018</b>	<b>15 133</b>	<b>37 245</b>	<b>26 123</b>	<b>353 217</b>	<b>5</b>	<b>431 724</b>
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

Intangible assets with indefinite useful lives are subject to a yearly impairment reviews. The impairment of the Technology asset in 2018 is due to a commercial initiative abandoned during such year.

Goodwill is allocated for impairment testing to cash generating units, which are defined within the framework of the Group as its operating segments. In 2018, the Group changed its operating structure and, in accordance with IAS 8, now reports four operating segments as the prior Integrated Digital Television segment is now split into three segments: Digital TV, Cybersecurity and Internet of Things (IoT) (note 6). Goodwill previously allocated to Integrated Digital Television has been reallocated over these three segments while goodwill related to the Public Access segment remains unchanged. The reallocation was performed in accordance with IAS 36 using the relative value approach whereby the relative value of each cash generating unit was derived using a discounted cash flow methodology as of December 31, 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

Goodwill allocated to each operating segment was tested for impairment using a value-in-use calculation based on cash flow projections approved by Group management and covering a five year period. At December 31, 2018, kUSD 215 832 of goodwill has been allocated to Digital TV, kUSD 65 354 to Cybersecurity, kUSD 36 072 to IoT (totalling a combined value of kUSD 325 665 in 2017 before carve out) and kUSD 35 959 has been allocated to Public Access Solutions (2017: 33 334).

## Digital TV

Digital TV revenue assumptions for the five year plan are based on adjusted bottom-up revenue projections from existing products and existing regions, and a discount rate of 10.0% (2017: 9.0%). Cost projections are based on the estimated cost to serve customers through a continuous improvement of segment's operations. Cash flows beyond the five year plan have been extrapolated using a steady growth rate of 1.5% per annum (2017: 1.5%). In the Digital TV segment, we assume declining revenues over the first years of the planning period, as the subscriber base of established pay TV operators is expected to continue shrinking. In the later years of the planning period, revenues are expected to stabilize and revert to growth, as the relative weight of growing domains will increase over time. We expect to streamline Digital TV cost base as to maintain the current level of operating profitability excluding restructuring costs. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

## Cybersecurity

Cybersecurity revenue projections are based on segment management's assumptions of the development of the segment's key business lines. Such assumptions were adjusted to include contingencies related to the uncertainty of such developments. Related cost assumptions are based on the estimated cost required to provide the projected product and service portfolio and were approved by Group management. Projections are discounted using a 10.0% discount rate. Cash flows beyond the five year plan have been extrapolated using a steady growth rate of 3.0% per annum. In the Cybersecurity segment, revenue mix has changed in 2018 and is expected to continue to develop towards the higher value added business pillars (advisory, managed security services and proprietary technologies). As a result, Cybersecurity segment gross profits are expected to grow, reflecting material R&D and operating investments of the past years. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

## Internet of Things (IoT)

IoT revenue projections have been developed by the segment managers based on expected sales to existing and prospective customers. Cost assumptions are mainly based on the assumed cost base required for the implementation of the current product roadmap. Cash flows beyond the five year plan have been extrapolated using a steady growth rate of 2.0% per annum. Cash flows have been discounted using a 10.0% discount rate. In the IoT segment, we expect to maintain the current run rate of R&D spending, allowing for an initial launch of the Group secure IoT platform in 2019 and an ongoing extension of this platform. Revenue projections are based on estimated volumes and prices for existing customers and prospects. Given the high operating leverage of the IoT platform, no material cost increase is expected over the planning period. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

## Public Access

Public Access revenue assumptions for the five year plan were generated from existing products and existing customers, and a discount rate of 11.0% (2017: 10.25%). Cash flows beyond the five year plan have been extrapolated using a steady growth rate of 2.0% per annum (2017: 1.5%). Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2018 and 2017, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity and the loss of key customers. Based on such analyses, management concludes that any reasonably possible change in key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 17. INVESTMENTS IN ASSOCIATES

In USD'000	2018	2017
<b>At January 1</b>	<b>5 858</b>	<b>4 939</b>
Share of profit	1 495	888
Dividends received	-936	-175
Currency translation effects	-226	206
<b>At December 31</b>	<b>6 191</b>	<b>5 858</b>

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Name of associate	Principal activity	Interest held	
		2018	2017
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SKIDATA Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SJack GmbH, Austria	Sales of Public Access products	26%	26%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45%	45%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%
Kryptus Segurança da Informação Ltda.	Cyber Security activities	* 16%	* 16%

\*Through a shareholder agreement, Kudelski Group is entitled to appoint and has appointed one board member of Kryptus Segurança da Informação Ltda. and participates in significant financial and operating decisions. The Group has therefore determined that it has significant influence over this entity, even though it only holds 16% of the voting rights.

## SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In USD'000	Restated	
	31.12.2018	31.12.2017
Total assets	34 502	33 867
Total liabilities	18 586	18 843
Net assets	15 904	15 024
Group's share of associates' net assets	4 837	4 471

	2018	Restated 2017
Revenue	50 211	43 496
Result of the period	4 987	3 286
Group's share of associates' result for the period	1 495	888

## 18. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

In USD'000	Restated	
	31.12.2018	31.12.2017
Deferred tax assets	61 612	57 746
Deferred tax liabilities	-6 878	-9 014
	<b>54 734</b>	<b>48 732</b>

Movement on the deferred income tax account is as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

In USD'000	Note	2018	Restated 2017
<b>At January 1</b>		<b>48 732</b>	<b>50 339</b>
Change in accounting policy		–	2 588
Exchange differences		-1 937	1 993
Recognized against other comprehensive income		1 506	-5 177
Change in scope of consolidation		-210	-1 497
Income statement (expense)/income	13	6 643	486
<b>At December 31</b>		<b>54 734</b>	<b>48 732</b>

The movement in deferred tax assets and liabilities during 2018, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In USD'000	At January 1, 2018	Income statement effect	Change in scope of consolida- tion	Other Compre- hensive income	Currency translation effects	At December 31, 2018
<b>Deferred tax assets associated with</b>						
- intangibles	7 442	-2 387	–	–	-53	5 001
- employee benefits	7 607	182	–	1 475	-150	9 115
- tax losses	35 164	4 162	–	–	-901	38 425
- provisions and other elements tax deductible when paid	1 893	5 906	322	31	-969	7 183
- inter-company profit elimination	5 544	-339	–	–	-46	5 160
- others	-150	1 250	-162	–	-120	818
<b>Total deferred tax assets (gross)</b>	<b>57 501</b>	<b>8 774</b>	<b>160</b>	<b>1 506</b>	<b>-2 238</b>	<b>65 703</b>
<b>Deferred tax liabilities associated with</b>						
- affiliates and allowances for Group companies	6	–	-6	–	–	–
- intangibles	-8 187	2 526	-465	–	308	-5 817
- provisions & accelerated tax depreciation	-1 054	-3 270	100	–	-45	-4 268
- others	466	-1 388	–	–	38	-884
<b>Total deferred tax liabilities (gross)</b>	<b>-8 769</b>	<b>-2 131</b>	<b>-371</b>	<b>–</b>	<b>302</b>	<b>-10 969</b>
<b>Net deferred tax asset/(liability)</b>	<b>48 732</b>	<b>6 643</b>	<b>-210</b>	<b>1 506</b>	<b>-1 937</b>	<b>54 734</b>

Included in change in scope are the impacts of business combinations and reclassification of deferred taxes to discontinued operations at December 31, 2018.

And for 2017:

In USD'000	At January 1, 2017 Restated	Income statement effect	Change in scope	Other Compre- hensive income	Currency translation effects	At December 31, 2017 Restated
<b>Deferred tax assets associated with</b>						
- intangibles	28 732	-22 220	-	-	930	7 442
- employee benefits	14 284	-1 916	-245	-5 181	665	7 607
- tax losses	14 627	19 671	-	-	866	35 164
- provisions and other elements tax deductible when paid	2 329	-515	-8	3	84	1 893
- inter-company profit elimination	5 127	427	-	-	-10	5 544
- others	261	-359	-47	-	-5	-150
<b>Total deferred tax assets (gross)</b>	<b>65 360</b>	<b>-4 912</b>	<b>-300</b>	<b>-5 177</b>	<b>2 530</b>	<b>57 501</b>
<b>Deferred tax liabilities associated with</b>						
- affiliates and allowances for Group companies	6	-	-	-	-	6
- intangibles	-9 722	1 900	-	-	-365	-8 187
- provisions & accelerated tax depreciation	-1 939	2 227	-1 197	-	-145	-1 054
- others	-778	1 271	-	-	-27	466
<b>Total deferred tax liabilities (gross)</b>	<b>-12 433</b>	<b>5 398</b>	<b>-1 197</b>	<b>-</b>	<b>-537</b>	<b>-8 769</b>
<b>Net deferred tax asset/(liability)</b>	<b>52 927</b>	<b>486</b>	<b>-1 497</b>	<b>-5 177</b>	<b>1 993</b>	<b>48 732</b>

Included in change in scope are the impacts of business combinations and assets and liabilities reclassified as held for sale at December 31, 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of mUSD 1 177.9 (2017: mUSD 1 077.6) available for offset against future profits. A deferred tax asset has been recognized in respect of mUSD 404.1 (2017: mUSD 423.2) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining mUSD 773.8 (2017: mUSD 654.3) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In USD million	2018	2017
<b>Expiration within:</b>		
One year	4.3	52.9
Two years	46.2	12.4
Three years	34.3	40.5
Four years	40.5	38.7
Five years	69.4	72.8
More than five years	579.1	437.0
<b>Total</b>	<b>773.8</b>	<b>654.3</b>

## 19. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In USD'000	31.12.2018	Restated 31.12.2017
<b>Financial assets at amortized cost:</b>		
Loan – third party	11 506	11 672
State and government institutions	18 273	11 376
Trade accounts receivable (long-term portion)	34 725	26 993
Guarantee deposits	2 249	3 061
Prepaid expenses and accrued income (long-term portion)	497	138
<b>Total financial assets at amortized cost</b>	<b>67 251</b>	<b>53 239</b>
<b>Financial assets at fair value through comprehensive income:</b>		
Equity instruments (level 3)	508	922
Marketable securities (level 1)	–	422
<b>Total financial assets at fair value through comprehensive income</b>	<b>508</b>	<b>1 344</b>
<b>Other non-current assets:</b>		
Deferred contract cost	386	512
Deferred rent	841	932
<b>Total other non-current assets</b>	<b>1 227</b>	<b>1 444</b>
	<b>68 985</b>	<b>56 027</b>

The equity instruments are measured using a discounted cash flow method provided by the company on a yearly basis. Marketable securities were sold in 2018 for kUSD 671. The resulting gain was not recycled to the income statement.

