KUDELSKI GROUP
FINANCIAL STATEMENTS
2020

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019)

In USD'000	Notes	2020	2019
Revenues	4	729 492	810 201
Other operating income	5	12 057	17 076
Total revenues and other operating income		**741 549**	**827 277**
Cost of material, licenses and services		-211 675	-255 230
Employee benefits expense	6	-368 132	-407 617
Other operating expenses	7	-97 417	-123 850
Operating income before depreciation, amortization and impairment		**64 325**	**40 580**
Depreciation, amortization and impairment	8	-48 271	-55 850
Operating income		**16 055**	**-15 270**
Interest expense	9	-10 397	-10 182
Other finance income/(expense), net	10	-14 808	-1 705
Share of result of associates	16	1 894	1 901
Income before tax		**-7 256**	**-25 256**
Income tax expense	11	-10 732	-13 312
Net income for the period		**-17 989**	**-38 568**
Attributable to:			
- Equity holders of the company		*-23 202*	*-44 497*
- Non-controlling interests		*5 213*	*5 929*

Earnings per share (in USD)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	12	-0.4220	-0.8130
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	12	-0.0422	-0.0813

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019)

In USD'000	2020	2019
Net income	**-17 989**	**-38 568**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-2 725	-9 307
	-2 725	**-9 307**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	315	–
Remeasurements on post employment benefit obligations, net of income tax	753	18 461
	1 068	**18 461**
Total other comprehensive income, net of tax	**-1 657**	**9 154**
Total comprehensive income	**-19 646**	**-29 414**
Attributable to:		
Shareholders of Kudelski SA	-24 963	-35 300
Non-controlling interests	5 317	5 886

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2020 AND 2019)

In USD'000	Notes	31.12.2020	31.12.2019
ASSETS			
Non-current assets			
Tangible fixed assets	13	127 704	126 783
Intangible assets	14	399 358	407 410
Right-of-use assets	15	41 639	41 517
Investments in associates	16	7 007	6 309
Deferred income tax assets	17	50 858	57 785
Financial assets at amortized cost	18	40 817	54 395
Financial assets at fair value through comprehensive income	18	–	517
Financial assets at fair value through profit and loss	18	2 182	–
Other non-current assets	18	863	1 042
Total non-current assets		**670 427**	**695 758**
Current assets			
Inventories	19	59 197	65 463
Trade accounts receivable	20	184 476	214 397
Contract assets	20	44 582	57 956
Other financial assets at amortized cost	21	54 503	48 396
Other current assets	22	38 549	25 589
Cash and cash equivalents	23	152 584	74 596
Total current assets		**533 892**	**486 397**
Assets classified as held for sale	**36**	**12 777**	**11 497**
Total assets		**1 217 096**	**1 193 651**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	337 295	335 101
Reserves		1 156	31 280
Equity attributable to equity holders of the parent		**338 451**	**366 381**
Non-controlling interests	25	30 580	37 037
Total equity		**369 031**	**403 418**
Non-current liabilities			
Long-term financial debt	26	439 192	393 029
Long-term lease obligations	15	29 599	28 491
Deferred income tax liabilities	17	3 195	4 282
Employee benefits liabilities	28	48 817	51 072
Other long-term liabilities	29	9 979	9 780
Total non-current liabilities		**530 781**	**486 654**
Current liabilities			
Short-term financial debt	30	48 212	73 679
Short-term lease obligations	15	13 720	15 548
Trade accounts payable	31	67 732	60 572
Contract liabilities	32	69 873	45 446
Other current liabilities	33	109 521	92 946
Current income taxes		4 383	9 085
Provisions for other liabilities and charges	35	3 842	6 302
Total current liabilities		**317 283**	**303 579**
Total liabilities		**848 064**	**790 233**
Total equity and liabilities		**1 217 096**	**1 193 651**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019)

In USD'000	Notes	2020	2019
Net income for the year		**-17 989**	**-38 568**
Adjustments for net income non-cash items:			
- Current and deferred income tax		10 732	13 312
- Interests, allocation of transaction costs and foreign exchange differences		22 298	8 375
- Depreciation, amortization and impairment	8	48 271	55 850
- Share of result of associates	16	-1 894	-1 901
- Non-cash employee benefits (income) / expense		-4 832	6 015
- Deferred cost allocated to income statement		223	360
- Additional provisions net of unused amounts reversed		-747	1 512
- Non-cash government grant income		-5 883	-8 109
- Other non-cash (income) / expenses		-7 204	-6 675
Adjustments for items for which cash effects are investing or financing cash flows:			
- Other non-operating cash items		-263	958
Adjustments for change in working capital:			
- Change in inventories		11 402	-5 104
- Change in trade accounts receivable		64 827	58 806
- Change in trade accounts payable		5 747	-26 448
- Change in accrued expenses		5 579	-1 117
- Change in deferred costs and other net current working capital headings		4 807	-17 243
Government grant from previous periods received		11 873	2 985
Dividends received from associated companies	16	398	1 871
Interest paid		-9 259	-8 898
Interest received		335	1 011
Income tax paid		-5 834	-2 834
Cash flow from operating activities		**132 588**	**34 157**
Purchases of intangible fixed assets		-3 965	-3 338
Purchases of tangible fixed assets		-6 694	-13 651
Proceeds from sales of tangible and intangible fixed assets		524	–
Proceeds from sale of investment property		–	2 298
Divestment of financial assets and loan reimbursement		1 575	39
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Payment arising from prior years business combinations		-344	-279
Cash flow from investing activities		**-8 903**	**-14 931**
Reimbursement of bank overdrafts, long-term loans and other non-current liabilities		-84 973	-31 463
Increase in bank overdrafts, long-term loans and other non-current liabilities		65 103	28 886
Payments of lease liabilities		-16 699	-16 966
Proceeds from employee share purchase program	39	102	85
Proceed from a partial sale of subsidiary not resulting in a loss of control		113	–
Dividends paid to non-controlling interests		-10 224	-5 390
Dividends paid to shareholders	38	-5 692	-5 508
Cash flow from financing activities		**-52 270**	**-30 356**
Effect of foreign exchange rate changes on cash and cash equivalents		6 573	-253
Net movement in cash and cash equivalents		**77 988**	**-11 383**
Cash and cash equivalents at the beginning of the year	23	74 596	85 979
Cash and cash equivalents at the end of the year	23	152 584	74 596
Net movement in cash and cash equivalents		**77 988**	**-11 383**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2019		**333 456**	**79 892**	**-15 802**	**-2 998**	**11 643**	**36 541**	**442 733**
Net income		–	–	-44 497	–	–	5 929	-38 568
Other comprehensive income		–	–	18 461	–	-9 263	-43	9 154
Total comprehensive income		**–**	**–**	**-26 037**	**–**	**-9 263**	**5 886**	**-29 414**
Employee share purchase program	39	194	-72	–	–	–	–	123
Shares issued to employees	39	1 451	-576	–	–	–	–	875
Dividends paid to shareholders		–	-5 508	–	–	–		-5 508
Dividends paid to non-controlling interests		–	–	–	–	–	-5 390	-5 390
December 31, 2019		**335 101**	**73 737**	**-41 839**	**-2 998**	**2 380**	**37 037**	**403 418**
Net income		–	–	-23 202	–	–	5 213	-17 989
Other comprehensive income		–	–	753	315	-2 829	104	-1 657
Total comprehensive income		**–**	**–**	**-22 449**	**315**	**-2 829**	**5 317**	**-19 646**
Employee share purchase program	39	438	-292	–	–	–	–	146
Shares issued to employees	39	1 756	-841	–	–	–	–	915
Dividends paid to shareholders	38	–	-2 846	-2 846	–	–		-5 692
Dividends paid to non-controlling interests		–	–	–	–	–	-10 224	-10 224
Transactions with non-controlling interests		–	–	1 664	–	–	-1 550	113
December 31, 2020		**337 295**	**69 758**	**-65 470**	**-2 683**	**-449**	**30 580**	**369 031**

Fair value and other reserves as of December 31, 2020 include kUSD -2 683 (2019: kUSD -2 998) of unrealized loss on financial assets at fair value through other comprehensive income.

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

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) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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. 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 performance 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 soft-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

ware under license and control transfers to the customer. Revenue from licensing arrangements is recognized upon commencement of the term of the license 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 recognized 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) 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 sublicenses 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 at 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 accounting, 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 substatively 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 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

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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) 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.

(c) 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 get 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	10
Trademarks and brands	5

(K) Leases
The Group leases various properties, equipment and vehicles. Rental contracts typically cover fixed periods between one and 10 years and may contain extension options as described below. Lease terms are negotiated on an individual basis and include a wide variety of different terms and conditions. The lease agreements generally do not impose financial covenants, however, leased assets are not allowed to be used as collateral for borrowing purposes.

Leases are booked as a right-of-use asset and as a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is apportioned between the reduction of the outstanding lease liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Assets and liabilties arising from a lease are initially measured on a present value basis. Lease liabilities are valued at the net present value of the future lease payments, which includes fixed lease payments, variable lease payments based on indexes and rates, residual value guarantees, purchase options and termination penalties. Lease payments are discounted using the interest rate implicit in the lease, or if that rate cannot be determined, the Group's incremental borrowing rate based on the currency in which it finances its local operations.

Right-of-use assets are measured at cost, comprising the amount of the initial lease liability adjusted by any lease payments made at or before the commencement date of the lease, any lease incentives received, initial direct costs and any estimated restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are identified as leases with a term of 12 months or less. Low-value assets comprise general office furniture and IT equipment .

Extension and termination options are included in a number of property and equipment leases throughout the Group. These terms are used to maximize operational flexibility, with the majority of extension and terminations options being exercisable only by the Group and not by the respective lessor.

(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 other comprehensive income (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.

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(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 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.

The Group applies a 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.

(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 manufactured 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 or 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 convertible 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.

Where borrowings are made available through COVID-19 relief packages with interest rates below market, the Group recognizes a portion of the proceeds as a government grant. The grants are initially deferred and recognized in earnings on a systematic basis over the term of the loan as 'Other operating income'.

