



Registration number: 4249748

**Kaspersky Labs Limited**

**Directors' Report**

**and**

**Consolidated Financial Statements**

**for the year ended 31 December 2019**

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## **Strategic Report**

The Directors of Kaspersky Labs Limited present their strategic and directors' reports and the audited consolidated financial statements for the year ended 31 December 2019.

### **(a) Principal activities**

Kaspersky Labs Limited (the "Company"), a private company limited by shares, and its subsidiaries (together referred to as the "Group" or "Kaspersky") comprise of private limited companies in accordance with The Companies Act 2006 located in the UK, as well as companies located in Russia, Switzerland, Germany, France, United States of America (the "US"), China, Germany, France and other countries.

The Company's registered office is: 2 Kingdom Street, London, W2 6BD.

Kaspersky is one of the world's largest privately-owned cybersecurity companies, with the company registered in the United Kingdom.

The Group was founded in 1997 and today it is an international group operating in almost 200 countries and territories worldwide. It has 34 representative territory offices in more than 30 countries. Kaspersky has a corporate client base of more than 250,000 companies located around the globe, ranging from small and medium-sized businesses to large governmental and commercial organizations. Over 400 million people worldwide are protected by Kaspersky products and technologies. Kaspersky currently employs more than 4,000 qualified specialists. Approximately, forty six percent of Kaspersky's employees are R&D specialists.

The Group's portfolio encompasses solutions to suit a wide range of customers, protecting consumers, small companies, medium-sized businesses and enterprises from different types of threats and provides them with convenient tools to control and manage their security.

Kaspersky empowers consumers with a range of products to protect all corners of their lives from cybercrime. It understands the needs of small businesses and has a unique multi-layered solution especially for them, which unites ease of management and effective protection. The Group covers all the cybersecurity needs of large enterprises with its full enterprise platform that helps to prevent all types of cyberthreats, detects even the most sophisticated attacks, responds to security incidents and predicts the evolution of the threat landscape. The Group's comprehensive portfolio of solutions achieves all of this thanks to the combination of our expertise, threat intelligence and machine learning that enables us to develop robust technologies to detect, block and prevent cyberattacks. The business focus of Kaspersky is continuing to evolve from "cybersecurity" towards the wider concept of "cyber-immunity".

The Group's most valuable asset is the wealth of expertise it has gained in its years of combating major IT threats. Kaspersky's Global Research and Analysis Team (GReAT) is an elite group of more than forty leading security experts who operate all over the world and provide leading anti-threat intelligence and research. The team is well-known for the discovery and dissection of some of the world's most sophisticated threats, including cyber-espionage and cyber-sabotage threats.

To record the groundbreaking malicious cyber-campaigns that have been investigated by GReAT, Kaspersky launched a Targeted Cyberattack Logbook. Although our key expertise is related to

cyberthreats, we fight against them not only to ensure that our customers are protected now, but so that our solutions are also ready for new challenges in the future.

The Group's commitment to its customers as well as advanced technology ensure its competitiveness. The Group has been named a Leader in the evaluation of Wave Endpoint Security and a Strong Performer in an evaluation of Cloud Security Solutions by analyst firm Forrester. Kaspersky is also firmly positioned as one of the top five leading endpoint security vendors. For the third time in a row, the company was recognized as a Gartner Peer Insights Customers' Choice for the Endpoint Protection Platforms in 2019.

Management believes that a joint effort is the most effective way to fight cybercriminals. To this end, the Group shares its expertise, knowledge and technical findings with the world's security community. It takes part in joint cyberthreat investigations with such companies as Adobe, AlienVault Labs, Novetta, CrowdStrike, OpenDNS and others. Kaspersky was included in the list of Vulnerability Top Contributors by Microsoft.

Kaspersky cooperates with INTERPOL in the joint fight against cybercrime. The company provides the organization with human resources support, training, and threat intelligence data on the latest cybercriminal activities. Other partners in the field of law enforcement include, but are not limited to, Europol, The City of London Police, The National High Tech Crime Unit (NHTCU) of the Netherlands' National Police Corps, and the Microsoft Digital Crimes Unit, as well as Computer Emergency Response Teams (CERTs) and many other police authorities worldwide.

By joining forces, the Group helped fighting cybercrime (such as the Carbanak case), disrupt criminal botnets (for example, Simda), and launch new initiatives (such as No More Ransom, with more than 100 supporting partners from the public and private sector). The Group takes part in joint cyberthreat investigations and conducts trainings for cybersecurity specialists. Collaboration between the Dutch police and Kaspersky led to the arrest of suspects behind the CoinVault ransomware attacks.

Kaspersky is involved in the discussion and development of cybersecurity initiatives and standards through its advisory group memberships (i.e. the Anti-Malware Testing Standards Organization). Aiming to solve the cyber security challenges faced by the modern world today, Kaspersky is also a member of initiatives and organizations such as Securing Smart Cities and the Industrial Internet Consortium.

#### **(b) Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and in the Principal Risks and Uncertainties on pages 9 to 10. In addition, Note 23 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors have considered the impact of the COVID-19 pandemic on the financial and operational functions of the Group. The directors have commissioned market intelligence research on the potential impact of the pandemic on the sector and have assessed the business systems including the robustness of the internal and external supply chains for operational continuity. Based on these assessments and considerable financial resources of the Group and Company together with long-standing relationships

with a number of customers and suppliers across different geographic areas and industries, the directors believe that the Group is well placed to manage its business risks successfully.

The directors remain confident that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**(c) Business review**

The key market in which the Group operates is *endpoint security*. It encompasses products that are designed to protect endpoints from attack or to protect information residing on endpoints, both physical and virtual, regardless of operating system type — including Windows, Linux, Mac OS, iOS, and Android. Endpoint security products provide security using or leveraging an endpoint agent or client as a core or fundamental component. Functionality includes client antimalware software, file/storage server antimalware, personal firewall software, host intrusion prevention software, file/disk encryption, whitelisting, patch management, desktop URL filtering and endpoint data loss prevention. The endpoint security category covers both corporate and consumer products. Global corporate and consumer markets are growing approximately at 8% and 2% per year.

Key drivers of the endpoint security market include the following:

- The continual growth in the sophistication of cyberattacks, the growth in the volume of cyberattacks, and the corresponding press associated with such attacks continue to fuel awareness in the minds of consumers. As threats and awareness grow, the likelihood of moderate increases in penetration and/or average selling price increases for consumer security software grows.
- The drive to a single agent. Agents have become an acute problem for many organizations, as many report endpoints with seven or eight security agents and 25-30 agents total, which can bring system performance to a crawl. The security industry has responded with minimization / consolidation of agents – an improvement in which IT security departments are willing to invest.
- Modern endpoint security adoption - technology is finding its way from corporate solutions to consumer solutions. Leveraging specialized threat analysis and protection of intellectual property in consumer offerings allows vendors to further monetize their intellectual property investments. In parallel, larger expenditures on the business side are being driven by heightened adoption of sophisticated EDR solutions and security services tightly integrated therein.
- As vendors look to differentiate their offerings, the endpoint security product definition is expanding. Rather than focus on the narrow definition of stopping malware, market messages and product features increasingly focus on concepts of “safety” and “performance,” thus attracting more consumer spend.

Endpoint security market inhibitors include the following:

- Organizational expenses related to IT security continue to increase and often constitute a serious financial burden for businesses.

- A decrease in the global consumer PC install base effectively reduces the addressable consumer market.
- Lack of metrics by which endpoint products can be differentiated continues to be an inhibitor to the industry. Endpoint vendors are challenged to quantify “safe” in a manner from which consumers can make informed cost/benefit analyses. While enterprise buyers are challenged, consumers can be lost at times.

The other key markets where Kaspersky is present are:

- Web security – web security products are deployed on software, appliance, SaaS, and virtual platforms. The submarkets of the web security products include URL filtering, web antimalware, web application firewall, and web content filtering products. Selected data loss prevention technologies can be included in web security as well. Web security products protect against both inbound (malware) and outbound (data leakage) threats. This market grows at 8% per year.
- Messaging security – messaging security solutions are deployed on all security platforms. This market includes three submarkets: antispam, antimalware, and content filtering. Messaging security can also contain selected data loss prevention, alongside selected information protection and control technologies. These products are designed to work with applications, including email, instant messaging (IM), and other collaborative applications. This market grows at 6% per year.
- Threat Intelligence Services – services for provision of information about potential cyber threats, including existing and emerging threats, cybercrime actors, tools and methods. This information can be used to inform decisions regarding the client’s response to those menaces / hazards. Threat intelligence is made available through portals, online delivered feeds, subscription-based analyst personnel support and platform software. This market grows at 10% per year.
- Hybrid Cloud Security (Cloud Workload Protection) – workload-centric security protection solutions addressing the unique requirements of server workload protection in modern hybrid datacenter architectures that span on-premises, physical and virtual machines (VMs) and multiple public cloud infrastructure-as-a-service (IaaS) environments. This market grows at 15% per year.
- Industrial Cybersecurity – Security solutions (and accompanying services) for industrial control systems’ networks and nodes. This market grows at 14% per year.