The effective interest rate on third party loans is 2.00% (2017: 2.38%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months. The long term portion of trade accounts receivable includes, among others, discounted revenues related to the licensing of the Group intellectual property portfolio.

## 20. INVENTORIES

In USD'000	31.12.2018	31.12.2017
Raw materials	3 423	1 352
Work in progress	5 917	5 893
Finished goods	50 529	51 752
	<b>59 868</b>	<b>58 997</b>

The cost of inventories recognised as an expense includes kUSD 180 (2017: kUSD 175) in respect of write-downs, and has been reduced by kUSD 399 (2017: kUSD 226) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kUSD -3 070 (2017: kUSD 8 384).

## 21. TRADE ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

In USD'000	31.12.2018	Restated 31.12.2017
Trade accounts receivable	291 641	311 792
Less: provision for impairment	-36 780	-26 453
Trade accounts receivable related parties	2 231	2 012
<b>Trade accounts receivable - net</b>	<b>257 092</b>	<b>287 351</b>
Contract assets	60 345	44 805
Less: provision for impairment	-358	-30
<b>Contract assets - net</b>	<b>59 987</b>	<b>44 775</b>

Before accepting a new customer, the Group performs a credit scoring to assess the potential customer's credit quality and defines specific credit limits. Limits and scoring are regularly reviewed. Furthermore, for low value added business deliveries, the Group usually works on a back to back basis.

The following table summarizes the movement in the provisions for impairment of trade accounts receivable and contract assets:

In USD'000	Contract assets		Trade accounts receivable	
	2018	Restated 2017	2018	Restated 2017
<b>December 31,</b>	<b>-30</b>	<b>-1 025</b>	<b>-26 453</b>	<b>-24 754</b>
Amounts restated through opening retained earnings	-79	-	-2 345	-
<b>January 1,</b>	<b>-109</b>	<b>-1 025</b>	<b>-28 797</b>	<b>-24 754</b>
Reclassified to (from) held for sale	-	-	-1 668	2 324
Provision for impairment charged to income statement	-285	-30	-10 645	-7 285
Utilization	-	-	122	423
Reversal	30	1 057	3 798	4 061
Change in scope	-	-	-753	-9
Translation effects	6	-32	1 164	-1 213
<b>December 31,</b>	<b>-358</b>	<b>-30</b>	<b>-36 780</b>	<b>-26 453</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kUSD -10645 (2017: kUSD -7285). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade accounts receivables and contract assets. On that basis, the provisions for impairment of trade accounts receivable and contract assets as of December 31, 2018 and January 1, 2018 (adoption of IFRS 9) were determined as follows:

In USD'000	Provision for		Provision for	
	Gross carrying amount	Expected loss rate	31.12.2018	1.1.2018
Trade accounts receivable not overdue	144 167	0.1%	114	709
<b>Past due:</b>				
- not more than one month	40 771	0.3%	134	199
- more than one month and not more than three months	28 849	0.6%	184	333
- more than three months and not more than six months	22 169	1.7%	377	628
- more than six months and not more than one year	19 909	28.1%	5 591	4 787
- more than one year	35 776	84.9%	30 380	22 141
<b>Total</b>	<b>291 641</b>		<b>36 780</b>	<b>28 798</b>
Contract assets	60 345	0.6%	358	109
<b>Total</b>	<b>60 345</b>		<b>358</b>	<b>109</b>

The expected loss rates are based on payment profiles of sales from the individual Group companies and corresponding historical credit losses. The average loss rates displayed above may vary due to the mix of outstanding receivables within the Group companies.

## 22. OTHER FINANCIAL ASSETS AT AMORTIZED COST

In USD'000	Restated	
	31.12.2018	31.12.2017
Other receivables - third parties	7 488	3 117
Other receivables - related parties	1 279	1 320
Advances to suppliers and employees	2 276	7 578
State and government institutions	28 773	18 084
Loans third parties - short term portion	1 204	117
<b>Total</b>	<b>41 021</b>	<b>30 217</b>

## 23. OTHER CURRENT ASSETS

In USD'000	Restated	
	31.12.2018	31.12.2017
Prepaid expenses	11 518	11 873
Accrued income	10 408	9 960
Deferred contract cost (short term portion)	364	403
Other receivables - third parties	625	386
	<b>22 915</b>	<b>22 622</b>

## 24. CASH AND CASH EQUIVALENTS

In USD'000	31.12.2018 31.12.2017	
	Cash at bank and in hand	83 082
Short term deposits	2 897	3 957
	<b>85 979</b>	<b>71 911</b>

The effective interest rate on short term deposits was 0.98% (2017: 0.62%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

## 25. SHARE CAPITAL

### ISSUED AND FULLY PAID SHARE CAPITAL

The share capital consists of 49 910 873 (2017: 49 759 755) bearer shares at CHF 8.00 par value each and 46 300 000 (2017: 46 300'000) registered shares at CHF 0.80 par value each. Each share confers the right to vote and is fully paid up. The counter-value for the share capital is kUSD 333 456 (2017: kUSD 332 222).

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since August 2, 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

### AUTHORIZED SHARE CAPITAL

The Board of Directors is authorized to increase the share capital in one or more stages until 15 March 2020 by a maximum amount of CHF 32 705 312 through the issuance of 3 768 164 bearer shares with a nominal value of CHF 8.00 per share and 3 200 000 registered shares with a nominal value of CHF 0.80 per share to be fully paid up. The issuance price, the nature of the contributions, the date from which new shares shall give entitlement to dividends and other modalities of any share issuance shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance the whole or partial acquisition of other companies in Switzerland or abroad. All statutory restrictions on the transfer of shares are applicable to new registered shares.

### CONDITIONAL SHARE CAPITAL

Conditional share capital consists in 10 000 000 (2017: 10 000 000) bearer shares at CHF 8.00 each to satisfy convertible bond exercise right and 402 883 (2017: 554 001) bearer shares at CHF 8.00 each to satisfy option exercise or share subscriptions to employees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 26. NON-CONTROLLING INTERESTS

The following table summarizes the information relating to each of the Group's subsidiaries in which it has material non-controlling interests, before any intercompany elimination:

As at December 31, 2018 (in USD'000)	Nagrastar	275, Sacramen- to Street LLC
<b>Non-controlling interests percentage</b>	<b>50.0%</b>	<b>50.1%</b>
Non-current assets	1 660	36 772
Current Assets	42 769	552
Non-current liabilities	–	6 700
Current liabilities	10 308	201
<b>Total Equity</b>	<b>34 121</b>	<b>30 422</b>
Non-controlling interests percentage	50%	50.1%
Theoretical amount of non-controlling interests	17 060	15 242
<b>Carrying amount of non-controlling interests</b>	<b>17 060</b>	<b>15 242</b>
Revenue	22 979	4 292
Net result	8 588	2 383
Other comprehensive income	–	–
Total comprehensive income	8 588	2 383
Total comprehensive income allocated to non-controlling interests	4 294	1 194
Dividend paid to non controlling interests	–	–
Net increase /(decrease) in cash and cash equivalents	10 363	-56

  

As at December 31, 2017 (in USD'000)	Nagrastar	275, Sacramen- to Street LLC
<b>Non-controlling interests percentage</b>	<b>50.0%</b>	<b>50.1%</b>
Non-current assets	1 567	36 928
Current Assets	37 970	410
Non-current liabilities	–	9 100
Current liabilities	14 004	199
<b>Total Equity</b>	<b>25 533</b>	<b>28 039</b>
Non-controlling interests percentage	50%	50.1%
Theoretical amount of non-controlling interests	12 767	14 048
<b>Carrying amount of non-controlling interests</b>	<b>12 767</b>	<b>14 048</b>
Revenue	23 451	4 157
Net result	8 930	2 227
Other comprehensive income	–	–
Total comprehensive income	8 930	2 227
Total comprehensive income allocated to non-controlling interests	4 465	1 116
Dividend paid to non controlling interests	-5 000	–
Net increase /(decrease) in cash and cash equivalents	-912	-24

These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility for the main risks.

## 27. LONG TERM FINANCIAL DEBT

In USD'000	Note	31.12.2018	31.12.2017
CHF 200 million 1.875% bond 2015/2022	28	202 591	204 332
CHF 150 million 1.5% bond 2016/2024	28	151 795	153 111
Long term bank loans		43 715	-
Other long term financial liabilities		60	85
		<b>398 161</b>	<b>357 528</b>

Long term bank loans effective interest rate is 0.78%.

## 28. BONDS

On May 12, 2015 Kudelski SA issued a CHF 200 million bond with a subscription price of 100%, bearing an annual interest rate of 1.875% and maturing on August 12, 2022 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 200 000 (kUSD 214 891) less issuance costs of kCHF 870 (kUSD 939) totaling an initial net proceed of kCHF 199 130 (kUSD 213 952) and resulting in an effective interest rate of 1.97%.