(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 obligations 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 comprehen-

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sive 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' 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, 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.

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, 2019.

The IASB issued amendments to IFRS 3 Business Combinations that revised the definition of a business, which assist entities with the evaluation of when an asset or group of assets acquired should be considered a business. This amended standard is applicable to transactions entered into on or after January 1, 2020. The amended standard allows an entity to apply an optional concentration test to evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If this optional concentration test is met, the set of activities and assets is determined not to be a business.The adoption of this amended standard had no 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 January 1, 2021 or later periods, and which the Group has not early adopted. These standards are not expected to have a material impact on the Group in the current or future report-

ing 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.

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.

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 (note 14). Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

Income tax and deferred tax assets

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 17). 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.

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 both financial and demographical assumptions. Financial assumptions comprise discount rate, salary and expected pension increases, interest rate credited in savings accounts, and returns on plan assets. Demographic assumptions include employee turnover, retirement payment forms (capital vs. annuity), mortality tables and disability assumptions. Demographic assumptions are based on past experience. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.

Assumptions used (note 28) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates 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.

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

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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 arises 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 simlar 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.

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4. 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.

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.

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 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 before depreciation, amortization and impairment. This measure is based on the same accounting policies as consolidated total 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.

In USD'000	Digital TV 2020	Public Access 2020	Cyber-security 2020	Internet of Things 2020	Total 2020
Revenues from external customers	345 416	295 099	85 275	3 703	729 492
Other operating income	7 697	4 290	1	69	12 057
Total segment revenue and other operating income	**353 113**	**299 389**	**85 275**	**3 772**	**741 549**
Cost of materials, licenses and services	-46 816	-127 915	-36 827	-116	-211 675
Operating expenses	-209 428	-154 967	-65 941	-20 173	-450 509
Operating income before depreciation, amortization and impairment	**96 868**	**16 506**	**-17 492**	**-16 517**	**79 365**
Depreciation, amortization and impairment	-24 813	-17 754	-5 026	-678	-48 271
Operating income - excluding corporate common functions	**72 055**	**-1 248**	**-22 518**	**-17 195**	**31 094**
Corporate common functions					-15 039
Interest expense and other finance income/(expense), net					-25 205
Share of result of associates	1 069	825	–	–	1 894
Income before tax from continuing operations					**-7 256**
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Total segment assets	**665 830**	**340 909**	**139 261**	**37 832**	**1 183 832**

In USD'000	Digital TV 2019	Public Access 2019	Cyber-security 2019	Internet of Things 2019	Total 2019
Revenues from external customers	382 199	339 218	85 962	2 822	810 201
Other operating income	11 400	5 615	–	62	17 076
Total segment revenue and other operating income	**393 599**	**344 832**	**85 962**	**2 884**	**827 277**
Cost of materials, licenses and services	-55 371	-152 935	-46 457	-467	-255 230
Operating expenses	-247 226	-183 915	-61 590	-23 607	-516 338
Operating income before depreciation, amortization and impairment	**91 002**	**7 982**	**-22 085**	**-21 190**	**55 709**
Depreciation, amortization and impairment	-31 250	-18 095	-5 796	-709	-55 850
Operating income - excluding corporate common functions	**59 752**	**-10 113**	**-27 880**	**-21 899**	**-140**
Corporate common functions					-15 129
Interest expense and other finance income/(expense), net					-11 887
Share of result of associates	846	1 055	–	–	1 901
Income before tax from continuing operations					**-25 256**
	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Total segment assets	**633 379**	**360 517**	**144 195**	**37 241**	**1 175 332**

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In USD'000	31.12.2020	31.12.2019
Total segment assets	1 183 832	1 175 332
Cash and cash equivalents	14 257	2 523
Other current assets	161	98
Financial assets and other non-current assets	6 069	4 201
Asset of disposal group classified as held for sale	12 777	11 497
Total Assets as per Balance Sheet	**1 217 096**	**1 193 651**

GEOGRAPHICAL INFORMATION

The Group'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:

	Revenues from external customers		Non-current assets	
In USD'000	2020	2019	31.12.2020	31.12.2019
Switzerland	49 118	42 668	68 809	71 088
United States of America	218 088	226 823	257 077	256 157
France	49 591	60 163	10 494	10 563
Netherlands	43 449	48 073	1 274	1 617
Rest of the world	369 246	432 473	238 916	243 460
	729 492	**810 201**	**576 570**	**582 885**

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

	Digital TV		Public Access		Cybersecurity		Internet of Things	
In USD'000	2020	2019	2020	2019	2020	2019	2020	2019
Europe	154 501	161 846	175 808	190 206	26 633	16 535	2 586	2 029
Americas	124 536	143 685	83 251	92 138	58 574	68 994	1 045	755
Asia and Africa	66 379	76 668	36 040	56 874	68	434	72	38
	345 416	**382 199**	**295 099**	**339 218**	**85 275**	**85 962**	**3 703**	**2 822**
Sale of goods	72 862	96 835	177 491	202 375	11 879	26 523	40	211
Services rendered	191 745	194 188	86 698	94 684	44 626	37 299	3 156	2 520
Royalties and licenses	80 809	91 176	30 910	42 159	28 769	22 140	508	91
	345 416	**382 199**	**295 099**	**339 218**	**85 275**	**85 962**	**3 703**	**2 822**

5. OTHER OPERATING INCOME

In USD'000	2020	2019
Government grants (research, development and training)	5 547	8 863
COVID-19 subsidies	793	–
Income from rental of property	4 309	4 487
Gains/(losses) on disposal of assets	259	-502
Contingent consideration received	–	1 000
Services rebilled to discontinued operation	–	2 000
Others	1 149	1 229
	12 057	**17 076**

6. EMPLOYEE BENEFITS EXPENSE

In USD'000	Note	2020	2019
Wages and salaries		305 468	325 748
Social security costs		43 047	46 711
Defined benefit plans expenses	28	1 347	11 803
Defined contribution plans expenses		8 262	8 513
Other personnel expenses		10 009	14 843
		368 132	**407 617**

7. OTHER OPERATING EXPENSES

In USD'000	2020	2019
Development and engineering expenses	10 290	14 034
Travel, entertainment and lodging expenses	14 885	31 365
Legal, experts and consultancy expenses	19 383	20 787
Administration expenses	24 813	21 799
Building and infrastructure expenses	10 706	14 235
Marketing and sales expenses	7 676	5 613
Taxes other than income tax	3 320	3 251
Change in provisions	872	4 667
Insurance, vehicles and others	5 471	8 100
	97 417	**123 850**

8. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In USD'000	Note	2020	2019
Land and buildings	13	2 528	4 638
Equipment and machines	13	9 767	11 281
Total depreciation and impairment of tangible fixed assets		**12 295**	**15 919**
Land and buildings	15	12 825	13 151
Vehicles, equipment and other	15	2 939	2 999
Total depreciation and impairment of right-of-use assets		**15 764**	**16 150**
Intangible assets	14	20 212	23 781
Total amortization and impairment on intangible fixed assets		**20 212**	**23 781**
Depreciation, amortization and impairment		**48 271**	**55 850**

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9. INTEREST EXPENSE

In USD'000	Note	2020	2019
Interest expense:			
- Bond 2015-2022	27	4 153	3 921
- Bond 2016-2024	27	2 503	2 363
- Net interest expense recognized on defined benefit plans	28	250	822
- Interest on lease obligations	15	1 416	1 592
- Other and bank charges		2 074	1 484
		10 397	**10 182**

10. OTHER FINANCE INCOME/(EXPENSE), NET

In USD'000	Note	2020	2019
Interest income		1 239	1 796
Net gains/(losses) on foreign exchange related derivative financial instruments		220	319
Net foreign exchange transaction gains/(losses)		-15 401	-1 865
Others		-865	-1 955
		-14 808	**-1 705**

11. INCOME TAX EXPENSE

In USD'000	Note	2020	2019
Current income tax		-146	-13 310
Deferred income tax	17	-8 028	1 574
Non-refundable withholding tax		-2 559	-1 577
		-10 732	**-13 312**

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	2020	2019
Income before tax	**-7 256**	**-25 256**
Expected tax calculated at domestic tax rates in the respective countries	1 719	3 422
Effect of income not subject to income tax or taxed at reduced rates	2 759	2 489
Effect of tax restructuring	–	-2 331
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	7 462	3 185
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-19 975	-16 441
Effect of changes in tax rates	-6	-294
Effect of associates' result reported net of tax	90	468
Effect of disallowed expenditures	-2 400	-4 353
Effect of prior year income taxes	870	668
Effect of non-refundable withholding tax	-2 559	-1 577
Other	1 308	1 452
Tax expense	**-10 732**	**-13 312**

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose income 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 1 454 (2019: kUSD 1 385) and is included in 'Other' in the above table.

In response to the COVID-19 pandemic, various tax authorities have allowed for carryback treatment of operating losses to generate a refund of previously paid income taxes. As a result, the Group recognized a tax benefit of kUSD 3 635 in the United States which is included above in 'effect of utilization of previously unrecognized tax assets on tax losses carried forward and temporary differences'. In Austria, the Group recognizes a tax refund of kUSD 1 426 due to operating losses incurred in 2020. This item has no effect on the above table.

During 2019, the Group transferred the entrepreneurship of Conax operations in Norway and the ownership of the Conax subsidiary in India to other Group companies. As a consequence, the difference of tax rate applied between the gain realized and the elimination of the transferred assets between the companies, together with the withholding tax incurred on the transfer, resulted in a tax expense of kUSD 2 331 which is shown under 'Effect of tax restructuring' in the table above.

The weighted average applicable tax rate increased from 13.6% in 2019 to 23.7% in 2020. The increase can be explained by a different revenue split between countries.