The Group also extends its product portfolio in Security Services (Managed Detection and Response, Threat Hunting, Security Assessment), Anti-DDoS Protection, Online Fraud Prevention, Anti-Targeted Attacks, EDR (Endpoint Detection & Response), and Embedded Systems Security).

The Group measures its progress against goals using the following key performance indicators (“KPIs”): billings, revenue, results from operating activity and net profit before tax.

The main short-term KPI the Group uses to track the progress of the business within a year as well as year-on-year growth is billings. Billings represent the total monetary value of products and services sold and delivered to its customers during a reporting period measured by the monetary amounts of invoices issued to its partners and customers. Billings are the most accurate measure of the sales volumes and growth of business. International Financial Reporting Standards ("IFRS") and the Group's accounting policy require that some software licence revenue is recognised rateably over the licence term, which therefore has the effect of deferring a portion of billings to future periods. This ensures a future guaranteed revenue stream in the amount of the deferred revenue as at the end of a reporting period.

The Group's performance in 2019 was significantly influenced by the changes of the foreign currency exchange rates. USD strengthened during 2019 against the EUR by 2% and weakened against the RUB by 11%, the main currencies affecting the Group's operations.

The Group's billings decreased in 2019 by 0.4% from USD 702 million in 2018 to USD 699 million. Billings expressed in local currencies of the countries, in which the sales are made, increased by 2% in 2019 compared to 2018. In addition to its core business revenues, the Group earned USD 5 million of lease income from letting out office premises.

The Group's revenue decreased by 3% from USD 712 million in 2018 to USD 690 million in the current reporting period. Revenue in constant currency terms increased in 2019 by 1% compared to 2018. Similar factors affect the dynamics of the Group's revenue and billings.

The Group's profit from operating activities increased by 9% from USD 67 million in 2018 to USD 73 million in 2019, the growth mainly being due to the reversal of impairment loss on trade receivables due to a change in estimates of the expected credit losses in respect of one of the Group's significant trade debtor.

The Group's EBITDA<sup>1</sup> increased from USD 118 million in 2018 to USD 119 million in 2019. Its dynamics corresponds to the change in operating profit.

The Group's net finance income of USD 17 million (2018 USD 22 million) is primarily due to approximately USD 10 million net foreign exchange gain as a result of the USD strengthening against the EUR.

The Group's profit before income tax remained almost unchanged at the level of approximately USD 90 million in 2019 and 2018.

The Group's effective tax rate decreased from 34% to 15%, as in 2018 it was negatively affected by changes in the tax rates. Additionally, an over-provision of tax expenses in 2018 and prior years was able to be released in 2019 due to a combination of additional tax credit claims for foreign taxes suffered and finalisation of tax returns.

As a result of factors described above, the Group's net profit for 2019 amounted to USD 75 million (2018: USD 59 million), an increase of 27% over the previous year which is an excellent result for the year.

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<sup>1</sup> EBITDA for twelve months ended 31 December 2019 includes IFRS operating profit of USD 73 million (2018: USD 67 million) plus depreciation and amortisation USD 45 million (2018: USD 51 million).

**(d) Principal risks and uncertainties**

Certain risks and uncertainties may have a material impact on the performance of the Group.

**Geopolitical risk**

The Group conducts operations on different national markets and can be significantly affected by geopolitical situations in the world. As a result of the tensions the Group used to receive negative publicity in some countries. To cope with these geopolitical challenges the Group abides by the highest ethical business practices, and through its Global Transparency Initiative launched in 2017, it is exemplifying its ongoing commitment to assuring the integrity and trustworthiness of its products.

As part of the Global Transparency Initiative, the Group has already increased its bug bounty program and, in November, 2018, started processing malicious and suspicious files shared voluntarily by users of its products across Europe in two data centres in Zurich, Switzerland. The move was accompanied by the opening of the first Transparency Centre, also located in Zurich. Through the Transparency Center, the Group provides governments and partners with information on its products and their security, including essential and important technical documentation, for external evaluation in a secure environment. The Group is also opening a Transparency Center in Madrid and welcomed its first visitors in June 2019.

**Technological risk**

The Group operates in a market where technology plays a key role. Maintaining industry leadership positions is subject to a number of risks. Specifically, the Group may lack financial and other resources to maintain its positions. Products in the Group's target market are technologically complex and vulnerable to defects and error. Additionally, a possible infringement of the Group's intellectual property rights may negatively affect the Group's competitiveness in the market. The Group manages this risk by investing substantial resources in research and development activities, including those which are related to ensuring product quality, as well as in legal substantiation of its intellectual property rights.

Endpoint security has historically been the core of the Group's business; this security market is close to maturity and the growth is minimal. This may negatively affect the Group's financial performance and position in the future. To manage this risk we are constantly expanding our product portfolio with solutions in the non-endpoint security area, such as critical infrastructure IT protection, cybersecurity intelligence and Secure Web / E-Mail Gateway services.

**Market risk**

Some of the third-party products in the endpoint security market (especially the consumer segment) are free. The trend of moving to free products is especially apparent in the Asian markets. In most cases, the free products are only providing basic antivirus protection but customers are looking for a complete suite of security capability. The Group believes that free endpoint security software is not a detriment to the market but recognises that it has to manage the risk of market share loss to free endpoint security solutions by ensuring the quality of its products and by introducing a freemium software model.



#### Credit risk

The Group's policy in working with customers is focused on market penetration. As such, extended credit terms are granted to some of the Groups' major distributors. In addition, the Group invests in resellers' incentives offering them volume rebates and other similar discounts. This results in a credit risk which the Group incurs on its trade accounts receivable. The Group manages this risk by developing a network of long-term reliable distributors and by day-to-day monitoring of exposure to individual customers. Credit risk management activities are led by a Credit Committee including representatives of top management. Note 23(c)(iii) of the consolidated financial statements sets out a description of this risk.

#### Foreign currency risk

The Group is exposed to foreign currency risk, because some entities of the Group need to carry out sales and purchases and make lending and borrowings in currencies different from the functional currencies of these entities. This risk is mitigated by the day-to-day monitoring of the Group's open foreign currency position and the currency structure of its financial resources. Note 23(f) of the consolidated financial statements sets out a description of this risk.

#### Cash flow and liquidity risk

The Group's operating margins remain healthy (11% in 2019 and 9% in 2018) and its operating cash flow has been considerable in recent years (USD 52 million in 2019 and USD 75 million in 2018). The Group's net current monetary assets position remains stable. The Group's most significant assets as at the reporting date are non-monetary deferred income of USD 542 million (2018: USD 525 million) due to the Group's revenue recognition policy. The Group's monetary current assets<sup>2</sup> at 31 December 2019 are USD 385 million (2018: USD 383 million). These monetary current assets exceed the Group's monetary current liabilities<sup>3</sup> of USD 138 million (2018: USD 138 million).

On a regular basis the cash position of the Group is monitored to ensure sufficient cash resources are available to settle liabilities as they fall due – both in aggregate and in each individual currency. Management carries out a thorough analysis of the Group's cash position before making any significant investment or financing decisions.

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<sup>2</sup> Monetary current assets as at 31 December 2019 include cash and cash equivalents of USD 96 million (2018: USD 207 million), trade receivables of USD 216 million (2018: USD 188 million), less provision for bad and doubtful debts of USD 19 million (2018: USD 32 million), plus other receivables of USD 14 million (2018: USD 8 million), investments of USD 77 million (2018: USD 12 million).

<sup>3</sup> Monetary current liabilities as at 31 December 2019 include trade and other payables of USD 153 million (2018: USD 160 million), less advances received of USD 1 million (2018: USD 1 million), social and other taxes payable of USD 24 million (2018: USD 21 million). Monetary current liabilities as at 31 December 2019 also included the current lease payable of USD 8 million (2018: nil).

**(e) Statement by the Directors in performance of their statutory duties in accordance with s172 Companies Act 2006**

The Directors consider the following issues, factors and stakeholders relevant in complying with section 172 (1) (a) to (f):

**Regard to the likely consequences of decisions in the long term**

The 2020 budget which was approved in 2019 places focus on the Group's profitability, which is meant to be achieved through a combination of revenue growth and efficient spending in strategically important directions.

No dividends were declared during 2019, which is aimed at building the retained earnings for implementing the Group's strategy.