On September 27, 2016 Kudelski SA issued an additional CHF 150 million bond with a subscription price of 100%, bearing an annual interest rate of 1.5% and maturing on September 27, 2024 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 150'000 (kUSD 154 384) less issuance costs of kCHF 665 (kUSD 684) totaling an initial net proceed of kCHF 149'335 (kUSD 153 700) and resulting in an effective interest rate of 1.58%.

Bonds are recognized in the consolidated balance sheets as of December 31, as follows:

In USD'000	2018	2017
<b>Initial balance</b>	<b>357 443</b>	<b>343 510</b>
Amortization of transaction costs less premium	210	205
Exchange differences	-3 267	13 728
<b>Liability component as of December 31</b>	<b>354 386</b>	<b>357 443</b>
of which:		
- long term portion (bond 2015/2022)	202 591	204 332
- long term portion (bond 2016/2024)	151 795	153 111
	<b>354 386</b>	<b>357 443</b>

## 29. EMPLOYEE BENEFITS LIABILITIES

Defined benefit plan income, expense, plan assets and defined benefit obligations are determined by independent actuaries. Defined benefit obligations are calculated using the "Projected Unit Credit" method, and plan assets have been measured at fair market values. Most of the employee benefit obligation results from the Swiss pension plan.

### SWITZERLAND

In addition to the legally required social security schemes, the Group has an independent pension plan. Swiss legislation prescribes that both the employer and the employee contribute a fixed percentage of the employee's insured salary to an external pension fund. Additional employers or employees' contribution may be required whenever the plan's statutory funding ratio falls below a certain level. The pension plan is run by a separate legal entity, governed by a Board of Trustees which consists of representatives nominated by the Group and by the active insured employees. The Board of Trustees is responsible for the plan design and the asset investment strategy. This plan covers all employees in Switzerland and is treated as a defined benefit plan with associated risks exposure being:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

- Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plan's liabilities. In order to minimize the risk, mortality assumptions are reviewed on a regular basis.

- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular-basis.

## ABROAD

Outside Switzerland, the Group sponsors twelve other post-employment benefit plans treated as defined benefit plan according to IAS 19 revised. Post-employment benefit plan may include jubilee and termination benefits. Other post-employment benefit plans are not funded.

The following table sets forth the status of the pension plans and the amount that is recognized in the balance sheet:

In USD'000	31.12.2018	31.12.2017
Fair value of plan assets	166 457	174 206
Defined benefit obligation	-232 775	-226 517
<b>Funded status</b>	<b>-66 319</b>	<b>-52 311</b>
Other comprehensive income	-25 879	-15 428
Prepaid/(accrued) pension cost	-40 440	-36 883
<b>Funded status</b>	<b>-66 319</b>	<b>-52 311</b>

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2018 and 2017:

In USD'000	Note	2018	2017
Service cost		-17 989	-19 095
Employees contributions		5 500	5 855
Amortization of gains/(losses)		167	33
Curtailment gain / (loss)		1 845	5 499
Impact of plan amendment		-181	-73
<b>Total recognized in employee benefits expense</b>	<b>8</b>	<b>-10 659</b>	<b>-7 781</b>
Interest cost		-2 190	-2 215
Interest income		1 582	1 525
<b>Total recognized in interest expense</b>	<b>11</b>	<b>-609</b>	<b>-689</b>
<b>Net pension (cost)/income</b>		<b>-11 267</b>	<b>-8 470</b>

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2018 and 2017 are as follows:

	31.12.2018	31.12.2017
<b>Switzerland</b>		
Discount rate	1.00%	0.90%
Rate of future increase in compensations	1.50%	1.50%
Rate of future increase in current pensions	0.75%	0.75%
Interest rate credited on savings accounts	1.00%	0.90%
Turnover (on average)	10.0%	10.0%
<b>Abroad</b>		
Discount rate	2.17%	1.86%
Rate of future increase in compensations	3.13%	2.83%
Turnover (on average)	8.5%	8.1%

The weighted average duration of the defined benefit obligation is as follows :

	31.12.2018	31.12.2017
<b>Weighted average duration of the defined benefit obligation in years</b>		
Switzerland	23.5	23.7
Abroad	11.8	12.9

The changes in defined benefit obligation and fair value of plan assets during the years 2018 and 2017 are as follows:

#### A. Change in defined benefit obligation

In USD'000	2018	2017
<b>Defined benefit obligation as of 1.1.</b>	<b>-226 517</b>	<b>-230 817</b>
Service cost	-17 989	-19 095
Interest cost	-2 190	-2 215
Change in demographic assumptions	-1 148	-
Change in financial assumptions	3 762	1 899
Other actuarial gains / (losses)	-967	4 566
Benefits payments	7 951	10 588
Exchange rate difference	2 659	-10 215
Curtailment	1 845	13 860
Settlement	-	4 555
Acquisition of subsidiaries	-	-262
Plan amendment	-181	-73
Classified as held for sale	-	692
<b>Defined benefit obligation as of December 31,</b>	<b>-232 775</b>	<b>-226 517</b>

#### B. Change in fair value of plan assets

In USD'000	2018	2017
<b>Fair value of plan assets as of 1.1.</b>	<b>174 206</b>	<b>164 438</b>
Interest income	1 582	1 525
Employees' contributions	5 500	5 855
Employer's contribution	6 901	7 810
Plan assets gains/(losses)	-12 226	11 437
Benefit payments	-7 951	-10 588
Curtailment	-	-8 361
Settlement	-	-4 555
Exchange rate difference	-1 555	6 645
<b>Fair value of plan assets as of December 31,</b>	<b>166 457</b>	<b>174 206</b>

The actual return on plan assets amounts to kUSD -10 644 in 2018 (kUSD 12 962 for the year 2017). The estimated employer's contribution to the pension plans for the year 2019 is kUSD 6 351.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2018 and 2017 as follows:

In USD'000	Proportion in %		Proportion in %	
	31.12.2018	31.12.2018	31.12.2017	31.12.2017
Cash	6 706	4.0%	354	0.2%
Swiss bonds	14 063	8.4%	14 477	8.3%
Foreign bonds	41 509	24.9%	46 091	26.5%
Swiss shares	31 994	19.2%	37 422	21.5%
Foreign shares	30 820	18.5%	39 375	22.6%
Real estate	34 405	20.7%	33 533	19.2%
Alternative investments	6 960	4.2%	2 954	1.7%
<b>Total</b>	<b>166 457</b>	<b>100.0%</b>	<b>174 206</b>	<b>100.0%</b>

Plan assets are quoted on liquid markets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments.

The expected benefit payments for the next ten years are as follows :

In USD'000	Switzerland	Abroad
2 019	7 910	91
2 020	7 364	54
2 021	6 878	101
2 022	6 331	436
2 023	5 862	356
2024-2028	27 221	3 038

The following table shows the sensitivity of the defined benefit pension obligations to the principal actuarial assumptions based on reasonably possible changes to the respective assumptions occurring at the end of the reporting period:

	Change in 2018 year-end defined benefit obligation		Change in 2017 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In USD'000	In USD'000	In USD'000	In USD'000
50 basis point increase in discount rate	-23 473	-740	-22 962	-865
50 basis point decrease in discount rate	27 779	807	27 216	948
50 basis point increase in rate of salary increase	275	n/a	249	n/a
50 basis point decrease in rate of salary increase	-289	n/a	-274	n/a
50 basis point increase in rate of pension increase	15 758	n/a	15 408	n/a
50 basis point decrease in rate of pension increase	-14 197	n/a	-13 880	n/a
50 basis point increase of interest in saving accounts	8 249	n/a	8 001	n/a
50 basis point decrease of interest in saving accounts	-7 763	n/a	-7 533	n/a
50 basis point increase of turnover	-2 112	n/a	-2 192	n/a
50 basis point decrease of turnover	1 972	n/a	2 052	n/a

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

### 30. OTHER LONG TERM LIABILITIES

In USD'000	31.12.2018	31.12.2017
Long-term loans - third parties	7 383	233
Deferred consideration	1 440	3 995
Contingent consideration	2 142	4 568
Other long-term liabilities	1 649	1 202
Deferred income	332	–
	<b>12 946</b>	<b>9 998</b>

Long-term loans – third parties includes a loan previously reclassified as held for sale in 2017, but was not transferred to the Buyer in connection with the SmarDTV transaction (note 37). The effective interest rate is 2.00% (2017: 2.00%).

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with business acquisitions. Assumptions for contingent consideration include discount rates varying from 4.0% to 10.0% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

### 31. SHORT TERM FINANCIAL DEBT

In USD'000	Note	31.12.2018	31.12.2017
Short term bank borrowings		63 729	66 875
Other short term financial liabilities		394	27
		<b>64 122</b>	<b>66 902</b>

The average effective interest rate paid in 2018 for short term bank borrowings was 1.07% (2017: 1.24%).

### 32. TRADE ACCOUNTS PAYABLE

In USD'000	31.12.2018	31.12.2017
Trade accounts payable – third parties	79 607	88 694
Trade accounts payable – related parties	2	1
	<b>79 608</b>	<b>88 696</b>

### 33. CONTRACT LIABILITIES

In USD'000	31.12.2018	Restated 31.12.2017
Amounts due to customers for contract work	4 731	4 312
Advances from clients	26 228	17 583
Deferred income	19 611	19 384
	<b>50 570</b>	<b>41 279</b>

### 34. OTHER CURRENT LIABILITIES

In USD'000	31.12.2018	Restated 31.12.2017
Accrued expenses	74 738	94 617
Deferred consideration	57	2 783
Contingent consideration (level 3)	352	3 212
Payable to pension fund	1 045	558
Other payables	19 554	17 240
	<b>95 746</b>	<b>118 410</b>

Deferred and contingent consideration balances include the short-term portion of deferred fix and earn-out payments in connection with business acquisitions.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 35. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as speculative instruments. However, where derivatives do not meet the hedge accounting criteria or where the Group chooses not to designate derivatives as hedging instruments, they are classified as “held-for-trading” for accounting purposes and are accounted for at fair value through profit or loss.