12. 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	2020	2019
Net income attributable to bearer shareholders	-21 248	-40 733
Net income attributable to registered shareholders	-1 954	-3 764
Total net income attributable to equity holders	**-23 202**	**-44 497**
Weighted average number of bearer shares outstanding	50 354 857	50 103 651
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in USD)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.4220	-0.8130
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0422	-0.0813

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

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13. TANGIBLE FIXED ASSETS

In USD'000	Land	Buildings	Building improvements	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST						
As of January 1, 2019	**21 509**	**109 577**	**15 848**	**96 800**	**17 197**	**260 931**
Additions	2 493	886	1 003	7 518	1 752	13 651
Disposals and retirements	–	-5	-226	-3 429	-1 835	-5 495
Currency translation effects	323	677	-12	150	40	1 178
Reclassification & others	–	–	-444	1 016	1 040	1 613
As of January 1, 2020	**24 325**	**111 134**	**16 170**	**102 054**	**18 195**	**271 877**
Additions	–	1 595	855	2 888	1 356	6 694
Disposals and retirements	–	–	-744	-5 705	-2 419	-8 868
Currency translation effects	1 636	7 456	526	8 321	692	18 631
Reclassification & others	–	–	72	-2 698	2 616	-11
As of December 31, 2020	**25 961**	**120 185**	**16 879**	**104 859**	**20 440**	**288 324**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2019	**–**	**-42 352**	**-9 629**	**-68 967**	**-11 806**	**-132 754**
Systematic depreciation	–	-2 868	-1 770	-8 358	-2 306	-15 302
Impairment	–	–	–	-260	-357	-617
Disposals and retirements	–	–	145	2 923	1 488	4 555
Currency translation effects	–	-457	-14	-460	-46	-977
Reclassification & others	–	–	38	-20	-19	–
As of January 1, 2020	**–**	**-45 677**	**-11 229**	**-75 142**	**-13 046**	**-145 094**
Systematic depreciation	–	-751	-1 777	-7 850	-1 917	-12 295
Disposals and retirements	–	2	629	5 683	2 209	8 523
Currency translation effects	–	-4 124	-382	-6 704	-545	-11 755
Reclassification & others	–	–	-8	2 363	-2 355	–
As of December 31, 2020	**–**	**-50 550**	**-12 767**	**-81 650**	**-15 654**	**-160 621**
Net book values as of December 31, 2019	**24 325**	**65 457**	**4 941**	**26 911**	**5 150**	**126 783**
Net book values as of December 31, 2020	**25 961**	**69 635**	**4 112**	**23 209**	**4 787**	**127 704**
Useful life in years	Indefinite	10 – 50	4 – 8	4 – 10	4 – 7	

In USD'000	31.12.2020	31.12.2019
Corporate buildings on land whose owner has granted a permanent and specific right of use	12 497	13 708

Technical equipment and machinery includes assets made available to clients which generate recurring service revenue.

The Group reviews the estimated useful lives and residual values of its fixed assets on an ongoing basis, based upon, among other things, its experience with similar assets, conditions in the relevant market, and prevailing industry practice. During 2020, the Group revised the residual value of its buidlings located in Cheseaux, Switzerland to better reflect the current estimates of such buildings upon retirement. This change was accounted for as a change in estimate. Based on the current book values of the assets, this change results in an annual decrease of depreciation expense of kUSD 1 873 in the current year. The impact for future periods varies based on the useful lives of the different building components comprised between 10 to 50 years.

14. INTANGIBLE ASSETS

In USD'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2019	**129 915**	**71 570**	**95 387**	**353 217**	**431**	**650 521**
Additions	927	292	2 119	–	–	3 338
Disposals and retirements	-16 547	-20	-1 193	–	–	-17 760
Reclassification & others	-1 613	-49	49	–	–	-1 613
Currency translation effects	282	-492	1 242	-1 972	-5	-944
As of January 1, 2020	**112 965**	**71 302**	**97 604**	**351 246**	**426**	**633 543**
Additions	2 674	–	1 291	–	–	3 965
Disposals and retirements	-17	-490	-32 866	–	–	-33 373
Reclassification & others	–	–	–	–	11	11
Currency translation effects	8 979	1 397	6 676	6 086	34	23 172
As of December 31, 2020	**124 601**	**72 210**	**72 705**	**357 332**	**471**	**627 317**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2019	**-114 782**	**-34 324**	**-69 264**	**–**	**-426**	**-218 797**
Systematic amortization	-4 834	-8 902	-9 491	–	-5	-23 232
Impairment	-345	-12	-191	–	–	-548
Recovery of amortization on disposal and retirements	16 531	20	1 189	–	–	17 740
Currency translation effects	-459	241	-1 082	–	5	-1 295
As of January 1, 2020	**-103 889**	**-42 978**	**-78 840**	**–**	**-426**	**-226 133**
Systematic amortization	-2 670	-8 220	-9 318	–	-4	-20 212
Recovery of amortization on disposal and retirements	–	490	32 866	–	–	33 356
Currency translation effects	-8 156	-1 325	-5 456	–	-33	-14 971
As of December 31, 2020	**-114 714**	**-52 034**	**-60 749**	**–**	**-463**	**-227 959**
Net book values as of December 31, 2019	**9 076**	**28 324**	**18 763**	**351 246**	**0**	**407 410**
Net book values as of December 31, 2020	**9 886**	**20 176**	**11 956**	**357 332**	**8**	**399 358**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

Intangible assets with indefinite useful lives are subject to a yearly impairment review. The impairment of Technology assets in 2019 was due to commercial initiatives abandoned during the year. The impairment of Software assets in 2020 and 2019 relate to ERP systems that were discontinued.

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Goodwill is tested for impairment at least annually and when there is an indication of impairment. The impairment tests of goodwill are performed at the same time each year and at the cash-generating unit (CGU) level, defined within the framework of the Group as its operating segments. In accordance with IFRS 8, the Group reports four operating segments: Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access (Note 4).

Goodwill allocated to each operating segment is tested for impairment using a value-in-use calculation, which corresponds to the segment's future projected cash flows discounted at an appropriate pre-tax rate of return. Cash flow projections are based on the financial plans and business strategies of Group management covering a period of five years and projected to perpetuity using a multiple which corresponds to a steady or declining growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rates used reflect the current assessment of the time value of money and the risks specific to each operating segment. Any impairment loss in respect of goodwill is never subsequently reversed.

The following sets out the allocated goodwill and key assumptions used in the impairment test for each segment:

2020	Carrying amount	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Goodwill CGU						
Digital TV	218 359	5 years	-6% to 4%	Declining	1.5%	8.75%
Public Access	36 359	5 years	4% to 6%	Stable	2.0%	10.00%
Cybersecurity	66 119	5 years	2% to 15%	Improvement	2.2%	8.75%
IoT	36 495	5 years	48% to 114%	Improvement	2.2%	8.50%
	357 332					

2019	Carrying amount	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Goodwill CGU						
Digital TV	214 666	5 years	-5% to 3%	Declining	1.5%	9.00%
Public Access	35 701	5 years	1% to 5%	Stable	2.0%	10.25%
Cybersecurity	65 001	5 years	14% to 23%	Improvement	2.2%	9.00%
IoT	35 878	5 years	28% to 150%	Improvement	2.2%	9.00%
	351 246					

The following has been taken into consideration in the impairment tests:

• assumed cost of capital for each segment is based on the cost of equity of comparable businesses adjusted for the segment capital structure. The resulting weighted average cost of capital is then adjusted to include tax effects specific to the jurisdiction in which the segment operates. Net operating loss carryforwards are not considered when determining the tax effects.
• cash flows for the first five years were based upon financial plans approved by Group management which are consistent with the Group's approved strategy for this period. They are based upon past performance and current initiatives.
• terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.

Digital TV
Digital TV revenue assumptions are based on bottom-up projections by product groups, key accounts and regions. Such projections are completed by segment management in collaboration with product managers and account managers. Projections are subsequently adjusted at the Group management level to include contingencies related to uncertainties of the business development. Margin assumptions are derived from historical performance, pricing trends, and expected product mix. Operating cost assumptions are based on historical expenditures and projected based on anticipated business actions and outlook over the forecast period.
Segment management assumes 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 emerging product lines (e.g. anti-piracy activities) gain traction.

Cybersecurity
Cybersecurity revenue and gross profit projections are based on segment management's assumed development of the segment's business lines for each key market. Projections are subsequently adjusted at the Group management level to include contingencies related to the uncertainties of the business development. Margin assumptions are derived from current pricing trends and are based on the ongoing shift of product mix towards higher value-added business pillars including advisory and managed security services. Operating cost assumptions are forecasted based on anticipated business actions and business outlook over the planning period.

In 2020, Cybersecurity gross profits were in line with the previous business plan, as the segment continues to see a shift of business mix from low-value reselling of on-premise solutions to software based and service deployments as well as managed security and advisory servics. In 2021, Cybersecurity is expected to continue benefitting from this trend and maintain momentum over the planning period, as the segment continues to gain traction in the higher margin managed security services space and innovation space.

Internet of Things (IoT)
The strategic shift of the IoT activities, including in particular the introduction of a new IoT Solutions product line resulted in a completely new business plan. In the new plan, the focus shifts from end-to-end IoT solutions, including in particular the asset tracking product set, with an assumption that IoT platform revenues will gain momentum in the later years of the planning period.

IoT revenue projections have been developed by the segment management based on forecast volumes and prices for existing customers and prospects. Projections are subsequently adjusted at the Group management level to include contingencies related to the uncertainty of the business development. Operating cost assumptions are mainly based on the cost base required for the implementation of the current product roadmap as well as the development of a cost base required to deploy its product portfolio.

In 2021, the Group expects segment revenues to take off, more than doubling compared to the prior year. The Group expects strong growth momentum with solid two digit growth rates to continue for the following years, driven by the adoption of its asset tracking product portfolio and volume deployments of the KeySTREAM platform.

Public Access
Public Access revenue assumptions are based on continued development from existing products and customers. Projections are subsequently adjusted at the Group management level to include contingencies related to the uncertainty of the business development. Margin assumptions are derived from historical performance, pricing trends, and expected product mix.