**Regard to the interests of the company's employees**

Employee remuneration amounted in 2019 to 49% of the Group's operating expenses (2018: 48%). Section (g) of the Directors' report describes the key directions of employee engagement by the Group.

**Regard to the need to foster the company's business relationships with suppliers, customers and others**

The Board is committed to ensure that the Group strictly comply with its obligations to its suppliers and customers. Refer to Section (a) Principal activities of Strategic report for information about the Group's commitment to its customers through providing them top quality products.

**Regards to the impact of the company's operations on the community and the environment**

The Group operates in the industry whose primary goal is fighting cybercrime which benefits communities worldwide. Section (a) Principal activities of Strategic report describe the alliances with other companies and governmental bodies that the Group takes part in to promote cybersecurity around the world. Section (i) Environment of Directors' report addresses The Group's regards to the impact of its operations on the environment.

**Regards to the desirability of the company maintaining a reputation for high standards of business conduct**

The Board considers that the reputation for high standards of business conduct derives primarily from meeting its obligations to its customers and suppliers, involving employees in the relevant areas of its business activity and promoting cybersecurity to make the world safer. The efforts that the Group undertakes in this respect are described within the Strategic and Directors' reports.

**Regards to the need to act fairly as between members of the company**

The Group treats all its shareholders fairly and no preferences are made to some shareholders at the expense of the others. During 2019 the Group did not declare any dividend and did not enter in material transactions with any of its members, apart from the fact that some of the Group's shareholders are part of the management and/or are employed by the Group.

**(f) Future developments**

**The effect of COVID-19 on the Group's business**

Subsequent to the end of the reporting year the COVID-19 pandemic outbreak around the world. As of the date of this report, the effect of the pandemic has not been significant for the Group, the largest impact being related to the devaluation of most currencies against the USD, which negatively affects the Group's revenues in the USD terms. Management cannot currently reliably estimate the influence of COVID-19 on the Group's future performance, but are confident that the outbreak of the virus does not raise a going concern question for Kaspersky.

The effect of COVID-19 on the security industry in general is complex and goes in opposite directions:

- General slow-down of economy worldwide, which negatively affects the budgets of businesses and households.
- Growth of interest to IT security because of a wider spread of working from home worldwide.

**Business combination subsequent to the reporting period**

In April 2020 the Group acquired control over one of its distributors, more detail on this acquisition can be found on Note 31 of the Consolidated Financial Statements.

This report was approved by the board and signed on its behalf.

Andrey Tikhonov  
Director



Date 19.08.2020

## **Directors' Report**

The Directors of Kaspersky Labs Limited present their directors' report for the year ended 31 December 2019.

### **(a) Directors**

The following directors held office during the year and subsequent to the year end:

E. Kaspersky

A. De-Monderik

A. Tikhonov

D. Borshchev

S. Ivanova

Appointed 21 June 2019

### **(b) Corporate governance arrangements**

The Group does not apply a formal corporate governance code. All the entities inside the Group are governed in accordance with the relevant laws and constitution and by-laws that apply in their country.

The key members of the Company are the Company's Board of Directors. The nature and functions of the Board and the manner in which it is conducted is aligned with the Articles and Memorandum of Association of the Company. All the Company's Directors are equally involved in managing all sides of the Company's activities and interact with the members of the Company in accordance with the laws of the UK.

There is no governance code required because the management of the Company and the Group management on the highest level is executed by the same permanent group of chief managers, headed by major beneficial owners (members) of the Group, in the form of the Company's Board of Directors. In this respect the Company has no practical need for any special governance code or supplementary arrangements for corporate governance as the Board and the shareholders are structurally aligned.

### **(c) Distribution to shareholders**

During the year ended 31 December 2019 no dividends were declared or paid (2018: USD 1,200 thousand).

### **(d) Redemption of the Company's own shares**

During the year the Group did not acquire any of its own shares.

### **(e) Research and development**

The Group undertakes research and development in connection with its principal activity. The Group's research and development expenses increased by 2% from USD 147,667 thousand in

2018 to USD 150,619 thousand in 2019. The increase was mostly due to an increase in payroll costs (due to headcount rise). The average number of employees involved in research and development increased from 1,867 to 1,952.

**(f) Disabled employees**

The Group hiring policies stipulate full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. We provide continuing employment to those employees who become disabled during their employment with the Group, and provide training, career development and promotion to disabled employees, where appropriate.

**(g) Employee involvement**

Employee involvement and commitment to the success of the business is an important element of the Group's culture. Management conducts regular communications and consultations with employees on key aspects of the Group's activities in the form of e-mail communications, annual meetings and informal events. A significant portion of employees bonuses depend on the financial performance of the business unit that they belong to and/or the Group as a whole. An annual review of employee compensation is performed to support the business strategy of profitable revenue growth, which should in turn provide interesting and fulfilling work and the prospect of a higher future remuneration if the strategy is successfully achieved.

**(h) Engagement with suppliers, customers and others in a business relationship with the company**

Please refer to Section (e) of Strategic report.

**(i) Environment**

The Group is conscious of its environmental responsibilities and aims at reducing any damage to the environment that might be caused by its activities, primarily by reducing energy consumption.

**(j) Events subsequent to the reporting period**

The subsequent events have been disclosed in Note 31 to the financial statements.

**(k) Disclosure of information to auditors**

The Directors who hold the office at the date of this report confirm that, so far as they are each aware there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**(l) Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the consolidated financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its consolidated financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

**(m) Matters covered in the strategic report**

The company has chosen in accordance with the Companies Act 2006 s.414C to set out in the company's strategic report information required by large and medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the director's report.

**(n) Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and MHA MacIntyre Hudson will therefore continue in office.

This report was approved by the board and signed on its behalf.

Andrey Tikhonov  
Director



Date 19.08.2020

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KASPERSKY LABS LIMITED**

### **Opinion**

We have audited the financial statements of Kaspersky Labs Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Parent Statement of Financial Position, the Consolidated and Parent Statement of Changes in Equity, the Consolidated and Parent Consolidated Statement of Cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019, and of the group's profit and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the strategic and directors' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of our knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on pages 13 and 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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 directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have 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 ISAs (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*MHA MacIntyre Hudson*

Yogan Patel FCA (Senior Statutory Auditor)

For and on behalf of

**MHA MacIntyre Hudson**

Chartered Accountants & Statutory Auditors

2 London Wall Place

London

EC2Y 5AU

Date: 25 August 2020

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019**

'000 USD	Note	2019	2018
<b>Revenue</b>	2	<b>690,048</b>	<b>712,366</b>
<b>Cost of sales</b>	3	<b>(45,500)</b>	<b>(48,453)</b>
<b>Gross profit</b>		<b>644,548</b>	<b>663,913</b>
Research and development expenses	4	(150,619)	(147,667)
Distribution expenses	5	(312,147)	(308,163)
Administrative expenses	6	(109,995)	(113,727)
Reversal of impairment loss/(impairment loss) on trade receivables and contract assets	23(c)(iii)	12,969	(15,719)
Other expenses, net	7	(11,466)	(11,347)
<b>Profit from operating activities</b>		<b>73,290</b>	<b>67,290</b>
Finance income	10	18,028	27,291
Finance costs	10	(1,137)	(4,762)
Net finance income		16,891	22,529
<b>Profit before income tax</b>		<b>90,181</b>	<b>89,819</b>
Income tax expense	11	(14,832)	(30,636)
<b>Profit for the year</b>		<b>75,349</b>	<b>59,183</b>
<b>Other comprehensive income</b>			
Item that are or may be reclassified subsequently to profit and loss			
Foreign currency translation differences for foreign operations		5,287	(22,508)
Other comprehensive income for the year, net of income tax		5,287	(22,508)
<b>Total comprehensive income for the year</b>		<b>80,636</b>	<b>36,675</b>
Profit/(loss) attributable to:			
Owners of the Company		75,848	59,183
Non-controlling interests	29	(499)	-
<b>Profit for the year</b>		<b>75,349</b>	<b>59,183</b>
Total comprehensive income attributable to:			
Owners of the Company		81,076	36,675
Non-controlling interests		(440)	-
<b>Total comprehensive income for the year</b>		<b>80,636</b>	<b>36,675</b>

*Kaspersky Labs Limited*  
*Registration number: 4249748*  
*Consolidated Statement of Financial Position as at 31 December 2019*