	Assets		Liabilities	
	31.12.2018	Restated 31.12.2017	31.12.2018	Restated 31.12.2017
<b>In USD'000</b>				
<b>Cash flow hedge:</b>				
- Foreign currency options	64	297	-	-
<b>Held-for-trading:</b>				
- Foreign currency options	-	-	-190	-202
- Forward contracts	-	175	-	-
- FX swaps	-	3	-	-
<b>Total of derivatives financial instruments</b>	<b>64</b>	<b>475</b>	<b>-190</b>	<b>-202</b>

There were no long-term derivative instruments at December 31, 2018 and 2017.

	Cost of hedging reserve	Intrinsic value of options	Total hedge reserves
<b>In USD'000</b>			
Balance at January 1, 2017	169	114	282
Change in fair value of hedging instruments recognized in OCI	-	219	219
Cost of hedging deferred and recognized in OCI	31	-	31
Reclassified from OCI to profit or loss	-169	-114	-282
<b>Balance at December 31, 2017</b>	<b>31</b>	<b>219</b>	<b>250</b>
Change in fair value of hedging instruments recognized in OCI	-	42	42
Cost of hedging deferred and recognized in OCI	-42	-	-42
Reclassified from OCI to profit or loss	-31	-219	-250
<b>Balance at December 31, 2018</b>	<b>-42</b>	<b>42</b>	<b>0</b>

The amounts included in cost of hedging reserve relate to the time value of options. All the amounts in the hedging reserve are in respect of transaction-related items, namely forecast sales transactions. The notional amount of options qualifying for hedge accounting amounted to mUSD 92 in 2018 (2017: mUSD 57) with maturities between January and December and average strike rate of USD/CHF 0.97 in 2018 (2017: USD/CHF 0.99). The foreign currency options are denominated in the same currency as the highly probable future sales transactions, therefore the hedge ration is 1:1. There was no hedge ineffectiveness during 2018 and 2017 relating to foreign currency options.

**36. PROVISIONS FOR OTHER LIABILITIES AND CHARGES**

In USD'000	Restruc- turing provisions	Provision for warranty	Litigations and others	Total 2018	Total 2017
<b>As of January 1</b>	<b>7 498</b>	<b>2 668</b>	<b>264</b>	<b>10 430</b>	<b>9 948</b>
Reclassified as held for sale	–	–	–	–	-4 311
Additional provisions	9 072	109	181	9 362	14 721
Change in scope of consolidation	–	–	–	–	2
Unused amounts reversed	–	-302	-165	-466	-705
Used during the year	-7 347	–	-61	-7 409	-9 767
Exchange differences	-290	-148	-14	-452	542
<b>As of December 31</b>	<b>8 933</b>	<b>2 327</b>	<b>205</b>	<b>11 465</b>	<b>10 430</b>
Thereof:					
- Short term	8 933	2 327	109	11 368	10 420
- Long term	–	–	97	97	10
	<b>8 933</b>	<b>2 327</b>	<b>205</b>	<b>11 465</b>	<b>10 430</b>

**Restructuring provisions**

Restructuring provisions in 2018 and 2017 primarily relate to headcount reduction measures impacting the Group's Digital TV operations. In addition, the 2018 provision includes amounts related to the non-achievement of sales commitments on an abandoned initiative.

**Litigations and others**

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. This provision disclosed in short-term covers legal fees and lawsuits and is valued according to management's best estimate.

Long-term provisions include an amount for corporate social responsibility actions mandated by the government.

**Provision for warranty**

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

**37. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE**

In December 2017, the Group announced its intention to dispose of most assets and resources linked to SmarDTV subsidiary's business and has accordingly treated the whole unit as discontinued operations for the year ended December 31, 2017. On August 13, 2018, the Group reached an agreement whereby SmarDTV's Conditional Access Module (CAM) and Set-Top-Box businesses were transferred to SmarDTV Global, a newly formed entity affiliated with a third-party Buyer. Upfront cash consideration for this transfer amounted to kUSD 20 000, subject to customary closing adjustments relating to the transfer of workforce, selected tangible and intangible assets. Inventories were partially transferred for additional consideration at their net book values. The Group retained certain assets, including buildings, debtors and patents.

In connection with this sale agreement, the Buyer and the Group have entered into a commercial relationship whereby the Group will continue to distribute CAMs to Group customers. Continuing operations for the Group will primarily represent revenues recognized from the sale of licenses to third parties in connection with retained patents, and licenses, sales of CAMs as well as sales commissions. The impact of discontinued operations for the Group reconciles as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

In USD'000	2 018	2 017
Revenue	64 839	75 464
Expenses	-64 142	-78 936
<b>Operating result</b>	<b>697</b>	<b>-3 472</b>
Impairment to measure at fair value	-8 847	-4 614
Finance costs	-516	-932
Gain on sale of fixed assets	12 958	-
<b>Result before tax from discontinued operations</b>	<b>4 293</b>	<b>-9 018</b>
Income tax	-14	-394
<b>Net result from discontinued operations</b>	<b>4 278</b>	<b>-9 412</b>
<b>In USD'000</b>	<b>2 018</b>	<b>2 017</b>
Cash flow used in operating activities	697	2 454
Cash flow used in investing activities	19 840	-1 908
Cash flow from financing activities	-	-662

At December 31, 2017, the assets and liabilities of SmarDTV considered as part of the disposal group were reclassified as held for sale. At December 31, 2018, the assets classified as held for sale represent buildings retained upon the disposal of the SmarDTV operations.

In USD'000	31.12.2018	31.12.2017
<b>Assets classified as held for sale:</b>		
- Tangible fixed assets	14 401	18 435
- Intangible fixed assets	-	6 481
- Financial assets	-	9 905
- Trade and other receivables	-	15 041
- Inventories	-	6 505
- Other current assets	-	6 283
<b>Total assets held for sale</b>	<b>14 401</b>	<b>62 650</b>
<b>Liabilities classified as held for sale:</b>		
- Trade and other payables	-	13 981
- Other current liabilities	-	6 984
- Employee benefits liabilities	-	873
- Other long-term liabilities	-	6 982
- Advances received from clients	-	2 749
- Current income taxes	-	580
- Deferred tax liabilities	-	251
- Provision for other liabilities and charges	-	134
<b>Total liabilities held for sale</b>	<b>-</b>	<b>32 535</b>
<b>Total net assets held for sale</b>	<b>14 401</b>	<b>30 115</b>

### 38. RESEARCH AND DEVELOPMENT

The following amounts were recognized as expense and charged to the income statement:

In USD'000	2018	2017
Research and development	162 629	189 562

### 39. DIVIDEND

On March 22, 2018, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 5 568. Since year end, the Board of Directors have proposed a distribution of kUSD 5 537, representing CHF 0.10 per bearer share and CHF 0.01 per registered share respectively. The final distribution may fluctuate upon the issuance of additional share capital for employees by utilization of conditional share capital or utilization of authorized share capital for acquisitions. The proposal calls for the distribution of CHF 0.10 per bearer share (CHF 0.01 per registered share) from capital contribution reserves at 31 December 2018 and is subject to shareholder approval at the Annual General Meeting. This proposed distribution has not been recorded as a liability in these financial statements.

### 40. EMPLOYEE SHARE PARTICIPATION PLANS

#### EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

The Group has set up a plan to allow employees of certain Group companies preferential conditions to buy Kudelski SA bearer shares. All such shares purchased, and the additional shares obtained through this plan, are subject to a three-year blocking period.

	Shares 2018	Shares 2017
Shares underwritten by employees	22 270	11 315
Bonus shares from ESPP	4 454	2 263
<b>Total employee share program</b>	<b>26 724</b>	<b>13 578</b>
Amount paid by employee (In USD'000)	138	114
Booked corporate charges (excluding social charges) (In USD'000)	61	50
	<b>199</b>	<b>164</b>

#### SHARES ISSUED TO EMPLOYEES

In 2018, 124 394 (2017: 125 558) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 64 767 (2017: 70 017) include a seven-year blocking period, 47 127 (2017: 55 541) include a three-year blocking period and 12 500 with no restriction to sale. The fair value recognized for this equity based compensation is kUSD 1 150 (2017: kUSD 1 656).



## 41. RELATED PARTIES

### Trading transactions

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in consolidation and are not disclosed in this note.

During the year, Group entities entered into the following significant trading transactions with related parties, associates or joint ventures that are not members of the Group:

In USD'000	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
	2018	2017	2018	2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
APT-Skidata Ltd	7 053	7 464	–	–	–	–	1 260	1 164
SKIDATA Parking System Ltd	1 493	2 091	–	–	–	–	171	276
SKIDATA India Private Limited	496	818	–	–	–	1	251	177
iWedia SA	155	145	608	667	125	308	29	46
<b>Total associated companies</b>	<b>9 197</b>	<b>10 518</b>	<b>608</b>	<b>667</b>	<b>125</b>	<b>309</b>	<b>1 710</b>	<b>1 662</b>
Audio Technology Switzerland SA	–	–	–	–	–	–	1 644	1 659
<b>Total other related</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 644</b>	<b>1 659</b>

APT SKIDATA and SKIDATA Parking System Ltd are sales representative companies for SKIDATA Group. Audio Technology Switzerland SA is considered as a related party as some Kudelski Board members invested in the company.

Services provided to/by associates and other related parties are performed at arm's length. The associates are listed in note 17. Outstanding balances are unsecured and are repayable in cash.