Operating cost assumptions are based on historical expenditures and projected based on anticipated business actions and outlook over the forecast period. During 2020, the Group focused on the implementation of measures aimed at mitigating the negative business impact of the COVID-19 crisis. Structural measures, including in particular a tighter integration of SKIDATA market entities and central functions as well as a closer coordination with other Group activities were launched in 2020 and are expected to progress throughout 2021. Such measures are aimed at improving Public Access structural profitability and cash flow generation.

Management believes that reasonably possible changes to any of the above key assumptions would not cause the operating segment's recoverable amount to fall below the carrying value of the segment, except for goodwill of Cybersecurity and IoT, for which material changes in recurring revenues and revenue growth assumptions could result in a potential goodwill impairment. Considering the high level of annual planned sales growth, a 18.5% reduction of the assumed annual growth rate in the Cybersecurity segment and a 14.7% reduction of the assumed annual growth rate in the IoT segment, without any adjustment of operating expenses, would lead to a value-in-use equal to the carrying amount of goodwill at the end of the planning period.

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15. LEASING

In USD'000	31.12.2020	12.31.2019
Land and buildings	37 028	35 962
Vehicles, equipment and other	4 611	5 555
	41 639	**41 517**

In USD'000	Land	Building & leasehold facilities	Vehicles	Equipment	Other leases	Total
GROSS RIGHT-OF-USE ASSETS						
As of January 1, 2019	–	–	–	–	–	–
Change in accounting policy	786	46 342	5 748	203	36	53 115
Additions	–	3 819	2 640	–	–	6 459
Disposals and retirements	–	-2 220	-381	-2	-36	-2 639
Currency translation effects	-15	-406	-47	-3	–	-471
As of January 1, 2020	**770**	**47 535**	**7 961**	**198**	**–**	**56 464**
Additions	173	14 486	1 953	–	–	16 612
Disposals and retirements	–	-7 458	-1 465	-2	–	-8 926
Currency translation effects	81	1 794	557	11	–	2 442
As of December 31, 2020	**1 024**	**56 357**	**9 006**	**206**	**–**	**66 592**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2019	–	–	–	–	–	–
Systematic depreciation	-38	-13 113	-2 907	-56	-36	-16 150
Recovery of depreciation on disposal and retirements	–	835	369	2	36	1 243
Currency translation effects	–	-26	-12	–	–	-38
As of January 1, 2020	**-39**	**-12 304**	**-2 550**	**-54**	**–**	**-14 946**
Systematic depreciation	-45	-12 781	-2 888	-51	–	-15 764
Recovery of depreciation on disposal and retirements	–	5 611	1 203	2	–	6 816
Currency translation effects	-7	-789	-256	-7	–	-1 059
As of December 31, 2020	**-90**	**-20 263**	**-4 491**	**-110**	**–**	**-24 953**
Net book values as of December 31, 2019	**732**	**35 230**	**5 411**	**144**	**–**	**41 517**
Net book values as of December 31, 2020	**934**	**36 094**	**4 514**	**96**	**–**	**41 639**
Useful life in years	4 – 10	5 – 10	2 – 5	2 – 5	2 – 5	

Lease costs are recorded in the income statement as depreciation expense in the amont of kUSD 15 764 (2019: kUSD 16 150) and interest expense of kUSD 1 416 (2019: kUSD 1 592), and are recognized in the cash flow statement as adjustments to net income non-cash items in operating activities. Lease payments of kUSD 16 699 (2019: kUSD 16 966) which represent the reduction of the lease liability are recognized in the cash flow statement as an outflow from financing activities. Operating lease costs relating to short-term leases of kUSD 5 830 (2019: kUSD 5 935) and low-value leases of kUSD 218 (2019: kUSD 267) remain fully recognized as an operational expense. The total cash outflow for leases in 2020 was kUSD 24 163 (2019: kUSD 24 760).

The Group's remaining contractual maturities of lease obligations at December 31, 2020 and 2019 are as follows:

In USD'000	2020	2019
Within one year	13 720	15 548
In the second to fifth year inclusive	24 340	25 283
More than five years	5 259	3 208
	43 318	**44 039**

16. INVESTMENTS IN ASSOCIATES

In USD'000	2020	2019
At January 1	**6 309**	**6 191**
Share of profit	1 894	1 901
Dividends received	-398	-1 871
Reclassification to fair value through profit and loss	-1 073	–
Currency translation effects	274	89
At December 31	**7 007**	**6 309**

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

		Interest held	
Name of associate	**Principal activity**	**2020**	**2019**
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	Middleware for set-top-boxes	40%	40%
Kryptus Segurança da Informaçao Ltda.	Cyber Security activities	*	16%

*During 2020, the Group's interest in Kryptus Segurança da Informaçao Ltda. was diluted and therefore the Group has determined that it no longer has significant influence over this entity.

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In USD'000	31.12.2020	31.12.2019
Total assets	40 472	38 070
Total liabilities	21 627	22 438
Net assets	18 845	15 632
Group's share of associates' net assets	6 422	4 952

	2020	2019
Revenue	49 003	46 505
Result of the period	5 683	6 494
Group's share of associates' result for the period	1 894	1 901

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17. 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	31.12.2020	31.12.2019
Deferred tax assets	50 858	57 785
Deferred tax liabilities	-3 195	-4 282
	47 663	**53 504**

Movement on the deferred income tax account is as follows:

In USD'000	Note	2020	2019
At January 1		**53 504**	**54 734**
Exchange differences		2 319	116
Recognized against other comprehensive income		-131	-2 921
Income statement (expense)/income	11	-8 028	1 574
At December 31		**47 663**	**53 504**

The movement in deferred tax assets and liabilities during 2020, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In USD'000	At January 1, 2020	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2020
Deferred tax assets associated with					
- intangibles	3 658	-1 471	–	251	2 439
- employee benefits	7 023	-830	-141	590	6 642
- tax losses	38 543	-5 907	–	1 150	33 787
- provisions and other elements tax deductible when paid	8 325	-2 515	10	-64	5 756
- intercompany profit elimination	5 388	-1 347	–	378	4 419
- others	628	-137	–	45	536
Total deferred tax assets (gross)	**63 565**	**-12 206**	**-131**	**2 350**	**53 578**
Deferred tax liabilities associated with					
- intangibles	-4 919	1 397	–	-56	-3 577
- provisions and accelerated tax depreciation	-4 097	2 265	–	-95	-1 928
- leases	-169	343	–	16	190
- others	-876	173	–	103	-600
Total deferred tax liabilities (gross)	**-10 061**	**4 178**	**–**	**-32**	**-5 915**
Net deferred tax asset/(liability)	**53 504**	**-8 028**	**-131**	**2 319**	**47 663**

And for 2019:

In USD'000	At January 1, 2019	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2019
Deferred tax assets associated with					
- intangibles	5 001	-1 392	–	49	3 658
- employee benefits	9 115	821	-2 946	33	7 023
- tax losses	38 425	42	–	76	38 543
- provisions and other elements tax deductible when paid	7 183	1 138	25	-21	8 325
- intercompany profit elimination	5 160	336	–	-109	5 388
- others	818	-174	–	-16	628
Total deferred tax assets (gross)	**65 703**	**771**	**-2 921**	**12**	**63 565**
Deferred tax liabilities associated with					
- intangibles	-5 817	835	–	63	-4 919
- provisions and accelerated tax depreciation	-4 268	146	–	24	-4 097
- leases	–	-169	–	-1	-169
- others	-884	-9	–	17	-876
Total deferred tax liabilities (gross)	**-10 969**	**803**	**–**	**104**	**-10 061**
Net deferred tax asset/(liability)	**54 734**	**1 574**	**-2 921**	**116**	**53 504**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of mUSD 1 421.3 (2019: mUSD 1 440.0) available for offset against future profits. A deferred tax asset has been recognized in respect of mUSD 370.7 (2019: mUSD 475.8) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining mUSD 1 050.6 (2019: mUSD 964.2) 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	2020	2019
Expiration within:		
One year	40.0	38.8
Two years	29.1	36.2
Three years	28.9	44.7
Four years	129.1	31.1
Five years	152.5	120.4
More than five years	671.0	693.0
Total	**1 050.6**	**964.2**

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18. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In USD'000	31.12.2020	31.12.2019
Financial assets at amortized cost:		
Loan – third party	12 572	12 579
State and government institutions	7 681	13 078
Trade accounts receivable (long-term portion)	18 257	26 155
Guarantee deposits	2 275	2 445
Prepaid expenses and accrued income (long-term portion)	32	139
Total financial assets at amortized cost	**40 817**	**54 395**
Financial assets at fair value through comprehensive income:		
Equity instruments (level 3)	–	517
Total financial assets at fair value through comprehensive income	**–**	**517**
Financial assets at fair value through profit or loss:		
Equity instruments (level 3)	1 188	–
Marketable securities (level 1)	994	–
Total financial assets at fair value through profit or loss	**2 182**	**–**
Other non-current assets:		
Deferred contract cost	–	176
Deferred rent	863	866
Total other non-current assets	**863**	**1 042**
Total	**43 862**	**55 953**

The equity instruments are measured using a discounted cash flow method provided by the company on a yearly basis.

The effective interest rate on third party loans is 1.83% (2019: 1.93%). 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.

19. INVENTORIES

In USD'000	31.12.2020	31.12.2019
Raw materials	3 861	3 212
Work in progress	4 983	5 379
Finished goods	50 353	56 872
	59 197	**65 463**

The cost of inventories recognised as an expense includes kUSD 2 363 (2019: kUSD 2 716) in respect of write-downs, and has been reduced by kUSD 314 (2019: kUSD 22) 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 -5 174 (2019: kUSD 7 397).