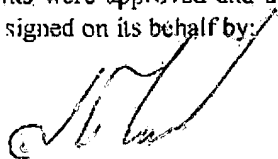
'000 USD	Note	2019	2018
<b>Assets</b>			
Property, plant and equipment	12	250,156	253,597
Investment property	13	26,908	27,820
Intangible assets	14	29,445	27,385
Right-of-use asset under long-term leases	15	21,686	-
Deferred tax assets	16	107,709	50,158
Other non-current receivables	18	59,518	-
Other receivables		304	527
<b>Non-current assets</b>		<b>495,726</b>	<b>359,487</b>
Inventories	17	1,344	767
Other investments	18	77,745	12,484
Trade and other receivables	19	247,653	198,190
Prepaid corporate profit tax		2,433	6,630
Cash and cash equivalents	20	95,718	207,233
<b>Current assets</b>		<b>424,893</b>	<b>425,304</b>
<b>Total assets</b>		<b>920,619</b>	<b>784,791</b>

**Kaspersky Labs Limited**  
Registration number: 4249748  
Consolidated Statement of Financial Position as at 31 December 2019

'000 USD	Note	2019	2018
<b>Equity</b>			
Share capital		1	1
Additional paid-in capital	21	18,891	18,891
Translation reserve	21	(48,299)	(53,527)
Retained earnings	21	194,688	118,848
<b>Equity attributable to owners of the Company</b>		<b>165,281</b>	<b>84,213</b>
Non-controlling interests	29	(440)	(8)
<b>Total equity</b>		<b>164,841</b>	<b>84,205</b>
<b>Liabilities</b>			
Non-current deferred income		121,044	117,265
Non-current lease liability	24	12,260	-
Deferred tax liabilities	16	3,542	6,314
Other payables		2,568	3,603
<b>Non-current liabilities</b>		<b>139,414</b>	<b>127,182</b>
<b>Current liabilities</b>			
Trade and other payables	22	177,538	160,211
Lease liability	24	8,317	-
Deferred income		421,036	407,434
Income tax payable		9,473	5,759
<b>Current liabilities</b>		<b>616,364</b>	<b>573,404</b>
<b>Total liabilities</b>		<b>755,778</b>	<b>700,586</b>
<b>Total equity and liabilities</b>		<b>920,619</b>	<b>784,791</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 7 August 2020 and were signed on its behalf by:

Andrey Tikhonov  
Director



'000 USD

	Attributable to equity holders of the Company						Total equity
	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Total	Non-controlling interests (Note 29)	
Balance at 1 January 2019	1	18,891	(53,527)	118,848	84,213	(8)	84,205
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	75,848	75,848	(499)	75,349
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	5,228	-	5,228	59	5,287
<b>Total other comprehensive income</b>	-	-	5,228	-	5,228	59	5,287
<b>Total comprehensive income for the year</b>	-	-	5,228	75,848	81,076	(440)	80,636
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Acquisition of MI	-	-	-	(8)	(8)	8	-
Share redemption	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>	-	-	-	(8)	(8)	8	-
<b>Total transactions with owners</b>	-	-	-	(8)	(8)	8	-
<b>Balance at 31 December 2019</b>	<b>1</b>	<b>18,891</b>	<b>(48,299)</b>	<b>194,688</b>	<b>165,281</b>	<b>(440)</b>	<b>164,841</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 27 to 78.

'000 USD

	Attributable to equity holders of the Company						
	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Total	Non-controlling interests (Note 29)	Total equity
Balance at 1 January 2018	1	21,753	(31,019)	60,865	51,600	(8)	51,592
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	59,183	59,183	-	59,183
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	(22,508)	-	(22,508)	-	(22,508)
<b>Total other comprehensive income</b>	-	-	(22,508)	-	(22,508)	-	(22,508)
<b>Total comprehensive income for the year</b>	-	-	(22,508)	59,183	36,675	-	36,675
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Share redemption	-	(2,862)	-	-	(2,862)	-	(2,862)
Dividends	-	-	-	(1,200)	(1,200)	-	(1,200)
<b>Total contributions by and distributions to owners</b>	-	(2,862)	-	(1,200)	(4,062)	-	(4,062)
<b>Total transactions with owners</b>	-	(2,862)	-	(1,200)	(4,062)	-	(4,062)
<b>Balance at 31 December 2018</b>	<b>1</b>	<b>18,891</b>	<b>(53,527)</b>	<b>118,848</b>	<b>84,213</b>	<b>(8)</b>	<b>84,205</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 27 to 78.

'000 USD	Note	2019	2018
<b>Cash flows from operating activities</b>			
Profit for the year		75,349	59,183
<i>Adjustments for:</i>			
Depreciation and amortisation	12-15	55,769	50,882
Impairment losses		271	-
Loss on disposal of property, plant and equipment	12	115	275
Loss on disposal of intangible assets	14	181	186
Gain on disposal of right-of-use assets and lease liability reassessment		(462)	-
Net finance income	10	(16,892)	(22,529)
Income tax expense	11	14,832	30,636
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>129,163</b>	<b>118,633</b>
Change in inventories		(513)	55
Change in trade and other receivables		(43,933)	(6,167)
Change in trade and other payables		15,396	3,142
Change in deferred income		11,001	(59)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>111,114</b>	<b>115,604</b>
Income tax paid		(63,570)	(39,979)
Interest paid		-	(582)
<b>Net cash from operating activities</b>		<b>47,544</b>	<b>75,043</b>



**Kaspersky Labs Limited**  
Registration number: 4249748  
**Consolidated Statement of Cash Flows for the year ended 31 December 2019**

'000 USD	Note	2019	2018
<b>Cash flows from investing activities</b>			
Cash from withdrawing bank deposits and other investments		570	198,512
Interest received		3,367	3,130
Dividends received		21	491
Proceeds from sublease		149	-
Investments in related parties	27	(212)	-
Acquisition of property, plant and equipment	12	(24,650)	(17,203)
Acquisition of investment property	13	(476)	(7)
Acquisition of intangible assets	14	(13,865)	(14,004)
Acquisition of other investments	18	(113,378)	(114,935)
<b>Net cash (used in)/from investing activities</b>		<b>(148,474)</b>	<b>55,984</b>
<b>Cash flows from financing activities</b>			
Payments of lease liabilities, net	24	(10,099)	-
Repayment of borrowings		-	(24,091)
Dividends paid	21	-	(2,662)
Own share redemption		-	(2,862)
<b>Net cash used in financing activities</b>		<b>(10,099)</b>	<b>(29,615)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(111,029)</b>	<b>101,412</b>
Cash and cash equivalents at 1 January		207,233	116,692
Effect of exchange rate fluctuations on cash and cash equivalents		(486)	(10,871)
<b>Cash and cash equivalents at 31 December</b>	20	<b>95,718</b>	<b>207,233</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 27 to 78.

1. Basis of preparation	19. Trade and other receivables
2. Revenue	20. Cash and cash equivalents
3. Cost of sales	21. Capital and reserves
4. Research and development expenses	22. Trade and other payables
5. Distribution expenses	23. Fair values and risk management
6. Administrative expenses	24. Lease liabilities
7. Other income and expenses	25. Operating leases
8. Personnel costs	26. Contingencies
9. Auditors' remuneration	27. Related party transactions
10. Finance income and finance costs	28. Subsidiaries
11. Income tax expense	29. Non-controlling interests
12. Property, plant and equipment	30. Financial instruments
13. Investment property	31. Events subsequent to the reporting date
14. Intangible assets	32. Financial commitments
15. Right-of-use assets under long-term leases	33. Significant accounting policies
16. Deferred tax assets and liabilities	34. New standards and interpretations not yet adopted
17. Inventories	35. Determination of fair values
18. Other investments	

## **1. Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and the Companies Act 2006.

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost and fair value basis.

### **(c) Functional and presentation currency**

The functional currencies of the Group's significant entities are presented below:

	<u>Country of incorporation</u>	<u>Functional currency</u>
Kaspersky Labs Limited	United Kingdom	United States Dollars
JSC Kaspersky Lab	Russia	Russian Rouble
JSC VSSI	Russia	United States Dollars
Kaspersky Lab UK Limited	United Kingdom	Euro
Kaspersky Lab Switzerland GmbH	Switzerland	Euro
Kaspersky Lab Inc.	United States	United States Dollars
Kaspersky Labs GmbH	Germany	Euro
Kaspersky Lab France S.A.R.L.	France	Euro
Kaspersky Lab Asia Limited	Hong Kong	Hong Kong Dollars
Kaspersky Technology Development	China	Chinese Yuan
KL Anti-Virus Solutions (S de RL de CV)	Mexico	Mexican Peso

These consolidated financial statements are presented in USD, which Management believes is more convenient for users. All financial information presented in USD has been rounded to the nearest thousand.

### **(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRSs requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 14 - intangible assets;

- Note 23 – fair values and risk management;
- Note 26 – contingencies.
- Note 33 (n)– revenue recognition policy;

(e) **Changes in significant accounting policies**

**IFRS 16 Leases**

The Group has adopted IFRS 16 Leases effective as of January 1, 2019. The Group implemented the new standard on 1 January 2019, and applied the modified retrospective method, with right-of-use assets measured at an amount equal to the lease liability, adjusted by the amount of the prepaid or accrued lease payments relating to those leases recognized in the balance sheet immediately before the date of initial application and does not restate prior years.