### Key management compensation

Key management includes directors (executives and non-executives) and members of the Executive Committee. The compensation paid or payable to key management is shown below:

In USD'000	2018	2017
Salaries and other short-term employees benefits	7 138	6 976
Post-employments benefits	35	68
Share-based payments	423	523
	<b>7 596</b>	<b>7 567</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 42. SHAREHOLDINGS AND LOANS

### PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2018	Restated 31.12.2017	31.12.2018	31.12.2017
<b>Kudelski family pool</b>	<b>59%</b>	<b>59%</b>	<b>28%</b>	<b>28%</b>
<b>Kudelski family interests outside Kudelski family pool</b>	<b>4%</b>	<b>4%</b>	<b>7%</b>	<b>7%</b>

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

### BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2018 and 2017, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2018 and 2017 variable compensation - issued in 2019 and 2018 respectively):

	31.12.2018	31.12.2017
	<b>Bearer shares</b>	<b>Bearer shares</b>
<b>Board of Directors</b>		
Kudelski André, chairman (as member of the family pool)	10 474 423	10 434 423
Smadja Claude, vice chairman	1 300	1 300
Dassault Laurent, member	705 790	2 340
Deiss Joseph, member	–	1 000
Foetisch Patrick, member	1 000	1 000
Kudelski Marguerite, (as member of the family pool)	see above	see above
Lescure Pierre, member	2 000	2 000
Zeller Alexandre, member	–	–
Ross Alec, member	1 250	1 250
<b>Total board members</b>	<b>11 185 763</b>	<b>10 443 313</b>
<b>Management</b>		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	109 187	97 075
Roy Pierre, COO	47 213	39 837
Solbakken Morten, COO	10 834	6 228
<b>Total Management (excluding CEO)</b>	<b>167 234</b>	<b>143 140</b>

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2018 and 2017.

No loans were granted in 2018 and 2017 to the members of the Board of Directors and Group management.

M. Joseph Deiss was no longer a member of the Board of Directors as of December 31, 2018

### 43. COMMITMENTS AND CONTINGENCIES

#### OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under operating leases are as follows:

In USD'000	2018	2017
Within one year	13 215	14 059
In the second to fifth year inclusive	27 844	36 712
More than five years	3 112	5 929
	<b>44 171</b>	<b>56 700</b>

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2018:

Assets as per balance sheet date December 31, 2018 (in USD'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial Assets at amortized costs	Total 31.12.2018
Financial assets and non current assets:						
- equity instruments with no quoted market price (level 3)	19	-	-	508	-	508
- long term loans	19	-	-	-	11 506	11 506
- state and government institutions	19	-	-	-	18 273	18 273
- trade accounts receivable - long-term portion	19	-	-	-	34 725	34 725
- guarantee deposits	19	-	-	-	2 249	2 249
- prepaid expenses and accrued income (long term)	19	-	-	-	497	497
Trade accounts receivable	21	-	-	-	257 092	257 092
Other current assets:						
- loans	22	-	-	-	1 204	1 204
- state and government institutions	22	-	-	-	28 773	28 773
- other receivable (third and related parties)	22	-	-	-	8 767	8 767
Cash and cash equivalents	24	-	-	-	85 979	85 979
Derivative financial instruments (level 2)	35	64	-	-	-	64
		<b>64</b>	<b>-</b>	<b>508</b>	<b>449 065</b>	<b>449 637</b>

Liabilities as per balance sheet date December 31, 2018 (in USD'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Financial Liabilities at amortized costs	Total 31.12.2018
Long term financial debt	27	-	-	398 161	398 161
Other long term liabilities:					
- deferred consideration	30	-	-	1 440	1 440
- contingent consideration (level 3)	30	-	2 142	-	2 142
- loans and others	30	-	-	9 032	9 032
Short term financial debt	31	-	-	64 122	64 122
Trade accounts payable	32	-	-	79 608	79 608
Other current liabilities:					
- deferred consideration	34	-	-	57	57
- contingent consideration (level 3)	34	-	352	-	352
- payable to pension fund	34	-	-	1 045	1 045
- other payables	34	-	-	19 554	19 554
- current income tax		-	-	8 848	8 848
Derivative financial instruments (level 2)	35	-	190	-	190
		<b>-</b>	<b>2 684</b>	<b>581 867</b>	<b>584 551</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

And for 2017:

<b>Assets as per balance sheet date December 31, 2017 (in USD'000) Restated</b>	<b>Note</b>	<b>Derivatives used for hedging</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through OCI</b>	<b>Financial Assets at amortized costs</b>	<b>Total 31.12.2017</b>
Financial assets and non current assets:						
- equity instruments with no quoted market price (level 3)	19	-	-	512	-	512
- equity instruments with no quoted market price (level 3)	19	-	-	410	-	410
- marketable securities (level 1)	19	-	-	422	-	422
- long term loans	19	-	-	-	11 672	11 672
- state and government institutions	19	-	-	-	11 376	11 376
- trade accounts receivable - long-term portion	19	-	-	-	26 993	26 993
- guarantee deposits	19	-	-	-	3 061	3 061
- prepaid expenses and accrued income (long term)	19	-	-	-	138	138
Trade accounts receivable	21	-	-	-	287 351	287 351
Other current assets:						
- loans	22	-	-	-	117	117
- state and government institutions	22	-	-	-	18 084	18 084
- other receivable (third and related parties)	22	-	-	-	4 437	4 437
Cash and cash equivalents	24	-	-	-	71 911	71 911
Derivative financial instruments (level 2)	35	475	-	-	-	475
		<b>475</b>	<b>-</b>	<b>1 344</b>	<b>435 140</b>	<b>436 959</b>

<b>Liabilities as per balance sheet date December 31, 2017 (in USD'000) Restated</b>	<b>Note</b>	<b>Derivatives used for hedging</b>	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial Liabilities at amortized costs</b>	<b>Total 31.12.2017</b>
Long term financial debt	27	-	-	357 528	357 528
Other long term liabilities:					
- deferred consideration	30	-	-	3 995	3 995
- contingent consideration (level 3)	30	-	4 568	-	4 568
- loans and others	30	-	-	1 435	1 435
Short term financial debt	31	-	-	66 902	66 902
Trade accounts payable	32	-	-	88 696	88 696
Other current liabilities:					
- deferred consideration	34	-	-	2 783	2 783
- contingent consideration (level 3)	34	-	3 212	-	3 212
- payable to pension fund	34	-	-	558	558
- other payables	34	-	-	17 240	17 240
- current income tax	34	-	-	7 502	7 502
Derivative financial instruments (level 2)	35	-	202	-	202
		<b>-</b>	<b>7 982</b>	<b>546 639</b>	<b>554 621</b>

## 45. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS requires disclosure of fair value measurement by level according to the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2018 and 2017:

In USD'000	Note	31.12.2018	Restated 31.12.2017
<b>Financial assets at fair value through comprehensive income:</b>			
- marketable securities	Level 1	19	–
- derivative financial instruments	Level 2	35	64
- equity instruments with no quoted market price	Level 3	19	508
<b>Total financial assets</b>		<b>572</b>	<b>1 307</b>
<b>Financial liabilities:</b>			
- derivative financial instruments	Level 2	35	190
- contingent consideration (short-term portion)	Level 3	34	352
- contingent consideration (long-term portion)	Level 3	30	2 142
<b>Total financial liabilities</b>		<b>2 684</b>	<b>7 982</b>

The fair value of Level 3 equity instruments with no quoted market price is determined using a discounted cash flow method provided by the company. Level 3 contingent consideration consists of earn-out payments on companies that have been acquired. The fair value is measured using projections reviewed by management and discount rate comprised between 6.6 and 10.2% (2017: 4.0 and 7.6%).

#### RECONCILIATION OF LEVEL 3 FAIR VALUES:

The following table shows a reconciliation for the level 3 fair values:

In USD'000	Equity instruments with no quoted market price	Contingent liabilities
Balance at January 1, 2017	394	-9 030
Assumed in a business combination	–	-2 857
Settlements	–	4 566
Remeasurement (recognized in other operating income)	–	-146
Discount effect (recognized in interest expense)	–	-126
Currency translation adjustment	16	-188
<b>Balance at December 31, 2017</b>	<b>410</b>	<b>-7 781</b>
Assumed in a business combination	–	–
Settlements	–	6 049
Impairment	-406	–
Remeasurement (recognized in other operating income)	–	-116
Reclassification	512	–
Discount effect (recognized in interest expense)	–	-824
Exchange difference	-4	-54
Currency translation adjustment	-4	232
<b>Balance at December 31, 2018</b>	<b>508</b>	<b>-2 494</b>

Reclassification relates to available-for-sale equity instruments with no quoted market price that were previously measured at cost less impairment, which has been reclassified at fair value through OCI

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values:

In USD'000	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
<b>Financial liabilities</b>				
- CHF 200 million bond	202 591	143 046	204 332	210 100
- CHF 150 million bond	151 795	86 878	153 111	154 707

The fair values of the bonds are based on their market prices as of December 31. Limited trading liquidity results in material volatility of such prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 46. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

The following table analyses the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment columns represent the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within one year equal their carrying amounts as the impact of discounting is not significant.

	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust- ment	Adjust- ment	Total book value	Total book value
<b>In USD'000</b>										
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Bonds	6 127	6 183	223 746	229 672	154 599	158 345	-30 086	-36 757	354 386	357 443
Long term bank loans	-	-	39 106	-	5 373	-	-764	-	43 715	-
Short term financial debt	64 122	66 902	-	-	-	-	-	-	64 122	66 902
Trade accounts payable	79 608	88 696	-	-	-	-	-	-	79 608	88 696
Other payables	19 554	17 240	-	-	-	-	-	-	19 554	17 240
<b>Total</b>	<b>169 411</b>	<b>179 021</b>	<b>262 852</b>	<b>229 672</b>	<b>159 972</b>	<b>158 345</b>	<b>-30 850</b>	<b>-36 757</b>	<b>561 386</b>	<b>530 281</b>

## 47. SENSITIVITY ANALYSIS

### Foreign currency

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters utilizing derivative instruments.