20. TRADE ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

In USD'000	31.12.2020	31.12.2019
Trade accounts receivable	209 654	241 431
Less: provision for impairment	-26 202	-29 397
Trade accounts receivable related parties	1 024	2 363
Trade accounts receivable - net	**184 476**	**214 397**
Contract assets	44 779	58 084
Less: provision for impairment	-197	-128
Contract assets - net	**44 582**	**57 956**

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:

	Contract assets		Trade accounts receivable	
In USD'000	**2020**	**2019**	**2020**	**2019**
January 1,	**-128**	**-358**	**-29 397**	**-36 780**
Provision for impairment charged to income statement	-75	-19	-4 997	-7 645
Utilization	–	–	5 792	11 904
Reversal	20	245	3 201	3 272
Translation effects	-15	4	-801	-149
December 31,	**-197**	**-128**	**-26 202**	**-29 397**

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 -4 997 (2019: kUSD -7 645). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

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, 2020 and 2019 were determined as follows:

In USD'000	Gross carrying amount	Expected loss rate	Provision for impairment 31.12.2020	Gross carrying amount	Expected loss rate	Provision for impairment 12.31.2019
Trade accounts receivable not overdue	119 396	0.3%	389	121 184	0.1%	123
Past due:						
- not more than one month	27 273	0.9%	257	37 964	0.4%	141
- more than one month and not more than three months	17 950	2.2%	390	25 807	0.9%	239
- more than three months and not more than six months	7 595	11.2%	847	12 023	6.7%	805
- more than six months and not more than one year	11 082	33.0%	3 656	15 562	45.8%	7 124
- more than one year	26 358	78.4%	20 663	28 890	72.6%	20 966
Total	**209 654**		**26 202**	**241 431**		**29 397**
Contract assets	44 779	0.2%	197	58 084	0.2%	128
Total	**44 779**		**197**	**58 084**		**128**

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.

21. OTHER FINANCIAL ASSETS AT AMORTIZED COST

In USD'000	31.12.2020	31.12.2019
Other receivables - third parties	11 560	11 293
Other receivables - related parties	1 423	1 307
Advances to suppliers and employees	2 533	3 151
State and government institutions	38 987	32 646
	54 503	**48 396**

22. OTHER CURRENT ASSETS

In USD'000	31.12.2020	31.12.2019
Prepaid expenses	8 685	10 580
Accrued income	29 035	14 632
Deferred contract cost (short-term portion)	193	217
Other receivables - third parties	637	160
	38 549	**25 589**

23. CASH AND CASH EQUIVALENTS

In USD'000	31.12.2020	31.12.2019
Cash at bank and in hand	145 937	65 929
Short-term deposits	6 647	8 667
	152 584	**74 596**

The effective interest rate on short term deposits was 0.43% (2019: 0.71%). The Group only enters into transactions with highly rated banks.

24. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

The share capital consists of 50 372 600 (2019: 50 115 192) bearer shares at CHF 8.00 par value each and 46 300 000 (2019: 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 337 295 (2019: kUSD 335 101).

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 April 2022 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 of 10 000 000 (2019: 10 000 000) bearer shares at CHF 8.00 each to satisfy convertible bond exercise right and 441 156 (2019: 698 564) bearer shares at CHF 8.00 each to satisfy option exercise or share subscriptions to employees.

25. 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:

	31.12.2020		31.12.2019	
In USD'000	Nagrastar	275 Sacramento Street LLC	Nagrastar	275 Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**	**50.0%**	**50.1%**
Non-current assets	1 558	37 971	1 558	36 730
Current Assets	30 603	627	43 699	750
Non-current liabilities	–	2 750	–	4 550
Current liabilities	11 628	418	12 402	178
Total Equity	**20 853**	**35 430**	**32 855**	**32 752**
Non-controlling interests percentage	50%	50.1%	50%	50.1%
Theoritical amount of non-controlling interests	10 426	17 751	16 427	16 409
Carrying amount of non-controlling interests	**10 426**	**17 751**	**16 427**	**16 409**
Revenue	23 297	4 409	23 620	4 139
Net result	7 998	2 679	8 734	2 329
Total comprehensive income	7 998	2 679	8 734	2 329
Total comprehensive income allocated to non-controlling interests	3 999	1 339	4 367	1 167
Dividend paid to non controlling interests	-10 000	–	-5 000	–
Net increase /(decrease) in cash and cash equivalents	-8 641	-57	-1 206	334

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

26. LONG TERM FINANCIAL DEBT

In USD'000	Note	31.12.2020	31.12.2019
CHF 200 million 1.875% bond 2015/2022	27	225 770	206 279
CHF 150 million 1.5% bond 2016/2024	27	169 137	154 547
Long-term bank loans		44 285	32 203
		439 192	**393 029**

Long term bank loans effective interest rate is 0.77% (2019: 0.75%).

During 2020, several Group entities received loans through programs designed to provide economic support in response to COVID-19. The loans range in maturity from one to five years and generally contain beneficial terms such as governmental guarantees, below market interest rates, and options to extend. The programs also restrict the ability of borrowers to pay dividends and repay intercompany loan balances. As of December 31, 2020, the Group has received kUSD 29 918 of COVID-19 related financing with interest rates ranging from zero to 0.98%. Where the stated interest rates are below market, a portion of the loan proceeds is recognized as a government grant. The grants are initially deferred and are recognized in earnings on a systematic basis over the loan period.

27. 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	2020	2019
Initial balance	**360 826**	**354 386**
Amortization of transaction costs less premium	227	211
Currency translation effects	33 854	6 229
Liability component as of December 31	**394 907**	**360 826**
of which:		
- long-term portion (bond 2015/2022)	225 770	206 279
- long-term portion (bond 2016/2024)	169 137	154 547
	394 907	**360 826**

28. 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:

- 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 sixteen (2019: sixteen) 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	31.12.2020	31.12.2019
Fair value of plan assets	223 368	191 568
Defined benefit obligation	-272 185	-242 640
Funded status	**-48 817**	**-51 072**
Other comprehensive income	-3 775	-4 277
Prepaid/(accrued) pension cost	-45 042	-46 795
Funded status	**-48 817**	**-51 072**

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2020 and 2019:

In USD'000	Note	2020	2019
Service cost		-16 928	-17 247
Employees contributions		5 513	5 202
Amortization of gains/(losses)		6	242
Curtailment gain / (loss)		89	–
Impact of plan amendment		9 974	–
Total recognized in employee benefits expense	**6**	**-1 347**	**-11 803**
Interest cost		-645	-2 472
Interest income		395	1 650
Total recognized in interest expense	**9**	**-250**	**-822**
Net pension (cost)/income		**-1 597**	**-12 624**

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The impact of plan amendment relates to a 2020 Board of Trustees of the Swiss pension plan decision to reduce the conversion rate (factor used to determine monthly benefits at the date of retirement) and to increase the disability and death benefits of the plan effective 1 January 2021.

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2020 and 2019 are as follows:

	31.12.2020	31.12.2019
Switzerland		
Financial assumptions:		
- Discount rate	0.10%	0.20%
- Rate of future increase in compensations	1.50%	1.50%
- Rate of future increase in current pensions	0% for 5 years, then 0.75%	0% for 5 years, then 0.75%
Demographic assumptions:		
- Interest rate credited on savings accounts	1.00%	1.00%
- Turnover *(on average)*	12.0%	12.0%
- Demographic basis	LPP 2020 generational probability risk for disability reduced 25%	LPP 2015 generational probability risk for disability reduced 50%
- Retirement payment form	75% pension 25% lump sum	75% pension 25% lump sum
Abroad		
- Discount rate	1.29%	1.23%
- Rate of future increase in compensations	2.84%	2.80%
- Turnover *(on average)*	8.4%	9.7%

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

	31.12.2020	31.12.2019
Weighted average duration of the defined benefit obligation in years		
Switzerland	20.0	20.5
Abroad	5.3	11.9

The changes in defined benefit obligation and fair value of plan assets during the years 2020 and 2019 are as follows:

A. Change in defined benefit obligation

In USD'000	**2020**	**2019**
Defined benefit obligation as of 1.1.	**-242 640**	**-232 775**
Service cost	-16 928	-17 247
Interest cost	-645	-2 472
Change in demographic assumptions	2 406	20 547
Change in financial assumptions	-4 862	-27 909
Other actuarial gains / (losses)	-7 171	7 731
Benefits payments	10 520	13 194
Exchange rate difference	-22 927	-3 707
Curtailment	89	–
Plan amendment	9 974	–
Defined benefit obligation as of December 31,	**-272 185**	**-242 640**

Changes in demographic assumptions result from analysis of trends over the last six years and the impacts are disclosed in the above table under ‘Changes in demographic assumptions’. Other actuarial gains/(losses) are experience gains/(losses) arising due to differences between assumed and actual results.

B. Change in fair value of plan assets

In USD'000	2020	2019
Fair value of plan assets as of 1.1.	**191 568**	**166 457**
Interest income	395	1 650
Return on plan assets excluding interest income	10 459	21 255
Employees' contributions	5 513	5 202
Employer's contribution	7 196	6 700
Benefit payments	-10 520	-13 194
Exchange rate difference	18 757	3 497
Fair value of plan assets as of December 31,	**223 368**	**191 568**

The actual return on plan assets amounts to kUSD 10 854 in 2020 (kUSD 22 905 for the year 2019) and includes an assumed interest income. The estimated employer's contribution to the pension plans for the year 2020 is kUSD 7 304.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2020 and 2019 as follows:

In USD'000	31.12.2020	Proportion in % 31.12.2020	31.12.2019	Proportion in % 31.12.2019
Cash	6 099	2.7%	5 894	3.1%
Swiss bonds	18 083	8.1%	19 034	9.9%
Non-Swiss bonds	58 292	26.1%	50 839	26.5%
Swiss shares	41 649	18.6%	35 932	18.8%
Non-Swiss shares	38 924	17.4%	33 002	17.2%
Real estate	44 427	19.9%	39 101	20.4%
Alternative investments	15 894	7.1%	7 765	4.1%
Total	**223 368**	**100.0%**	**191 568**	**100.0%**

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
2021	11 251	235
2022	10 208	338
2023	9 660	133
2024	9 209	153
2025	8 902	394
2026-2030	42 230	1 160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

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 2020 year-end defined benefit obligation		Change in 2019 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	-23 648	-396	-21 542	-815
50 basis point decrease in discount rate	27 621	474	25 266	885
50 basis point increase in rate of salary increase	229	n/a	300	n/a
50 basis point decrease in rate of salary increase	-246	n/a	-311	n/a
50 basis point increase in rate of pension increase	9 772	n/a	9 021	n/a
50 basis point decrease in rate of pension increase	-8 978	n/a	-8 263	n/a
50 basis point increase of interest in saving accounts	8 476	n/a	7 707	n/a
50 basis point decrease of interest in saving accounts	-8 015	n/a	-7 283	n/a
50 basis point increase of turnover	-1 880	n/a	-1 915	n/a
50 basis point decrease of turnover	1 759	n/a	1 799	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.