**2. Revenue**

Revenue earned by the Group consists of the following types:

	2019	2018
	'000 USD	'000 USD
Sales of licenses and cybersecurity related services	684,601	704,971
Rental income from leasing investment property	5,447	7,395
<b>Total revenues</b>	<b>690,048</b>	<b>712,366</b>

Sales of licenses and cybersecurity related services for year 2019 include USD 408,755 thousand of sales from the brought forward deferred revenue balance as at 31 December 2018 (2018: USD 433,024 thousand from the brought forward deferred revenue balance as at 31 December 2017).

**3. Cost of sales**

	2019	2018
	'000 USD	'000 USD
Services	15,320	17,502
Wages, salaries and bonuses	16,255	14,076
Payroll taxes	2,030	1,596
Materials	5,638	6,070
Investment property costs	2,687	2,775
Investment property depreciation	1,388	2,499
Depreciation and amortisation	552	2,306
Depreciation of right-of-use asset	1,068	-
Rent	562	1,629
	<b>45,500</b>	<b>48,453</b>

#### **4. Research and development expenses**

	2019	2018
	'000 USD	'000 USD
Wages, salaries and bonuses	96,031	90,372
Payroll taxes	9,030	8,252
Depreciation and amortisation	23,905	25,528
Depreciation of right-of-use asset	2,857	-
Services	17,846	18,980
Rent	950	4,535
	<b>150,619</b>	<b>147,667</b>

#### **5. Distribution expenses**

	2019	2018
	'000 USD	'000 USD
Advertising and marketing expenses	124,306	116,206
Wages, salaries and bonuses	108,036	111,051
Payroll taxes	14,397	14,291
Services and commissions	50,065	50,935
Depreciation and amortisation	8,622	9,294
Depreciation of right-of-use asset	4,530	-
Rent	2,191	6,386
	<b>312,147</b>	<b>308,163</b>

## 6. Administrative expenses

	2019	2018
	'000 USD	'000 USD
Wages, salaries and bonuses	56,382	54,808
Payroll taxes	6,348	5,636
Services	28,150	33,936
Depreciation and amortisation	10,749	11,255
Depreciation of right-of-use asset	2,096	-
Company events	5,412	5,157
Rent	858	2,935
	<u>109,995</u>	<u>113,727</u>

## 7. Other income and expenses

	2019	2018
	'000 USD	'000 USD
Non-recoverable VAT	(13,254)	(11,536)
Other expenses	(121)	(1,668)
Other income	1,909	1,857
	<u>(11,466)</u>	<u>(11,347)</u>

## 8. Personnel costs

### (a) Personnel remuneration

	2019	2018
	'000 USD	'000 USD
Wages, salaries and bonuses	276,704	270,307
Payroll taxes	31,453	29,358
Contributions to non-mandatory defined contribution pension plans	352	417
	<u>308,509</u>	<u>300,082</u>

The average number of employees (including directors) for the Group during the year analysed by function was as follows:

	<b>2019</b>	<b>2018</b>
Research and development	1,952	1,867
Sales and marketing	1,109	1,052
General and administrative	939	886
Customer support	282	277
	<b>4,282</b>	<b>4,082</b>

**(b) Directors' emoluments**

The average number of directors during 2019 was 5 (2018: 4). Salaries of the directors of USD 4,147 thousand (2018: USD 3,880 thousand) are included in the personnel costs.

The emoluments of the highest paid director were USD 1,628 thousand (2018: USD 1,589 thousand). Social taxes paid were USD 70 thousand (2018: USD 61 thousand).

**9. Auditors' remuneration**

	<b>2019</b>	<b>2018</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Audit of these consolidated financial statements	237	323
Audit of other subsidiaries	342	282
	<b>579</b>	<b>605</b>

## 10. Finance income and finance costs

	2019 '000 USD	2018 '000 USD
<b>Finance income</b>		
Net foreign exchange gain	9,451	24,382
Interest income on bank deposits	2,557	2,418
Dividend income	-	491
Investment gain	6,020	-
<b>Finance income</b>	<b>18,028</b>	<b>27,291</b>
<b>Finance costs</b>		
Interest expense	(83)	(1,210)
Interest expense under leases	(964)	-
Investment loss	-	(2,799)
Bank commissions	(30)	(642)
Unwinding of discount	(60)	(111)
<b>Finance costs</b>	<b>(1,137)</b>	<b>(4,762)</b>
<b>Net finance income recognised in profit or loss</b>	<b>16,891</b>	<b>22,529</b>

The total finance income measured at amortised cost was USD 8,577 thousand (2018: USD 2,909 thousand).

The total finance costs measured at amortised cost was USD 113 thousand (2018: USD 1,852 thousand).



## **11. Income tax expense**

The Group's applicable tax rate is the income tax rate of 19% for United Kingdom companies.

	<b>2019</b>	<b>2018</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<i><b>Current tax expense</b></i>		
Current period	74,015	40,437
(Over) provided in previous years	(2,251)	(1,351)
<b>Total current tax expense</b>	<b>71,764</b>	<b>39,086</b>
<i><b>Deferred tax expense</b></i>		
Origination and reversal of temporary differences	(52,880)	(8,012)
Overprovided in previous years	(4,052)	(438)
<b>Total deferred tax (benefit)/expense</b>	<b>(56,932)</b>	<b>(8,450)</b>
<b>Total income tax expense</b>	<b>14,832</b>	<b>30,636</b>

**Reconciliation of effective tax rate:**

	2019		2018	
	'000 USD	%	'000 USD	%
Profit before income tax	90,181		89,819	
Tax at the UK statutory blended rate of 19% (2018: 19%)	(17,135)	19	(17,066)	19
Non-deductible expenses/non-taxable income	(7,279)	8	(4,483)	5
Foreign tax suffered	(6,373)	7	(6,872)	8
Recognition of previously unrecognised tax losses	2,294	(3)	999	(1)
Deferred tax recognised due to changes in tax base of property, plant and equipment	906	(1)	(1,976)	2
Effect of tax rates in foreign jurisdictions	6,181	(7)	4,153	(5)
Effect of changes of the tax rates in foreign jurisdictions upon deferred tax balances	480	(1)	(6,912)	8
Over-provided in prior years	6,303	(7)	1,789	(2)
Other	(209)	-	(268)	-
	<b>(14,832)</b>	<b>15</b>	<b>(30,636)</b>	<b>34</b>

## 12. Property, plant and equipment

'000 USD	Computer and other equipment	Fixtures and fittings	Construction in progress	Buildings	Total
<i>Cost</i>					
<b>Balance at 1 January 2018</b>	<b>149,914</b>	<b>19,082</b>	<b>52</b>	<b>246,717</b>	<b>415,765</b>
Additions	4,411	672	12,120	-	17,203
Transfers	(4,464)	361	(12,168)	16,271	-
Transfer from investment property	3,508	102	-	32,202	35,812
Disposals	(483)	(286)	-	(2)	(771)
Translation differences	(16,547)	(1,447)	(4)	(4,131)	(22,129)
<b>Balance at 31 December 2018</b>	<b>136,339</b>	<b>18,484</b>	<b>-</b>	<b>291,057</b>	<b>445,880</b>
<b>Balance at 1 January 2019</b>	<b>136,339</b>	<b>18,484</b>	<b>-</b>	<b>291,057</b>	<b>455,880</b>
Additions	5,727	562	17,415	946	24,650
Transfers	16,149	572	(16,811)	90	-
Disposals	(3,585)	(2,038)	-	-	(5,623)
Translation differences	10,070	657	-	2,461	13,188
<b>Balance at 31 December 2019</b>	<b>164,700</b>	<b>18,237</b>	<b>604</b>	<b>294,554</b>	<b>478,095</b>
<i>Depreciation</i>					
<b>Balance at 1 January 2018</b>	<b>(103,980)</b>	<b>(11,380)</b>	<b>-</b>	<b>(53,417)</b>	<b>(168,777)</b>
Depreciation charge	(16,316)	(2,292)	-	(13,043)	(31,651)
Transfer from investment property	(2,951)	(101)	-	(6,357)	(9,409)
Disposals	329	167	-	-	496
Transfers	(859)	859	-	-	-
Translation differences	13,288	636	-	3,134	17,058
<b>Balance at 31 December 2018</b>	<b>(110,489)</b>	<b>(12,111)</b>	<b>-</b>	<b>(69,683)</b>	<b>(192,283)</b>