The Group is mainly exposed to the CHF and the EUR. The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in the CHF and a 10% (2017: 10%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

In USD'000	CHF		EUR	
	2018	2017	2018	2017
Post-tax net income				
- Increase	-5 592	-7 804	-2 758	-5 359
- Decrease	6 755	2 023	2 758	5 359
Comprehensive income (post-tax effect)				
- Increase	-21 741	-20 791	-1 100	-2 038
- Decrease	23 631	21 436	1 100	2 038

**Interest rates**

The sensitivity analysis below is based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates, corresponding to each currency, represent management's assessment of the reasonable possible change in interest rates for purposes of reporting interest rate sensitivity:

- USD: increase of 200 basis points and decrease of 50 basis points (2017: 200 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2017: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2017: 100 basis points increase or 100 decrease)

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:

- post-tax profit for the year ended December 31, 2018 would increase by kUSD 578 and increase by kUSD 78, respectively. (2017: increase by kUSD 152 and decrease by kUSD 129). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2018 and 2017.

**Equity prices**

The Group is not materially exposed to any equity price fluctuation.

**48. COLLATERAL RECEIVED AND GIVEN**

In USD'000

31.12.2018 31.12.2017

Guarantees in favor of third parties

	31.12.2018	31.12.2017
Guarantees in favor of third parties	34 120	47 010

**49. RISK CONCENTRATION**

At December 31, 2018 and 2017, no financial asset exposure was more than 10% of the financial assets.

**50. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE**

The quantitative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2018 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

**51. CAPITAL RISK MANAGEMENT**

The Group's capital management focus is to maintain a sound capital base to support the continued development of its business. The Group is not subject to externally imposed capital requirements.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. Group management monitors capital on the basis of operating cash flow as a percentage of net financial debt. Net financial debt is defined as current and non-current financial liabilities less liquid assets.

The operating cash flow to net financial debt ratio as at 31 December 2018 was -1.3% (2017: -15.4%).

2017 operating cash flow was negative USD 54.2 million. Such negative operating cash flow is due to a negative USD 110.5 million adjustment for changes in working capital. Such adjustment is a one-off in nature and is mainly due to additional temporary working capital requirements at SKIDATA as well as the structure of 2017 IP licensing transactions resulting in delayed cash inflows. 2017 cash flow from operating activities, net of such adjustments, was positive at USD 56.3 million. 2018 operating cash flow was negative at USD 4.7 million mainly due to further working capital requirements at SKIDATA.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

## 52. NET DEBT RECONCILIATION

In USD'000	Restated	
	31.12.2018	31.12.2017
Cash and cash equivalents	85 979	71 911
Long-term financial debt	-398 161	-357 528
Short-term financial debt	-64 122	-66 902
<b>Net debt</b>	<b>-376 304</b>	<b>-352 520</b>

In USD'000	Note:	Cash and cash equivalents	Long-term debt	Short-term debt	Total
<b>Net debt at January 1, 2017</b>		<b>174 440</b>	<b>-343 595</b>	<b>-31 471</b>	<b>-200 626</b>
Cash flows		-111 816	-	-	-111 816
Reimbursement of bank overdrafts, long-term loans		-	-	1 619	1 619
Increase in bank overdrafts, long-term loans		-	-2	-34 361	-34 363
Arising from business combinations		-	-	3 138	3 138
Foreign exchange adjustments		9 287	-13 726	-5 827	-10 266
Amortization of transaction cost less premium	28	-	-205	-	-205
<b>Net debt at December 31, 2017</b>		<b>71 911</b>	<b>-357 528</b>	<b>-66 902</b>	<b>-352 519</b>
Cash flows		16 875	-	-	16 875
Reimbursement of bank overdrafts, long-term loans		-	20	23 205	23 225
Increase in bank overdrafts, long-term loans		-	-45 067	-23 377	-68 444
Foreign exchange adjustments		-2 807	4 624	2 952	4 769
Amortization of transaction cost less premium	28	-	-210	-	-210
<b>Net debt at December 31, 2018</b>		<b>85 979</b>	<b>-398 161</b>	<b>-64 122</b>	<b>-376 304</b>

## 53. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The group is not aware of any significant events occurring after the reporting period that could have a material impact on the Group financial statements.

## 54. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2018	2017	2018	2017
1 CHF	1.0152	1.0246	1.0212	1.0157
1 EUR	1.1452	1.1988	1.1792	1.1293
100 CNY	14.5279	15.3688	15.1070	14.7996
100 NOK	11.5086	12.1926	12.2837	12.1009
1 GBP	1.2802	1.3514	1.3333	1.2885
100 BRL	25.7868	30.2254	27.4918	31.3459
100 INR	1.4315	1.5676	1.4608	1.5363
1 SGD	0.7340	0.7479	0.7407	0.7244
100 ZAR	6.9442	8.0943	7.5674	7.5165
100 RUB	1.4315	1.7275	1.5957	1.7153
1 AUD	0.7046	0.7818	0.7461	0.7667

## 55. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 26, 2019.

## 56. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Digital TV	Cyber-security	Internet of Things	Public Access	Corporate	Percentage held	
								2018	2017
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	•	•	•			100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	•					100	100
Nagra USA, Inc.	US – Nashville	Sales and support	•		•			100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	•					100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	•					100	77.5
		Smartcards and digital TV support							
NagraStar LLC	US – Englewood		•					50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	•					100	100
		Conditional access modules and set-top-boxes	•						
Conax Group	NO - Oslo		•					100	100
Kudelski Security, Inc.	US - Minneapolis	Cyber Security Solutions		•				100	100
		People and car access systems							
SKIDATA Group	AT – Gartenau					•		100	100
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group					•	100	100

These principal companies are all subsidiaries.

## 57. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

### REQUIRED BY SWISS LAW

Risk assessment and management is an integral part of the Group-wide enterprise risk management. The risk management approach is structured around a global risk assessment and management, and financial risk management. Both are governed by policies initiated by the Board of Directors. The internal control system is based on the COSO framework with a dedicated internal control team in place.

### Global risk management

The global risk management process led to the identification and management of security, operational, strategic, asset and market risks. Daily management of the global risks is performed and monitored by the executive management. Risks related to market dynamics include foreign exchange movements, interest rate changes and financing risks. They are described in more detail in section 3 of this report.

### Financial Risk Management

The major financial risks consist of accounting complexity and the control environment. Risks related to the control environment include information systems complexity, timely review of results and the robustness of the documentation of processes. Executive management continues to address these risks with process documentation initiatives as well as establishment of process and entity level controls. Financial risk management is described in more details in note 3.

The most critical accounting policies to address accounting complexity include revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and impairments, tax provisions, equity based compensation and contingencies.

---

***Kudelski SA***

***Cheseaux-sur-Lausanne***

***Report of the  
statutory auditor to the  
General Meeting***

***on the consolidated financial  
statements 2018***





## **Report of the statutory auditor to the General Meeting of Kudelski SA**

**Cheseaux-sur-Lausanne**

### **Report on the audit of the consolidated financial statements**

#### **Opinion**

We have audited the consolidated financial statements of Kudelski SA and its subsidiaries (the “Group”), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### **Basis for opinion**

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Our audit approach**

<p><b>Overview</b></p>	<p>Overall Group materiality: USD 2'250'000</p> <p>We concluded full scope audit work at 11 reporting components in 7 countries, and in order to increase our coverage, we also performed certain specified procedures. Our audit scope addressed over 76% of the Group’s revenue and 77% of the Group’s assets.</p> <p>As key audit matters the following areas of focus have been identified:</p> <ul style="list-style-type: none"> <li>• Goodwill impairment assessment</li> <li>• IFRS 15 Revenue Recognition</li> </ul>
------------------------	---

PricewaterhouseCoopers SA, avenue C.-F. Ramuz 45, case postale, CH-1001 Lausanne, Switzerland  
Téléphone: +41 58 792 81 00, Téléfax: +41 58 792 81 10, [www.pwc.ch](http://www.pwc.ch)





**Materiality**

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	USD 2'250'000
<i>How we determined it</i>	5% of average net income before tax from continuing operations of the last 3 years
<i>Rationale for the materiality benchmark applied</i>	We chose net income before tax from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. To account for the volatility of the project-based business, the average value of the last three years was chosen for the materiality calculation.

We agreed with the Audit Committee that we would report to them misstatements above USD 210'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

**Audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole.

The Group financial statements are a consolidation of 86 reporting components. Following our assessment of the risk of material misstatement to the Group's consolidated financial statements and considering the significance of the reporting components' business operations relative to the Group, we selected 21 reporting components which represent the principal business operations of the Group. Of the 21 reporting components, 11 of these components were subject to an audit of complete financial information and 10 reporting components were subject to specific audit procedures.

For the remaining reporting components, we performed other procedures to test or assess that there were no significant risks of material misstatement in relation to the Group's consolidated financial statements.