29. OTHER LONG TERM LIABILITIES

In USD'000	31.12.2020	31.12.2019
Long-term loans - third parties	5 698	5 270
Deferred consideration	1 484	1 558
Contingent consideration	1 484	1 558
Other long-term liabilities	121	993
Deferred income	1 191	400
	9 979	**9 780**

The effective interest rate on long-term loans is 2.00% (2019: 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 a discount rate of 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.

30. SHORT TERM FINANCIAL DEBT

In USD'000	31.12.2020	31.12.2019
Short-term bank borrowings	47 602	73 214
Other short-term financial liabilities	609	465
	48 212	**73 679**

The average effective interest rate paid in 2020 for short term bank borrowings was 1.56% (2019: 1.29%).

31. TRADE ACCOUNTS PAYABLE

In USD'000	31.12.2020	31.12.2019
Trade accounts payable – third parties	67 699	60 518
Trade accounts payable – related parties	33	55
	67 732	**60 573**

32. CONTRACT LIABILITIES

In USD'000	31.12.2020	31.12.2019
Amounts due to customers for contract work	5 111	3 962
Advances from clients	22 858	19 129
Deferred income	41 905	22 355
	69 873	**45 446**

33. OTHER CURRENT LIABILITIES

In USD'000	31.12.2020	31.12.2019
Accrued expenses	83 369	73 624
Contingent consideration (level 3)	–	682
Payable to pension fund	1 757	1 921
Other payables	24 395	16 719
	109 521	**92 946**

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as speculative instruments. Where derivatives do not meet the hedge accounting criteria or where the Group chooses not to designate derivatives as hedging instruments, they are classfied as "held-for-trading" for accounting purposes and are accounted for at fair value through profit or loss. There were no long-term derivative instruments at December 31, 2020 and 2019.

In USD'000	Cost of hedging reserve	Intrinsic value of options	Total hedge reserves
Balance at January 1, 2019	-42	42	–
Reclassified from OCI to profit or loss	42	-42	–
Balance at December 31, 2019	**–**	**–**	**–**
Balance at December 31, 2020	**–**	**–**	**–**

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 qualifiying for hedge accounting amounted to mUSD 27 in 2020 (2019: mUSD 54) with maturities between January and December and average strike rate of USD/CHF 0.985 in 2020 (2019: USD/CHF 0.98). 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 2020 and 2019 relating to foreign currency options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

35. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In USD'000	Restructuring provisions	Provision for warranty	Litigations and others	Total 2020	Total 2019
As of January 1	**4 105**	**2 117**	**81**	**6 302**	**11 465**
Additional provisions	–	94	71	166	2 079
Unused amounts reversed	-791	-121	–	-912	-568
Used during the year	-2 019	-16	–	-2 036	-6 504
Exchange differences	166	147	9	322	-170
As of December 31	**1 460**	**2 220**	**162**	**3 842**	**6 302**
Thereof:					
- Short-term	1 460	2 220	162	3 842	6 302
- Long-term	–	–	–	–	–
	1 460	**2 220**	**162**	**3 842**	**6 302**

Restructuring provisions
Restructuring provisions in 2020 and 2019 primarily relate to headcount reduction measures impacting the Group's Digital TV operations. In addition, the 2019 provision included 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.

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.

36. ASSETS HELD FOR SALE

At December 31, 2020 and 2019, assets classified as held for sale represents a building retained upon the disposal of the SmarDTV operations in August 2018. The Group is actively seeking a buyer for the remaining building and anticipates a sale to be completed within the next 12 months.

In USD'000	31.12.2020	31.12.2019
Assets classified as held for sale:		
- Tangible fixed assets	12 777	11 497

37. RESEARCH AND DEVELOPMENT

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

In USD'000	2020	2019
Research and development	128 411	145 915

38. DIVIDEND

On April 22, 2020, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 5 692. Since year end, the Board of Directors have proposed a distribution of kUSD 5 860, 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 0.05 per bearer share (CHF 0.005 per registered share) from capital contribution reserves and CHF 0.05 per bearer share (CHF 0.005 per registered share) from retained earnings at December 31, 2020 and is subject to shareholder approval at the Annual General Meeting. This proposed distribution has not been recorded as a liability in the financial statements.

39. 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 2020	Shares 2019
Shares underwritten by employees	42 810	20 100
Bonus shares from ESPP	8 562	4 020
Total employee share program	**51 372**	**24 120**
Amount paid by employee (In USD'000)	102	85
Booked corporate charges (excluding social charges) (In USD'000)	45	38
	146	**123**

SHARES ISSUED TO EMPLOYEES

In 2020, 206 036 (2019: 180 199) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 132 836 (2019: 89 226) include a seven-year blocking period, 73 200 (2019: 84 723) include a three-year blocking period and 0 (2019: 6 250) with no restriction to sale. The fair value recognized for this equity based compensation is kUSD 915 (2019: kUSD 875).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

40. 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 2020	Sale of goods and services 2019	Purchase of goods and services 2020	Purchase of goods and services 2019	Amounts owed to related parties 31.12.2020	Amounts owed to related parties 31.12.2019	Amounts owed by related parties 31.12.2020	Amounts owed by related parties 31.12.2019
APT-Skidata Ltd	4 072	5 595	–	–	33	55	429	1 792
SKIDATA Parking System Ltd	1 304	1 600	–	–	–	–	81	90
SKIDATA India Private Limited	449	246	–	–	–	–	94	97
iWedia SA	–	–	–	120	–	123	–	–
Total associated companies	**5 825**	**7 441**	**–**	**120**	**33**	**177**	**604**	**1 979**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 830	1 673
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 830**	**1 673**

APT SKIDATA, SKIDATA Parking System Ltd and SKIDATA India Private Limited are sales representative companies for SKIDATA Group. iWedia SA is a partner in providing middleware and other software components for digital TV solutions. 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 16. 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	2020	2019
Salaries and other short-term employees benefits	8 693	7 131
Post-employments benefits	49	50
Share-based payments	501	379
	9 242	**7 560**

41. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
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.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2020 and 2019, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2020 and 2019 variable compensation - issued in 2020 and 2021 respectively):

	31.12.2020	31.12.2019
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	10 662 923	10 509 423
Smadja Claude, vice chairman	1 300	1 300
Dassault Laurent, member	1 040 720	705 790
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
Ross Alec, member	1 250	1 250
Hengartner Michael, member	–	–
Total board members	**11 709 193**	**11 220 763**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	156 851	132 325
Solbakken Morten, COO	47 265	26 216
Goldberg Nancy, CMO	14 846	–
Total Management (excluding CEO)	**218 962**	**158 541**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2020 and 2019.

No loans were granted in 2020 and 2019 to the members of the Board of Directors and Group management.

Michael Hengartner became a member of the Board of Directors on April 15, 2020.

At December 31, 2020, Mauro Saladini owned kCHF 60 nominal value of the bond maturing in 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

42. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2020:

Assets as per balance sheet date December 31, 2020 (in USD'000)	Note	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial Assets at amortized costs	Total 31.12.2020
Financial assets and non-current assets:					
- equity instruments with no quoted market price (level 3)	18	1 188	–	–	1 188
- marketable securities (level 1)	18	994	–	–	994
- long-term loans	18	–	–	12 572	12 572
- state and government institutions	18	–	–	7 681	7 681
- trade accounts receivable - long-term portion	18	–	–	18 257	18 257
- guarantee deposits	18	–	–	2 275	2 275
- prepaid expenses and accrued income (long-term)	18	–	–	32	32
Trade accounts receivable	20	–	–	184 476	184 476
Other current assets:					
- state and government institutions	21	–	–	38 987	38 987
- other receivable (third and related parties)	21	–	–	12 984	12 984
Cash and cash equivalents	23	–	–	152 584	152 584
		2 182	**–**	**429 848**	**432 030**

Liabilities as per balance sheet date December 31, 2020 (in USD'000)	Note	Financial liabilities at fair value through profit or loss	Financial Liabilities at amortized costs	Total 31.12.2020
Long-term financial debt	26	–	439 192	439 192
Long-term lease obligations	15	–	29 599	29 599
Other long-term liabilities:				
- deferred consideration	29	–	1 484	1 484
- contingent consideration (level 3)	29	1 484	–	1 484
- loans and others	29	–	5 820	5 820
Short-term financial debt	30	–	48 212	48 212
Short-term lease obligations	15	–	13 720	13 720
Trade accounts payable	31	–	67 732	67 732
Other current liabilities:				
- payable to pension fund	33	–	1 757	1 757
- other payables	33	–	24 395	24 395
- current income tax		–	4 383	4 383
		1 484	**636 293**	**637 778**

And for 2019:

Assets as per balance sheet date December 31, 2019 (in USD'000)	Note	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial Assets at amortized costs	Total 31.12.2019
Financial assets and non current assets:					
- equity instruments with no quoted market price (level 3)	18	–	517	–	517
- long-term loans	18	–	–	12 579	12 579
- state and government institutions	18	–	–	13 078	13 078
- trade accounts receivable - long-term portion	18	–	–	26 155	26 155
- guarantee deposits	18	–	–	2 445	2 445
- prepaid expenses and accrued income (long-term)	18	–	–	138	138
Trade accounts receivable	20	–	–	214 397	214 397
Other current assets:					
- state and government institutions	21	–	–	32 646	32 646
- other receivable (third and related parties)	21	–	–	12 599	12 599
Cash and cash equivalents	23	–	–	74 596	74 596
		–	517	388 633	389 150