'000 USD	Computer and other equipment	Fixtures and fittings	Construction in progress	Buildings	Total
<b>Balance at 1 January 2019</b>	(110,489)	(12,111)	-	(69,683)	(192,283)
Depreciation charge	(17,577)	(1,847)	-	(10,866)	(30,290)
Impairment loss	(59)	(4)	-	-	(63)
Disposals	3,594	1,914	-	-	5,508
Transfers	(34)	34	-	-	-
Translation differences	(8,408)	(333)	-	(2,070)	(10,811)
<b>Balance at 31 December 2019</b>	<b>(132,973)</b>	<b>(12,347)</b>	<b>-</b>	<b>(82,619)</b>	<b>(227,939)</b>
<i>Net book value</i>					
<b>At 31 December 2018</b>	<b>25,850</b>	<b>6,373</b>	<b>-</b>	<b>221,374</b>	<b>253,597</b>
<b>At 31 December 2019</b>	<b>31,727</b>	<b>5,890</b>	<b>604</b>	<b>211,935</b>	<b>250,156</b>

Depreciation expense was charged as follows:

	2019 '000 USD	2018 '000 USD
Cost of goods sold	1,542	1,652
Research and development	15,451	16,215
Distribution expenses	6,247	6,511
Administrative expenses	7,050	7,273
<b>Total depreciation</b>	<b>30,290</b>	<b>31,651</b>

### 13. Investment property

'000 USD	Cost	Accumulated depreciation and impairment	Net book value
<b>Balance at 1 January 2018</b>	<b>82,185</b>	<b>(25,468)</b>	<b>56,717</b>
Additions to cost	6	-	6
Depreciation charge	-	(2,500)	(2,500)
Transfer to property, plant and equipment	(35,812)	9,409	(26,403)
<b>Balance at 31 December 2018</b>	<b>46,379</b>	<b>(18,559)</b>	<b>27,820</b>
Additions to cost	476	-	476
Depreciation charge	-	(1,388)	(1,388)
<b>Balance at 31 December 2019</b>	<b>46,855</b>	<b>(19,947)</b>	<b>26,908</b>

Investment property is represented by an office building in Moscow. A part of the complex is leased out to third parties and considered to be an investment property. Investment property is carried at cost less accumulated depreciation and impairment. Major leases contain an initial non-cancellable period of 3-5 years from the reporting date.

During the year the Group received rental income of USD 5,447 thousand (2018: USD 7,395 thousand). Direct operating costs attributable to the investment property and included in cost of sales amounted to USD 2,687 thousand (2018: USD 2,775 thousand).

Useful life of the building component of the investment property is 30 years and that of other equipment and subsystems 5 to 10 years.

The fair value of the investment property as at 31 December 2019 according to a professional valuers' report is USD 34,017 thousand (2018: USD 33,117 thousand). It is Level 3 fair value under IFRS 13.

*Fair value measurement.* The valuation was done using the income approach by discounting the anticipated future income streams and an exit value to a present value. The use of market comparables in the valuation was limited because of the nature of the property and lack of comparable market data. The following key assumptions underlie the valuation:

- The forecast period used in valuation is 5 years. It is assumed that at the end of the 5 year the property is disposed of at the terminal value.
- The rental rates indexation for the property is derived from the existing lease agreements providing for an annual indexation of 2.2-5%. Upon expiry of lease agreements, a base market rent at the current level at the valuation date was applied, assuming further annual rental indexation in line with the expected consumer price index of the relevant currencies.
- The occupancy rate was also based on the existing rent agreements. Upon expiry of lease agreements, a stabilised occupancy rate of 100% was used.
- The terminal value was calculated assuming a yield of 8.4% for the sale of the Property when the stabilised income is achieved.
- In order to arrive at a present value of the anticipated future income streams and an exit value, a discount rate of 12.68% p.a. was applied.

## 14. Intangible assets

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
<i>Cost</i>				
Balance at 1 January 2018	29,310	619	16,767	46,696
Additions	14,005	(1)	-	14,004
Disposals	(9,260)	-	-	(9,260)
Translation differences	(4,957)	(8)	-	(4,965)
<b>Balance at 31 December 2018</b>	<b>29,098</b>	<b>610</b>	<b>16,767</b>	<b>46,475</b>
Balance at 1 January 2019	29,098	610	16,767	46,475
Additions	13,865	-	-	13,865
Disposals	(11,169)	-	-	(11,169)
Translation differences	3,223	(13)	-	3,210
<b>Balance at 31 December 2019</b>	<b>35,017</b>	<b>597</b>	<b>16,767</b>	<b>52,381</b>

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
Balance at 1 January 2018	(5,897)	(615)	(6,291)	(12,803)
Amortisation charge	(16,731)	(1)	-	(16,732)
Disposals	9,074	-	-	9,074
Translation differences	1,362	9	-	1,371
<b>Balance at 31 December 2018</b>	<b>(12,192)</b>	<b>(607)</b>	<b>(6,291)</b>	<b>(19,090)</b>
Balance at 1 January 2019	(12,192)	(607)	(6,291)	(19,090)
Amortisation charge	(13,539)	(1)	-	(13,540)
Disposals	10,988	-	-	10,988
Translation differences	(1,308)	14	-	(1,294)
<b>Balance at 31 December 2019</b>	<b>(16,051)</b>	<b>(594)</b>	<b>(6,291)</b>	<b>(22,936)</b>
<i>Net book value</i>				
At 31 December 2018	16,906	3	10,476	27,385
At 31 December 2019	18,966	3	10,476	29,445

Amortisation expense was charged as follows:

	2019 '000 USD	2018 '000 USD
Cost of goods sold	561	635
Research and development	7,573	9,406
Distribution expenses	2,150	2,701
Administrative expenses	3,256	3,990
<b>Total amortization</b>	<b>13,540</b>	<b>16,732</b>

Goodwill balance of the Group was generated by acquisitions of two cash generating units (CGUs) in America (acquired in 2011) and Asia Pacific (acquired in 2010). The Group bases recoverable amount of CGUs on value in use which is calculated as a net present value of CGU's 5-year net cash flows. At the year end the Group has performed impairment review of the individual CGUs. Discount factor for both CGUs was 16.4 per cent. Cash flow projections used for testing were based on most recent budgets using the following growth assumptions:

- Sales growth rate varying from 2% (in Asia Pacific) and 10% (in America) to 20% per annum;
- Expenses growth rate varying from 2% to 20% per annum.

Both CGUs demonstrated no signs of impairment (recoverable amounts were higher than Goodwill).

## 15. Right-of-use assets under long-term leases

The Group applies, for the first time, IFRS 16 Leases, since 1 January 2019 using a modified retrospective approach.

'000 USD	Cost	Accumulated depreciation	Net book value
<b>Initial recognition at 1 January 2019</b>	<b>31,833</b>	<b>-</b>	<b>31,833</b>
Additions	1,704	-	1,704
Disposals	(2,434)	-	(2,434)
Depreciation charge	-	(10,551)	(10,551)
Disposal of depreciation	-	203	203
Impairment	-	(208)	(208)
Translation differences	1,299	(160)	1,139
<b>Balance at 31 December 2019</b>	<b>32,402</b>	<b>(10,716)</b>	<b>21,686</b>

## 16. Deferred tax assets and liabilities

### (a) Unrecognised deferred tax liabilities

Deferred tax liabilities of USD 83,218 thousand (2018: USD 65,263 thousand), relating to investments in subsidiaries have not been recognised as the Group is able to control the timing of reversal of the relevant differences, and reversal is not expected in the foreseeable future.