The Group audit team, in addition to the audit of the consolidation, was directly responsible for auditing 3 of the 11 reporting components which were subject to a full audit. For the other reporting components, the Group audit team directed and supervised the audit work performed by the PwC component teams at all stages of the audit.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the



context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Goodwill impairment assessment**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>The Group’s goodwill is recognised in 4 Cash Generating Units (CGUs):</p> <ul style="list-style-type: none"> <li>• Digital TV (DTV)</li> <li>• Public Access (PA)</li> <li>• Cybersecurity (CS)</li> <li>• Internet of Things (IoT)</li> </ul> <p>We focused on this area in view of the significance of this amount and in relation to the negative results of the company over the last 2 years.</p> <ul style="list-style-type: none"> <li>• The assessment of the carrying value of the goodwill balances is dependent on the estimation of future cash flows. Judgement is required to determine the assumptions relating to the future business results and the discount rate applied to the forecasted cash flows.</li> <li>• Starting 2018, the Group manages the Digital TV, Cybersecurity and Internet of Things as 3 distinct businesses that were previously included in one single operating segment.</li> <li>• In particular, those assessments and judgments made to support the carrying value of the goodwill allocated to the Digital TV, Cybersecurity or Internet of Things Divisions were critical, given the 2018 underlying results or the size of the goodwill.</li> </ul> <p>Refer to note 2 – Critical accounting estimates and judgements, and note 16 – Intangible assets for details of management’s impairment test and assumptions.</p>	<p>In relation to the newly identified segments, we assessed the aggregation of CGUs through review of the relevant documents to management confirming that it is the lowest level at which management monitors goodwill for internal purposes and that no grouping of CGUs for goodwill impairment testing purposes is larger than any of the Group’s operating segments.</p> <p>With respect to the reallocation of the goodwill previously allocated to the Integrated Digital TV segment, we tested the respective models determining the relative value of existing goodwill to the newly identified segments.</p> <p>We challenged management to substantiate its key assumptions in the cash flow projections during the forecast period and its intention and ability to execute their strategic initiatives.</p> <p>We discussed the forecasts of the different CGU’s with the Group’s CEO, CFO, Group controller and the heads of operating segments.</p> <p>We tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period assumption of 1,5% for Digital TV and 3% for Cybersecurity and Internet of Things divisions.</p> <p>We compared the 2018 actual results with the cash flow forecasts used in the 2017 impairment test to identify in retrospect whether any of the assumptions might have been too optimistic.</p> <p>Together with our specialists, we evaluated the reasonableness of the discount rate of 10% applied to those future cash flows of the Digital TV, Cybersecurity and Internet of Things segment.</p> <p>We assessed management’s sensitivity analysis around key estimates to quantify the downside changes in assumptions that could result in an impairment.</p> <p>We assessed the disclosures included in Note 16 Goodwill and intangible assets of the annual report.</p>



As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the carrying value of goodwill were reasonable and supportable.

**IFRS 15 - Revenue Recognition**

*Key audit matter*

*How our audit addressed the key audit matter*

In the 2018 financial year, total revenue amounted to USD 908m, comprising the sale of goods (USD 377m), services rendered (USD 367m) and royalties and licences (USD 164m).

Firstly, we evaluated the compliance of Kudelski's accounting policies with IFRS 15.

During the year, the company adopted IFRS 15 'Revenue from contracts with customers'. This resulted in a number of changes. For a summary of those changes, please refer to note 4 in the consolidated financial statements.

As part of the adoption of IFRS 15, we obtained the schedule of cumulative adjustments as at 1 January 2017 and 2018 and evaluated it for completeness and accuracy by assessing whether it reflected appropriate considerations for the changes in the revenue recognition under IFRS 15.

We considered revenue recognition and the application of IFRS 15 to be a key audit matter because of the risk of material misstatements in the financial statements. Transactions with customers often have bundled components that typically might include a combination of hardware, software, additional services and maintenance. The separation of these elements requires management to use estimates in the determination of the fair value for each component.

For the majority of sales of good, royalties and licences, the company is recognising revenues at a point in time. We selected a sample of transactions and traced to shipping documents and contracts to validate the accuracy of the revenues recognised.

For more detailed information on the accounting policy regarding revenue recognition, including the assumptions and impact of the new IFRS 15 standard, please refer to notes 1 and 4 to the consolidated financial statements.

For revenue recognised for services rendered, the company is recognising revenue over time under the principle of percentage of completion. We selected a sample of projects and traced to supporting documentation to demonstrate the level of completion.

We performed cut-off testing procedures to ensure that revenue is recognised in the correct reporting period by reference to the contract and evidence of delivery.

Based on the work performed, we concluded that the critical judgements and estimates made by management were reasonable and the accounting for revenue appropriate

***Other information in the annual report***

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Kudelski SA and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

***Responsibilities of the Board of Directors for the consolidated financial statements***

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Swiss law, ISAs and Swiss Auditing Standards 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 consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We



are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee 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.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### ***Report on other legal and regulatory requirements***

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Luc Schulthess  
Audit expert  
Auditor in charge

Mario Berckmoes  
Audit expert

Lausanne, 26 February 2019

Enclosure:

- Consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheets, consolidated statement of cash flows, consolidated statement of changes in equity and notes)

# BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017

## ASSETS

In CHF'000	Notes	31.12.2018	31.12.2017
<b>Current assets</b>			
Cash and cash equivalents		798	3 009
Accounts receivable from Group companies		74 044	55 993
Loan to third party		1 066	–
Other current receivables and prepaid expenses	3.1	1 040	1 204
<b>Total current assets</b>		<b>76 948</b>	<b>60 206</b>
<b>Fixed assets</b>			
Loans to Group companies		670 500	746 077
Investments	3.2	371 362	377 472
<b>Total fixed assets</b>		<b>1 041 862</b>	<b>1 123 549</b>
<b>Total assets</b>		<b>1 118 810</b>	<b>1 183 755</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2018	31.12.2017
<b>Short-term liabilities</b>			
Short-term interest-bearing liabilities :			
- Bank overdraft		3 644	20 464
Other short-term liabilities :			
- due to third parties		817	480
- due to Group companies		47 880	35 050
Accrued expenses		2 255	2 017
<b>Total short-term liabilities</b>		<b>54 596</b>	<b>58 011</b>
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	350 000
<b>Total long-term liabilities</b>		<b>350 000</b>	<b>350 000</b>
<b>Total liabilities</b>		<b>404 596</b>	<b>408 011</b>
<b>Shareholders' equity</b>			
Share capital		436 327	435 118
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		79 689	85 010
Retained earnings		145 616	194 985
Net (loss) / income		-57 418	-49 369
<b>Total shareholders' equity</b>	<b>3.4</b>	<b>714 214</b>	<b>775 744</b>
<b>Total liabilities and shareholders' equity</b>		<b>1 118 810</b>	<b>1 183 755</b>

# INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2018

## INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

In CHF'000	Notes	2018	2017
Other non operating income		4	133
Financial income	4.1	39 953	42 717
Gain on sale of investments		252	-
Administrative and other expenses		-2 759	-3 106
Financial expenses and exchange result	4.2	-10 893	-10 577
Impairment of financial fixed assets	4.3	-82 779	-77 221
<b>Income/(loss) before tax</b>		<b>-56 222</b>	<b>-48 054</b>
Direct taxes (other than income tax)		-1 196	-1 315
<b>Net income/(loss)</b>		<b>-57 418</b>	<b>-49 369</b>

## PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2018

In CHF'000	Legal reserves from capital contribution	Retained earnings
Balance brought forward from previous year	85 010	145 616
Dividend	-5 452	-
Share capital increase	131	-
Net result	-	-57 418
<b>Total available earnings</b>	<b>79 689</b>	<b>88 198</b>
<b>Proposal of the Board of Directors:</b>		
Ordinary distribution:		
- CHF 0.10 on 49'910'873* bearer shares (out of capital contribution reserve)	-4 991	-
- CHF 0.01 on 46'300'000 registered shares (out of capital contribution reserve)	-463	-
<b>Balance to be carried forward</b>	<b>74 235</b>	<b>88 198</b>

\* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2018 and may fluctuate upon issuance of additional share capital for the employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies.

# NOTES TO THE FINANCIAL STATEMENTS 2018

## 1. INTRODUCTION

Kudelski SA, with registered office in Cheseaux, is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

## 2. ACCOUNTING POLICIES BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the Swiss accounting legislation of the Swiss Code of Obligations (SCO).

These financial statements were prepared under the historical cost convention and on an accrual basis.

Kudelski SA is presenting consolidated financial statements according to IFRS. As a result, these financial statements and notes do not include additional disclosures, cash flow statement and management report.

## FINANCIAL ASSETS

Investments and loans are initially recognized at cost. They are assessed annually and in case of an impairment adjusted to their recoverable amount within their category.

Investments and loans are allocated to four buckets for impairment testing. The four buckets are the cash generating units, which are defined within the framework of the Group as the operating segments, Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access.

The recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations. The calculations use cash flow projections approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates in perpetuity.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and short-term deposits. Cash at bank consists of all funds in current accounts available within 48 hours. Short-term deposits generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

## EXCHANGE RATE DIFFERENCES

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement, while net gains are deferred.



# NOTES TO THE FINANCIAL STATEMENTS 2018

## 3. NOTES TO THE BALANCE SHEETS

### 3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2018	31.12.2017
Prepaid expenses	958	1 169
Withholding tax	51	19
Other accounts receivable	31	16
	<b>1 040</b>	<b>1 204</b>

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bonds (note 3.3). These amounts are allocated against income statement over the contractual periods of their underlying borrowings.

### 3.2 INVESTMENTS

#### DIRECT INVESTMENTS

Company	Location	Activity	Share capital	Percentage held and voting rights	
				2018	2017
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF 20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	KEUR 3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	KEUR 32 833	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	KEUR 25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	KUSD 10	100	100
SKIDATA AG	AT – Salzburg	Public access	KEUR 3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF 100	50	50
		Conditional access modules and set-top-boxes			
SmarDTV SA	CH – Cheseaux		kCHF 1 000	100	77.5
Kud SA	LU – Luxembourg	Finance	kCHF 100	100	100
Leman Consulting SA in liquidation	CH – Nyon	Intellectual property consulting	kCHF 100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD 100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP 1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	KEUR 10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF 50	100	100
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	KINR 100	100	100
		Digital broadcasting solution provider			
Acetel Co Ltd	SK – Séoul		kKRW 1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	KINR 100	100	100
Nagra Media Beijing Co. Ltd	CN - Beijing	R & D, Sales and services	KCNY 15 890	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW 200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL 553	100	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY 10 000	100	100
Nagra Media (Taiwan) Co., Ltd	TW - Taipei	Sales and support	kNTD 500	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK 200	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF 750	40	40
Kryptus Segurança da Informação Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL 298	16	16
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR 163	100	100
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD 50	100	100
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD 1	100	100
NexGuard Labs B.V.	NL - Eindhoven	Watermarking Solutions	KEUR 25	100	100
NexGuard Labs France SAS	FR - Cesson Sevigne	Watermarking Solutions	KEUR 420	100	0

## SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital	Percentage held and voting rights		
				2018	2017	
Conax AS	NO - Oslo	Conditional access modules and set-top-boxes	kNOK	1 111	100	100
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	kUSD	112 887	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	kUSD	2 043	50	50
Kudelski Security Inc.	US - Minneapolis	Cyber Security Solutions	kUSD	0	100	100
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	60
SKIDATA Benelux BV	NL – Barenbrecht	Public access	kEUR	90.6	100	100
SKIDATA (Schweiz) AG	CH - Adliswil	Public access	kCHF	150	100	100
SKIDATA Inc	US – Hillsborough	Public access	kUSD	5 510	100	100
SKIDATA Australasia Pty Ltd	AU – Melbourne	Public access	kAUD	5 472	100	100

## 3.3 BONDS

On May 12, 2016 the company issued a CHF 200 million bond with a subscription price of 100%, bearing an interest rate of 1.875% and maturing on August 12, 2022 with denominations of CHF 5 000 and multiples thereof.