Liabilities as per balance sheet date December 31, 2019 (in USD'000)	Note	Financial liabilities at fair value through profit or loss	Financial Liabilities at amortized costs	Total 31.12.2019
Long-term financial debt	26	–	393 029	393 029
Long-term lease obligations	15	–	28 491	28 491
Other long-term liabilities:				
- deferred consideration	29	–	1 558	1 558
- contingent consideration (level 3)	29	1 558	–	1 558
- loans and others	29	–	6 263	6 263
Short-term financial debt	30	–	73 678	73 678
Short-term lease obligations	15	–	15 548	15 548
Trade accounts payable	31	–	60 573	60 573
Other current liabilities:				
- contingent consideration (level 3)	33	682	–	682
- payable to pension fund	33	–	1 921	1 921
- other payables	33	–	16 719	16 719
- current income tax		–	9 085	9 085
		2 240	606 865	609 105

43. 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2020 and 2019:

In USD'000		Note	31.12.2020	31.12.2019
Financial assets at fair value through comprehensive income:				
- marketable securities	Level 1	18	994	–
- equity instuments with no quoted market price	Level 3	18	1 188	517
Total financial assets			**2 182**	**517**
Financial liabilities:				
- contingent consideration (short-term portion)	Level 3	33	–	682
- contingent consideration (long-term portion)	Level 3	29	1 484	1 558
Total financial liabilities			**1 484**	**2 240**

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 of 10.0% (2019: between 6.6% and 10.2%).

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, 2019	508	-2 494
Settlements	–	279
Remeasurement (recognized in other operating income)	–	-170
Discount effect (recognized in interest expense)	–	6
Currency translation adjustment	9	139
Balance at December 31, 2019	**517**	**-2 240**
Settlements	-533	344
Remeasurement (recognized in other operating income)	–	443
Remeasurement (recognized in other finance income/(expense), net)	48	–
Reclassification	1 073	–
Currency translation adjustment	84	-32
Balance at December 31, 2020	**1 188**	**-1 484**

Reclassification relates to an investment in an associated company whereby the Group no longer has significant influence and accounts for the financial asset at fair value through profit or loss.

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 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Financial liabilities				
- CHF 200 million bond	225 770	183 049	206 279	189 134
- CHF 150 million bond	169 137	106 020	154 547	123 339

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.

44. 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.

In USD'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjustment	Adjustment	Total book value	Total book value
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Bonds	6 819	6 235	407 458	378 755	–	–	-19 370	-24 164	394 907	360 826
Long-term bank loans	–	–	46 467	32 729	–	–	-2 182	-526	44 285	32 203
Short-term financial debt	48 160	73 679	–	–	–	–	-557	–	47 602	73 679
Trade accounts payable	67 732	60 573	–	–	–	–	–	–	67 732	60 573
Other payables	24 395	16 719	–	–	–	–	–	–	24 395	16 719
Total	**147 106**	**157 205**	**453 925**	**411 484**	**–**	**–**	**-22 109**	**-24 689**	**578 922**	**544 000**

45. 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% (2019: 10%) increase and decrease in the CHF and a 10% (2019: 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 2020	CHF 2019	EUR 2020	EUR 2019
Post-tax net income				
- Increase	-7 699	-10 502	-1 205	-1 062
- Decrease	7 699	10 502	1 205	1 062
Comprehensive income (post-tax effect)				
- Increase	-16 422	-23 502	3 368	–
- Decrease	16 422	23 502	-3 368	–

Interest rates

The sensitivity analysis aims to disclose the impact of a market change in 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 actual interest rate situation in Europe (specifically for CHF and EUR rates) is characterized by negative risk-free interest rates for the past several years. As most of our floating rate loan agreements include a floor of 0% (i.e. banks are not granting the negative points as a deduction of the borrowing rate), the impact of an interest rate increase or decrease is significantly reduced for currencies with negative interest rates, thus reducing the sensitivity to a change in market rates. As the actual market interest rate on the USD is close to zero, a similar impact applies to the sensitivity when applying a decrease on the market interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

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. Prior year sensitivity has been re-presented for comparison purposes:
- USD: increase of 100 basis points and decrease of 100 basis points (2019: 100 basis points increase or 100 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2019: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2019: 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, 2020 would increase by kUSD 464 and decrease by kUSD 82, respectively. (2019: increase by kUSD 176 and decrease by kUSD 328). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2020 and 2019.

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

46. COLLATERAL RECEIVED AND GIVEN

In USD'000	31.12.2020	31.12.2019
Guarantees in favor of third parties	21 636	21 402

47. RISK CONCENTRATION
At December 31, 2020 and 2019, no financial asset exposure was more than 10% of the financial assets.

48. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE
The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended December 31, 2020 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

49. 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 December 31, 2020 was 39.6% (2019: 8.7%).

2020 operating cash flow was positive USD 132.6 million (2019: USD 34.2 million) mainly reflecting a USD 92.4 million of working capital. Working capital improvements took place throughout all Group segments, including Public Access.

50. NET DEBT RECONCILIATION

In USD'000	31.12.2020	31.12.2019
Cash and cash equivalents	152 584	74 596
Long-term financial debt	-439 192	-393 029
Long-term lease obligations	-29 599	-28 491
Short-term financial debt	-48 212	-73 679
Short-term lease obligations	-13 720	-15 548
Net debt	**-378 137**	**-436 151**

In USD'000	Note:	Cash and cash equivalents	Long-term debt	Short-term debt	Lease obligations	Total
Net debt at January 1, 2019		**85 979**	**-398 161**	**-64 122**	**–**	**-376 304**
Cash flows		-11 130	–	–		-11 130
Change in accounting policy		–	–	–	-56 132	-56 132
Lease addition		–	–	–	-6 459	-6 459
Reimbursment of bank overdrafts, long-term loans		–	10 630	18 584	18 558	47 772
Increase in bank overdrafts, long-term loans		–	–	-28 809	–	-28 809
Foreign exchange adjustments		-253	-5 287	668	-6	-4 878
Amortization of transaction cost less premium	27	–	-211	–	–	-211
Net debt at December 31, 2019		**74 596**	**-393 029**	**-73 679**	**-44 039**	**-436 151**
Cash flows		71 415	–	–	–	71 415
Change in accounting policy		–	–	–	–	–
Lease addition		–	–	–	-16 937	-16 937
Reimbursment of bank overdrafts, long-term loans and lease obligations		–	11 417	73 503	18 115	103 035
Increase in bank overdrafts, long-term loans		–	-21 643	-43 315	–	-64 958
Covid 19 subsidies		–	1 449	–	–	1 449
Termination of leasing contracts		–	–	–	2 775	2 775
Accrued interests		–	–	-96	-1 422	-1 517
Foreign exchange adjustments		6 573	-37 159	-4 625	-1 811	-37 022
Amortization of transaction cost less premium	27	–	-227	–	–	-227
Net debt at December 31, 2020		**152 584**	**-439 192**	**-48 212**	**-43 318**	**-378 138**

51. EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

52. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2020	**2019**	**2020**	**2019**
1 CHF	1.1299	1.0331	1.0654	1.0063
1 EUR	1.2226	1.1229	1.1404	1.1195
100 CNY	15.3107	14.3595	14.4938	14.4795
100 NOK	11.6452	11.4029	10.6496	11.3713
1 GBP	1.3661	1.3254	1.2830	1.2767
100 BRL	19.2090	24.8967	19.6069	25.3799
100 INR	1.3672	1.4050	1.3494	1.4205
1 SGD	0.7559	0.7438	0.7250	0.7331
100 ZAR	6.7797	7.1281	6.1109	6.9236
100 RUB	1.3480	1.6105	1.3917	1.5462
1 AUD	0.7695	0.7025	0.6899	0.6954

53. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 24, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

54. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Digital TV	Cyber-security	Internet of Things	Public Access	Corporate	Percentage held 2020	Percentage held 2019
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and Cybersecurity	•	•	•			100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	•					100	100
Nagra USA, LLC	US – New York	Sales and support	•		•			100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	•					100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	•					50	50
OpenTV Inc	US – Delaware	Middleware for set-top-boxes and IoT solutions	•		•			100	100
Nagravision AS	NO – Oslo	Solutions for Digital TV	•					100	100
Kudelski Security, Inc.	US – Minneapolis	Cybersecurity Solutions		•				100	100
SKIDATA Group	AT – Gartenau	People and car access systems				•		100	100
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group					•	100	100
Kudelski Corporate, Inc.	US – Delaware	Support					•	100	100

These principal companies are all subsidiaries.

55. 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 2020

pwc

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 income statements and consolidated statements of comprehensive income for the year ended, 31 December 2020, the consolidated balance sheets as at 31 December 2020, the consolidated cash flow statements, consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 3 to 54) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 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 International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code), 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 Group materiality: USD 3'600'000

We conducted full scope audit work at 6 reporting components in four countries. In order to increase our coverage, we also performed certain specified procedures at one entity. Our audit scope addressed 69% of the Group's revenue.

As key audit matter, Goodwill impairment Cybersecurity and Internet of Things has been identified.

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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.

Overall Group materiality	USD 3'600'000
How we determined it	0.5% of revenues
Rationale for the materiality benchmark applied	We have chosen revenue as a benchmark for determining materiality, as it represents an important characteristic and Kudelski Group had volatile results in the past.

We agreed with the Audit Committee that we would report to them misstatements above USD 360'000 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.