### (b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 USD	Assets		Liabilities	
	2019	2018	2019	2018
Fixed assets and investment property	369	338	(5,553)	(6,970)
Intangible assets	67	30	-	-
Trade and other receivables	1,712	2,114	(21,930)	(7,493)
Deferred revenue	105,020	42,830	(58)	(44)
Trade and other payables	24,051	12,819	(58)	(833)
Right-of-use assets	-	-	(44,499)	-
Long-term lease liabilities	39,074	-	-	-
Tax loss carry-forwards	5,799	815	-	-
Other items	184	288	(11)	(50)
<b>Tax assets/(liabilities)</b>	<b>176,276</b>	<b>59,234</b>	<b>(72,109)</b>	<b>(15,390)</b>
<b>Set off of tax</b>	<b>(68,567)</b>	<b>(9,076)</b>	<b>68,567</b>	<b>9,076</b>
<b>Net tax assets/(liabilities)</b>	<b>107,709</b>	<b>50,158</b>	<b>(3,542)</b>	<b>(6,314)</b>

**(c) Movement in temporary differences during the year**

'000 USD	1 January 2019	Recognised in profit or loss	Translation difference	31 December 2019
Fixed assets and investment property	(6,632)	1,692	(244)	(5,184)
Intangible assets	30	32	5	67
Trade and other receivables	(5,379)	(15,043)	204	(20,218)
Deferred revenue	42,786	59,708	2,468	104,962
Trade and other payables	11,986	10,695	1,312	23,993
Right-of-use assets	-	(42,449)	(2,050)	(44,499)
Long-term lease liabilities	-	37,406	1,668	39,074
Tax loss carry-forwards	815	4,956	28	5,799
Other items	238	(65)	-	173
	<b>43,844</b>	<b>56,932</b>	<b>3,391</b>	<b>104,176</b>

'000 USD	1 January 2018	Recognised in profit or loss	Translation difference	31 December 2018
Fixed assets and investment property	(6,549)	(667)	584	(6,632)
Intangible assets	(226)	241	15	30
Trade and other receivables	868	(6,261)	14	(5,379)
Deferred revenue	30,031	16,742	(3,987)	42,786
Trade and other payables	13,798	145	(1,957)	11,986
Tax loss carry-forwards	2,526	(1,703)	(8)	815
Other items	273	(47)	12	238
	<b>40,721</b>	<b>8,450</b>	<b>(5,327)</b>	<b>43,844</b>



## 17. Inventories

	2019	2018
	'000 USD	'000 USD
Software licenses held for resale	9,020	8,286
Product components and consumables	716	386
Finished goods and goods for resale	308	1,417
Provision for obsolescence	(8,700)	(9,322)
	<u>1,344</u>	<u>767</u>

Software licenses held for resale, which have not been sold by the date of preparation of these financial statements are fully provided for due to lack of evidence of their net realisable value.

## 18. Other investments

	2019	2018
	'000 USD	'000 USD
<i>Non-current</i>		
Financial assets measured at amortised cost:		
Loans (Note 27)	58,042	-
Sublease	1,476	-
	<u>59,518</u>	<u>-</u>

	2019	2018
	'000 USD	'000 USD
<i>Current</i>		
Financial assets measured at amortised cost:		
Loans (Note 27)	310	10,986
Repurchase agreements	8,034	-
Sublease	514	-
	<u>8,858</u>	<u>10,986</u>

Financial assets designated at fair value through profit and loss:

Corporate debt securities	68,374	1,145
Equity securities	513	353
	<u>68,887</u>	<u>1,498</u>
	<u>77,745</u>	<u>12,484</u>

Corporate debt securities classified at fair value through profit and loss account have stated interest rate of 2.88% to 8.2% and mature in one to six years.

Equity securities have been designated as at fair value through profit and loss account because they are managed on a fair value basis and their performance is actively monitored.

The fair value of investments designated at fair value through profit and loss account, with a carrying amount of USD 68,887 thousand (2018 USD 1,498 thousand), was determined by reference to their quoted market prices; these investments are listed on the Moscow and major European stock exchanges (including London and Frankfurt stock exchanges). It is Level 1 fair value under IFRS 13 *Fair value measurement*. Accumulated interest on debt securities, included in the carrying amount as at the reporting date was USD 306 thousand (2018: USD 2 thousand).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 23.

## 19. Trade and other receivables

	2019 '000 USD	2018 '000 USD
Trade receivables from third parties	175,585	151,563
Prepayments and accrued income	59,455	57,318
Prepaid taxes (other than corporate profit taxes)	11,640	9,507
Other receivables	9,529	7,550
Office lease deposits	1,971	2,079
Deferred expenses	8,161	2,641
Provision for bad and doubtful debts	(18,688)	(32,468)
	<b>247,653</b>	<b>198,190</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 23.

## 20. Cash and cash equivalents

	2019 '000 USD	2018 '000 USD
Petty cash	2	5
Bank balances	51,688	111,612
Call deposits	44,028	95,616
<b>Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows</b>	<b>95,718</b>	<b>207,233</b>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

## 21. Capital and reserves

### (a) Share capital

<i>Number of shares unless otherwise stated</i>	<b>Ordinary shares</b>	
	<b>2019</b>	<b>2018</b>
Authorised shares	110,000,000	110,000,000
Par value	GBP 0.00001	GBP 0.00001
Shares authorised, not issued at the beginning of the year	45,042,750	44,852,911
Share cancellation	-	(189,839)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### (b) Acquisition of own shares

In 2019 the Group did not acquire any of its own shares (2018: 189,839 shares).

### (c) Dividends

In 2019 the Group did not declare dividends (2018: USD 1,200 thousand ).

### (d) Additional paid in capital

The additional paid in capital reserve is used to record the value of own shares acquired in excess of par value.

### (e) Translation reserve

This reserve records the gains and losses recognized on retranslation.

### (f) Retained earnings

Retained earnings is used to record the accumulated distributable profits and losses realized during the course of the year and prior years.

## 22. Trade and other payables

	2019	2018
	'000 USD	'000 USD
<b>Current:</b>		
Accrued expenses	78,627	76,580
Payables to employees	44,296	33,392
Trade payables to third parties	22,456	19,937
Provision for sales returns	7,659	7,699
Social taxes payable	8,005	6,531
Other taxes payable	15,526	14,246
Trade advances received	626	1,073
Other payables	343	753
	<b>177,538</b>	<b>160,211</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 23.

## 23. Fair values and risk management

### (a) Accounting classifications and fair values

The values of the Group's financial instruments as at 31 December 2019 approximate their fair values.

### (b) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has the overall responsibility for establishing and overseeing the Group's risk management framework. Day-to-day risk management functions are carried out by the management of the Group.

The Group's risk management policies and procedures are established to identify and analyse the risks faced by the Group to set appropriate risk limits, and controls.

The Group's risk management policies are in the process of being formalised. The Group's Management carries out day-to-day monitoring of risks based on analysis of management reports regularly prepared by the financial department containing a wide range of data on various aspects of the Group's activities.

The Group, through its training and managerial standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**(c) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, as well as the default risk of the industries and countries in which customers operate. There is no significant concentration of credit risk.

The Credit manager, together with the sales administration department and client service departments, monitors the balances due from individual customers. If there are significant past due amounts, transactions with the customer are suspended until the receivable has been reduced to a satisfactory level. The Group does not require collateral in respect of trade and other receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. To measure expected credit losses on a collective basis, trade and other receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Group's historical credit losses experienced over a six-year period prior to the year ended. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

**(ii) Investments**

The Group limits its exposure to credit risk mainly by placing deposits with banks with good credit rating and by investing in securities with high credit ratings (from AA- to B+, with majority being higher BBB-). Given this, Management does not consider that the Group incurs significant credit risk in relation to these investments.

The credit risk associated with loans issued by the Group is controlled by closely monitoring on a regular basis financial and non-financial information on the debtor's activity.

Given this, Management does not consider that the Group incurs significant credit risk in relation to investments.

**(iii) Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2019	2018
	'000 USD	'000 USD
Receivables and other investments	285,792	178,280
Cash and cash equivalents	95,718	207,233
	<b>381,510</b>	<b>385,513</b>

Most of the balance of the exposure of credit risk is made of trade accounts receivable, which are described below.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 USD	Carrying amount	
	2019	2018
	'000 USD	'000 USD
Europe	62,430	45,671
CIS and Baltic	72,829	44,048
North America	27,487	32,351
Middle East and Africa	16,992	18,454
Far East and Pacific	10,923	9,171
South America	6,406	6,298
	<b>197,067</b>	<b>155,993</b>

**Impairment losses**

'000 USD	Gross	Impairment	Gross	Impairment
	2019	2019	2018	2018
Debtor days are less or equal to the standard payment terms	139,242	(51)	118,446	(5,950)
Debtor days exceed the standard payment terms by 0-60 days	3,871	(194)	9,479	(4,127)
Debtor days exceed by 61-120 days	969	(254)	3,578	(2,917)
Debtor days exceed by 121-365 days	2,255	(1,486)	1,665	(1,154)
Debtor days exceed by more than 365 days	29,248	(16,703)	18,395	(18,320)
	<b>175,585</b>	<b>(18,688)</b>	<b>151,563</b>	<b>(32,468)</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2019 '000 USD	2018 '000 USD
Balance at beginning of the year	32,468	18,058
Bad debt (recovered)/expense (net)	(12,969)	15,719
Write-off	(1,052)	(965)
Translation difference	241	(344)
Balance at the end of the year	<u>18,688</u>	<u>32,468</u>

The Group establishes an allowance for impairment losses that represents its estimate of lifetime expected losses in respect of trade receivables. The main component of this allowance is the specific loss component relating to individually significant exposures. Doubtful accounts receivable are analysed individually based on debtors days, and then on a case by case basis. Special attention is paid to receivables with balances past due by more than 60 days. The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. In estimating lifetime expected losses in respect of trade receivables the Group considers forward-looking information, including macroeconomic information. No significant changes made to the assumptions used in the period.