On September 27, 2016 the company also issued a CHF 150 million bond with a subscription price of 100%, bearing an interest rate of 1.5% and maturing on September 27, 2024 with denominations of CHF 5 000 and multiples thereof.

Each bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs is considered as a prepaid expense and allocated against the income statement over the period of the bond.

## 3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	Legal reserves from retained earnings	Legal reserves from capital contribution	Retained earnings	Total Shareholders' equity
<b>As of December 31, 2016</b>	<b>434 005</b>	<b>110 000</b>	<b>97 925</b>	<b>200 423</b>	<b>842 353</b>
Dividend			-13 593	-5 437	-19 030
Share capital increase	1 113		678		1 791
Net Income				-49 369	-49 369
<b>As of December 31, 2017</b>	<b>435 118</b>	<b>110 000</b>	<b>85 010</b>	<b>145 616</b>	<b>775 744</b>
Dividend			-5 452		-5 452
Share capital increase	1 209		131		1 340
Net Income				-57 418	-57 418
<b>As of December 31, 2018</b>	<b>436 327</b>	<b>110 000</b>	<b>79 689</b>	<b>88 198</b>	<b>714 214</b>

# NOTES TO THE FINANCIAL STATEMENTS 2018

## SHARE CAPITAL

In CHF'000	31.12.2018	31.12.2017
49'910'873 / 49'759'755 bearer shares, at CHF 8 each	399 287	398 078
46'300'000 registered shares, at CHF 0.80 each	37 040	37 040
	<b>436 327</b>	<b>435 118</b>

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

## CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2018	2017
Conditional share capital as of January 1	84 432	85 545
Employee share purchase plan	-214	-109
Shares allotted to employees	-995	-1 004
<b>Conditional share capital at December 31</b>	<b>83 223</b>	<b>84 432</b>
<b>Of which may be utilized as of December 31 for:</b>		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each	80 000	80 000
- Options or share subscriptions to employees:		
402'883 / 554'001 bearer shares, at CHF 8 each	3 223	4 432
	<b>83 223</b>	<b>84 432</b>

## AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2018	31.12.2017
3'768'164 bearer shares, at CHF 8 each	30 145	30 145
3'200'000 registered shares, at CHF 0.80 each	2 560	2 560
<b>Authorized share capital as of December 31</b>	<b>32 705</b>	<b>32 705</b>

The Board of Directors is authorized to increase the share capital in one or more stages until March 15, 2020, for the purpose of acquiring companies or parts of companies.

## MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Kudelski family pool	59%	59%	28%	28%
Kudelski family interests outside Kudelski family pool	4%	4%	7%	7%

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

## 4. NOTES TO THE INCOME STATEMENTS

### 4.1 FINANCIAL INCOME

In CHF'000	2018	2017
Dividends received from Group subsidiaries	15 282	18 038
Interest on loans to Group subsidiaries	24 377	24 397
Interest income third parties	294	282
	<b>39 953</b>	<b>42 717</b>

### 4.2 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2018	2017
Net currency exchange result	-3 808	-3 697
Interest on loans from Group subsidiaries	-257	-237
Interest expenses and bank charges	-6 828	-6 643
	<b>-10 893</b>	<b>-10 577</b>

### 4.3 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2018	2017
Change in provision on Group investments and loans	-82 778	-77 012
Value adjustment on investments	-1	-209
	<b>-82 779</b>	<b>-77 221</b>

The 2018 change in provision on Group investments primarily relates to capital contributions (stabilization measures) to subsidiaries of kCHF 69 811 and subsidiary substance dividends for kCHF 12 966. The 2017 change in provision was the result of value adjustments following the Group's annual impairment test.

# NOTES TO THE FINANCIAL STATEMENTS 2018

## 5. COMMITMENTS AND CONTINGENCIES

In CHF'000

31.12.2018 31.12.2017

### Guarantee commitments

Commitment in favor of third parties

828 5 458

### Other commitments

Penalty risk for non-completion of contracts

p.m. p.m.

Subordinated loans in favor of Group companies

p.m. p.m.

Support letters and guarantees signed in favor of Group companies

p.m. p.m.

Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)

p.m. p.m.

## 6. FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for 2018 and 2017 did not exceed ten people.

## 7. BOARD AND EXECUTIVE INTEREST DISCLOSURES

The disclosures required by article 663c of Swiss Code of Obligations on Board and Executive interest are shown in the Kudelski Group consolidated financial statements.

---

***Kudelski SA***

***Cheseaux-sur-Lausanne***

***Report of the  
statutory auditor to the  
General Meeting***

***on the financial statements  
2018***





## **Report of the statutory auditor to the General Meeting of Kudelski SA**

**Cheseaux-sur-Lausanne**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Kudelski SA, which comprise the balance sheet as at 31 December 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

#### **Basis for opinion**

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and 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 entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Our audit approach**

##### **Overview**



Overall materiality: CHF 11'180'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:  
Valuation of investments in subsidiaries and loans to Group companies

#### **Materiality**

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements

PricewaterhouseCoopers SA, avenue C.-F. Ramuz 45, case postale, CH-1001 Lausanne, Switzerland  
Téléphone: +41 58 792 81 00, Téléfax: +41 58 792 81 10, [www.pwc.ch](http://www.pwc.ch)



may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<i>Overall materiality</i>	CHF 11'180'000
<i>How we determined it</i>	1% of total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. Total assets is a generally accepted benchmark for determining the materiality according to auditing standards. This calculation results in an overall materiality of CHF 11'180'000.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1'118'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

#### **Audit scope**

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Valuation of investments in subsidiaries and loans to Group companies**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Kudelski SA's investments in and loans to Group companies are valued at CHF 371m and CHF 670m respectively. The company has allocated the investments in subsidiaries and loans to Group companies to 4 Cash Generating Units (CGU's):  Digital TV (DTV): CHF 748m Public Access (PA): CHF 115m Cybersecurity (CS): CHF 115m	We obtained an understanding of management's process and controls over the valuation of investments in and loans to Group companies.  We challenged management to substantiate its key assumptions in the cash flow projections during the forecast period and its intention and ability to execute their strategic initiatives.  We discussed the forecasts of the different CGU's with the Group's CEO, CFO, group controller and the heads of operating segments.






---

**Internet of Things (IoT): CHF 63 m**

We consider the value of investments and loans to Group companies to be a key audit matter due to the size of the balances and the judgement involved in the assessment of the recoverability of those assets.

In particular, those assessments and judgments made to support the carrying value of the investments and loans to Group companies allocated to the Digital TV, Cybersecurity and Internet of Things Divisions were critical, given the 2018 underlying results or the size of the balances involved.

For the year ended 31 December 2018, management has performed an impairment assessment of investments in subsidiaries and loans to Group companies by performing an Enterprise value calculation for the different CGU's. To determine the Enterprise Value management uses a discounted cash flow method.

Judgement is required to determine the assumptions relating to the future results and the discount rate applied to the forecasted cash flows.

The results of management's impairment testing indicated that the investments in subsidiaries and loans to group companies were not impaired.

During the year, the company increased its provision in investments in subsidiaries for CHF 82m. This change in provision is not related to the annual impairment test. The provisions are related to capital contributions (stabilization measures) to subsidiaries for CHF 69m and subsidiary substance dividends for CHF 13m.

Refer to note 4.3 – Investments for details of the investments and the impairment booked.

---

We tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period assumption of 1,5% for Digital TV and 3% for Cybersecurity and Internet of Things divisions.

We compared the 2018 actual results with the cash flow forecasts used in the 2017 impairment test to identify in retrospect whether any of the assumptions might have been too optimistic.

Together with our specialists, we evaluated the reasonableness of the discount rate of 10% applied to those future cash flows of the Digital TV, Cybersecurity and Internet of Things segment.

We assessed management's sensitivity analysis around key estimates to quantify the downside changes in assumptions that could result in an impairment.

We assessed the disclosures included in Note 4.3 of the annual report.

As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the valuations of investments in subsidiaries and loans to Group companies were reasonable and supportable.

---

***Responsibilities of the Board of Directors for the financial statements***

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors 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, the Board of Directors is responsible for assessing the entity'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 the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.



### ***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 Swiss law and Swiss Auditing Standards 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 Swiss law and Swiss Auditing Standards, 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' 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 entity'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 entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee 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.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### ***Report on other legal and regulatory requirements***

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.



We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

A handwritten signature in black ink, appearing to read 'Schulthess', written over a light grey rectangular background.

Luc Schulthess  
Audit expert  
Auditor in charge

A handwritten signature in black ink, appearing to read 'Berckmoes', written over a light grey rectangular background.

Mario Berckmoes  
Audit expert

Lausanne, 26 February 2019

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

# KUDELSKI SA

22-24, Route de Genève · P.O. Box 134 · 1033 Cheseaux · Switzerland

T +41 21 732 01 01 · F +41 21 732 01 00 · [info@nagra.com](mailto:info@nagra.com) · [www.nagra.com](http://www.nagra.com)