The Group financial statements are a consolidation of 65 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 7 reporting components which represent the principal business operations of the Group. 6 of the reporting components were subject to an audit of complete financial information and 1 entity was subject to specified 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 6 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 Cybersecurity and Internet of Things

Key audit matter	How our audit addressed the key audit matter
As described in Note 14 to the consolidated financial statements, the Group has Goodwill totaling USD 357.3 million at 31 December 2020, comprising USD 66.1 million related to the Cybersecurity segment and USD 36.5 million related to the Internet of Things segment. We focused on these areas in view of the significance of	We assessed the Group's allocation of goodwill to the CGUs Cybersecurity and Internet of Things by assessing the reasonableness of the CGUs taking into consideration management reporting and that CGU's for goodwill impairment testing purposes are not larger than any of the Group's operating segments. We obtained the Group's impairment analysis for

the amounts involved, the business segments' operating performance during 2020 and the judgement used by management about future results. The assessment of the carrying value of the goodwill balances is highly dependent on management's estimate of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate. Refer to note 2 – Critical accounting estimates and judgements and note 14 – Intangible assets for details of management's impairment test and assumptions.	CGUs Cybersecurity and Internet of Things and performed the following procedures: - Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable. - Assessed the quality of the cash flow projections by comparing the actual results to prior year budget to identify in retrospect whether any of the assumptions might have been too optimistic. - Reconciled the 5 year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections. - We reviewed with 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 tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period assumption of 2.2% for both the Cybersecurity and Internet of Things divisions. - Together with our specialists, we evaluated the reasonableness of the discount rate of 8.75% applied for Cybersecurity and 8.5% for Internet of Things to those future cash flows. We obtained the Group's sensitivity analyses around key assumptions to ascertain the effect of reasonably possible changes to those assumptions on the value in use estimates and re-calculated the sensitivity. We reviewed and validated disclosures regarding Goodwill and intangible assets in the Group's financial statements. On the basis of the audit evidence obtained, we consider the valuation method and the assumptions used by the Group to be reasonable and appropriate for the impairment testing of goodwill.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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	Nicolas Daehler
Audit expert Auditor in charge	Audit expert

Lausanne, 24 February 2021

BALANCE SHEETS AT DECEMBER 31, 2020 AND 2019

ASSETS

In CHF'000	Notes	31.12.2020	31.12.2019
Current assets			
Cash and cash equivalents		12 618	2 443
Accounts receivable from Group companies		70 323	81 940
Other current receivables and prepaid expenses	3.1	649	816
Total current assets		**83 590**	**85 199**
Fixed assets			
Loans to Group companies		460 493	594 521
Loan to third party		949	1 038
Investments	3.2	459 423	364 256
Total fixed assets		**920 865**	**959 815**
Total assets		**1 004 455**	**1 045 014**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2020	31.12.2019
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank, short-term borrowings		10 000	21 000
Other short-term liabilities :			
- due to third parties		280	205
- due to Group companies		27 551	24 925
Accrued expenses		1 945	1 922
Total short-term liabilities		**39 776**	**48 052**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	350 000
Total long-term liabilities		**350 000**	**350 000**
Total liabilities		**389 776**	**398 052**
Shareholders' equity			
Share capital		440 021	437 961
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		71 467	74 216
Retained earnings		22 035	88 198
Net (loss) / income		-28 845	-63 413
Total shareholders' equity	**3.4**	**614 679**	**646 962**
Total liabilities and shareholders' equity		**1 004 455**	**1 045 014**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2020

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

In CHF'000	Notes	2020	2019
Other non operating income		105	–
Financial income	4.1	20 819	23 596
Gain on sale of investments		296	2 418
Administrative and other expenses		-2 662	-3 128
Financial expenses and exchange result	4.2	-33 322	-14 800
Impairment of financial fixed assets	4.3	-13 638	-70 454
Income/(loss) before tax		**-28 402**	**-62 368**
Direct taxes (other than income tax)		-443	-1 045
Net income/(loss)		**-28 845**	**-63 413**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2020

In CHF'000	Legal reserves from capital contribution	Retained earnings
Balance brought forward from previous year	74 216	24 784
Dividend	-2 749	-2 749
Net result	–	-28 845
Total available earnings	**71 467**	**-6 810**
The Board proposes the partial dissolution of CHF 20'000'000 of the legal reserve from retained earnings and a distribution as follows:		
Partial dissolution of the legal reserve from retained earnings	–	20 000
Ordinary distribution:		
- CHF 0.10 on 50'372'600* bearer shares (of which CHF 0.05 out of capital contribution reserve and CHF 0.05 out of retained earnings)	-2 519	-2 519
- CHF 0.01 on 46'300'000 registered shares (of which CHF 0.005 out of capital contribution reserve and CHF 0.005 out of retained earnings)	-232	-232
Balance to be carried forward	**68 717**	**10 440**

*This figure represents the number of bearer shares which are dividend bearing as of December 31, 2020 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 2020

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 2020

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2020	31.12.2019
Prepaid expenses	578	730
Withholding tax	69	69
Other accounts receivable	2	17
	649	**816**

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 2020	2019
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	10 472	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Kudelski Corporate Inc.	US – Phoenix	Holding	kUSD	0	100	–
SKIDATA GmbH	AT - Salzburg	Public access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	100	100
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
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	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	9 032	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	0	M	100
Nagra Media (Taiwan) Co., Ltd	TW - Taipei	Sales and support	kNTD	500	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK	0	M	100
Nagravision AS	NO - Oslo	Solutions for Digital TV	kNOK	1 111	100	–
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	40
Kryptus Segurança da Informaçao Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL	475	10	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	0	L	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	100

M: Merged companies
L: Liquidated companies

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2020	2019
Nagra USA, LLC	US – Phoenix	Services, sales and support	kUSD	10	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
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 – Van Nuys	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
As of December 31, 2018	**436 327**	**110 000**	**79 689**	**88 198**	**714 214**
Dividend	–	–	-5 473	–	-5 473
Share capital increase	1 634	–	–	–	1 634
Net Income	–	–	–	-63 413	-63 413
As of December 31, 2019	**437 961**	**110 000**	**74 216**	**24 785**	**646 962**
Dividend	–	–	-2 749	-2 749	-5 498
Share capital increase	2 060	–	–	–	2 060
Net Income	–	–	–	-28 845	-28 845
As of December 31, 2020	**440 021**	**110 000**	**71 467**	**-6 809**	**614 679**

NOTES TO THE FINANCIAL STATEMENTS 2020

SHARE CAPITAL

In CHF'000	31.12.2020	31.12.2019
50'372'600 / 50'115'192 bearer shares, at CHF 8 each	402 981	400 922
46'300'000 registered shares, at CHF 0.80 each	37 040	37 040
	440 021	**437 962**

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	2020	2019
Conditional share capital as of January 1	85 588	83 223
Increase of conditional share capital	–	4 000
Employee share purchase plan	-411	-193
Shares allotted to employees	-1 648	-1 442
Conditional share capital at December 31	**83 529**	**85 588**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each	80 000	80 000
- Options or share subscriptions to employees:		
441'156 / 698'564 bearer shares, at CHF 8 each	3 529	5 588
	83 529	**85 588**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2020	31.12.2019
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
Authorized share capital as of December 31	**32 705**	**32 705**

The Board of Directors is authorized to increase the share capital in one or more stages until April 15, 2022, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Kudelski family pool	59%	59%	28%	28%
Kudelski family interests outside Kudelski family pool	4%	4%	7%	7%

The Kudelski family pool includes André Kudelski, Marguerite Kudelski, Isabelle Kudelski Haldy, 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 André Kudelski.

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2020	2019
Dividends received from Group subsidiaries	16 573	5 425
Interest on loans to Group subsidiaries	4 246	18 042
Interest income third parties	–	129
	20 819	**23 596**

4.2 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2020	2019
Net currency exchange result	-26 528	-7 849
Interest on loans from Group subsidiaries	-230	-460
Interest expenses and bank charges	-6 564	-6 491
	-33 322	**-14 800**

4.3 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2020	2019
Change in provision on Group investments and loans	-9 642	-70 454
Value adjustment on investments	-3 996	–
	-13 638	**-70 454**

The change in provision on Group investments relates to capital contributions (stabilization measures) of kCHF 12 230 (2019: kCHF 59 631) and a reduction on an intercompany loan provision of kCHF 2 588. In 2019, an impairment of kCHF 10 823 has been recognized for an entity that has transferred all its activities to another Group and is no longer active.
The value adjustment on investments concern impairments recognized for two entities that are no longer active.

NOTES TO THE FINANCIAL STATEMENTS 2020

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2020	31.12.2019
Guarantee commitments		
Commitment in favor of third parties and Group companies	1 015	786
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 2020 and 2019 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 2020

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 sheets as at 31 December 2020, income statements and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 61 to 68) as at 31 December 2020 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 10'000'000

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 a key audit matter, the valuation of investments in subsidiaries and loans to Group companies has been identified.

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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 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.

Overall materiality	CHF 10'000'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	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.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1'000'000 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.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Key audit matter	How our audit addressed the key audit matter
Kudelski SA's investments and loans to Group companies are valued at CHF 459 million and CHF 460 million 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 634 million Public Access (PA): CHF 176 million Cybersecurity (CS): CHF 60 million Internet of Things (IoT): CHF 49 million We focused on these areas in view of the significance of the amounts involved, the business segments' operating	We obtained an understanding of management's process and controls over the valuation of investments and loans to Group companies. We obtained the Group's impairment analysis for all 4 CGUs and performed the following procedures: - Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable. - Assessed the quality of the cash flow projections by comparing the actual results to prior year budget to identify in retrospect whether any of the assumptions might have been too optimistic. - Reconciled the 5 year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections. - We reviewed with management to substantiate its

performance during 2020 and the judgement used by management about future results. The recoverable amount of the investments and loans is determined by management based on value-in-use calculations, which depend on cash flow projects and judgement of growth rates. Refer to note 2 – Accounting policies: Financial Assets and note 4.3 – Impairment of financial fixed assets	key assumptions in the cash flow projections during the forecast period and its intention and ability to execute their strategic initiatives. - We tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period. - Together with our specialists, we evaluated the reasonableness of the discount rate applied to those future cash flows. On the basis of the evidence obtained from our audit, we consider the valuation method and the assumptions used by the Group to be reasonable and appropriate for the valuation of Kudelski SA's investments and loans to Group companies.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 and reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Luc Schulthess	Nicolas Daehler
Audit expert Auditor in charge	Audit expert

Lausanne, 24 February 2021

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