#### **(d) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted such as a natural disaster.

The Group's financial liabilities consist of non-interest bearing trade and other payables most of which are due within six months of the reporting date.

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts:

#### **31 December 2019**

'000 USD	Carrying amount	Contract cash flows	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Trade and other payables	155,949	156,120	153,437	2,074	-	609	-	-
Lease payables	20,577	20,577	8,317	10,772	1,488	-	-	-
	<u>176,526</u>	<u>176,697</u>	<u>161,754</u>	<u>12,846</u>	<u>1,488</u>	<u>609</u>	<u>-</u>	<u>-</u>

**31 December 2018**

'000 USD	Carrying amount	Contract cash flows	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Trade and other payables	141,964	142,194	139,421	2,164	-	609	-	-
	<b>141,964</b>	<b>142,194</b>	<b>139,421</b>	<b>2,164</b>	<b>-</b>	<b>609</b>	<b>-</b>	<b>-</b>

**(e) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(f) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUB), U.S. Dollars (USD) and EUR. The currencies in which these transactions are primarily denominated are Sterling (GBP), USD, EUR, RUB, Singapore Dollars (SGD) and Brazilian Reals (BRL).

The Group does not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign currency hedging is not used by the Group partially as the current structure of the Group's operations provides a natural cash flow hedge, in the sense that expected cash outflows in a currency do not exceed expected inflows in that currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.



**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 USD	GBP- denominated 2019	USD- denominated 2019	EUR- denominated 2019	RUB- denominated 2019	SGD- denominated 2019	BRL- denominated 2019
<b>Current assets</b>						
Receivables	5,010	185,739	62,083	2,858	9,866	3,184
Cash and cash equivalents	401	14,945	136	5,212	-	-
Investments	-	466,310	5,763	34,237	11,048	-
Net investment in sublease	514	-	-	-	-	-
<b>Non-current assets</b>						
Investments	-	-	2,635	-	-	-
Net investment in sublease	1,476	-	-	-	-	-
<b>Current liabilities</b>						
Payables	(1,097)	(14,513)	(31)	(377)	-	-
Loans and borrowings	-	(41,285)	(214)	-	-	-
Lease payables	(1,169)	(2,860)	-	-	-	-
<b>Non - current liabilities</b>						
Loans and borrowings	-	-	-	-	-	-
Lease payables	(2,882)	(4,818)	-	-	-	-
	<b>2,253</b>	<b>603,518</b>	<b>70,372</b>	<b>41,930</b>	<b>20,914</b>	<b>3,184</b>

'000 USD	GBP- denominated 2018	USD- denominated 2018	EUR- denominated 2018	RUB- denominated 2018	SGD- denominated 2018	BRL- denominated 2018
<b>Current assets</b>						
Receivables	3,953	123,352	3,928	623	9,344	3,593
Cash and cash equivalents	2,450	22,471	118,551	8,897	-	-
Investments	-	462,337	-	-	-	-
<b>Non-current assets</b>						
Investments	-	-	1,147	-	-	-
<b>Current liabilities</b>						
Payables	(1,063)	(133,776)	(3,063)	(195)	-	-
Loans and borrowings	-	(34,518)	(36)	-	-	-
<b>Non - current liabilities</b>						
Loans and borrowings	-	-	(85,645)	-	-	-
	<b>5,340</b>	<b>439,866</b>	<b>34,882</b>	<b>9,325</b>	<b>9,344</b>	<b>3,593</b>

The following significant exchange rates applied during the year:

in USD	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
RUB	0.0155	0.0160	0.0162	0.0144
EUR	1.1199	1.1818	1.1201	1.1438
GBP	1.2766	1.3360	1.3108	1.2708

Some of the Group's subsidiaries applied exchange rates different from those stated above in case if these rates did not reflect the rates of conversion prevailing on the local markets, at which the respective balances could have been settled.

#### ***Sensitivity analysis***

A 20% strengthening of the USD against the following currencies at 31 December would have increased/(decreased) equity and profit/(loss) net of taxes expressed in the Group's presentational currency by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2018.

	Equity '000 USD	Profit or (loss) '000 USD
<b>2019</b>		
EUR	26,268	81,203
RUB	(73,762)	10,465
	Equity '000 USD	Profit or (loss) '000 USD
<b>2018</b>		
EUR	11,318	61,684
RUB	(54,294)	4,640

A 20% weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**(g) Interest rate risk**

The Group's interest rate risk arises from call deposits and other investments. Deposits and investments mostly represent fixed rate financial assets, changes in interest rate impact primarily their fair values. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of making an investment, Management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**(i) Profile**

At the reporting date the Group did not have any variable interest rate financial instruments.

**(ii) Fair value sensitivity analysis for fixed rate instruments**

The Group has classified some of the fixed rate financial assets as fair value through profit or loss. The fair value of these assets at reporting date was USD 136,750 thousand (2018: USD 12,131 thousand).

An increase of 100 basis points in interest rates would have decreased profit and equity by USD 2,233 thousand net of tax (2018: no material impact). A decrease of 100 basis points would have had an equal but opposite effect.

**(iii) Fair values versus carrying amounts**

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

**(h) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group's net debt to capital ratio and the level of distribution to shareholders of the Company.

The Group determines the appropriate capital structure based on the risk of investment in a product or market and reassesses its capital structure at the time of making a new investment decision, or when economic conditions or risk characteristics of an underlying product or market change. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares and adjust the working capital.

There were no changes in the Group's approach to capital management during the year.

**24. Lease liabilities**

'000 USD	2019	2018
Balance as at 1 January 2019	30,588	-
Conclusion of new lease agreements	1,704	-
Lease payments	(10,099)	-
Lease interest	968	-
Lease reassessment	(2,694)	-
Translation differences	110	-
<b>Balance at 31 December 2019</b>	<b>20,577</b>	<b>-</b>

'000 USD	2019	2018
Long-term lease liabilities	12,260	-
Short-term lease liabilities	8,317	-

**25. Operating leases**

Non-cancellable operating lease rentals are receivable as follows:

'000 USD	2019	2018
Less than one year	4,347	4,479
Between one and five years	8,825	13,186
	<b>13,172</b>	<b>17,665</b>

During the current year USD 5,447 thousand was recognised in the consolidated statement of profit and loss account and other comprehensive income in respect of operating lease income (2018: USD 7,395 thousand).

## **26. Contingencies**

### **(a) Litigation**

As at the reporting date the Group was not involved in any litigation, which would give rise to material contingent liabilities.

### **(b) Taxation contingencies**

The past few years have seen a shift in the approach taken by tax authorities in numerous territories around the world, including the UK, Russia and the US. Governments have been increasing their investment in resource with a view to maximising domestic tax revenues. The Group always seeks to comply with relevant legislation and treaties but inevitably there can be differences in interpretation of grey areas and the chances of successful challenge have increased.

Against this background, the position is exacerbated in the Russian Federation where some of the Group's significant subsidiaries operate. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, focusing more on the economic substance and not only the legal form of business transactions.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion, an equivalent of USD 16,154 thousand as at 31 December 2019).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

The Group has a number of transactions concluded between the companies of the Group, which are subject to the transfer pricing control in Russia. The Group notifies the Russian tax authorities about all these transactions as required in the Russian Tax Code.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing a different interpretation, could be significant. The Group does not exclude the possibility that the Russian tax authorities may take a different position from the Group. In this case, the Group is ready to justify its current methodology.

## **27. Related party transactions**

### **(a) Control relationships**

The party with ultimate control over the Company is Eugene Kaspersky.

### **(b) Transactions with management and close family members**

Shareholders who hold in aggregate 100% of the Company's ordinary shares (2018: 100%) are part of the Group's Key Management Personnel, which comprise the Group's Directors and heads of significant functions.

#### **(i) Management remuneration**

Key management received the following remuneration during the year, which is included in personnel costs (see Note 8):

	2019	2018
	'000 USD	'000 USD
Salaries and bonuses	9,063	9,802
Payroll taxes	370	394
	<b>9,433</b>	<b>10,196</b>

### **(c) Transactions with other related parties**

During 2019 the Group granted to an associated company a Rouble-denominated loan of USD 39,652 thousand (carrying value as at 31 December 2019 of USD 58,042 thousand) convertible into shares in the borrower at any time at the lender's discretion (2018: USD 10,795 thousand with carrying value of USD 10,986 as at 31 December 2018). The original maturity of the loans is March 2020 and the annual rate is fixed at 12%. Subsequent to the balance sheet date the maturity was rescheduled to March 2021. The annual interest rate was changed to 8%.

During 2019 the Group granted to a related party a Rouble-denominated loan of USD 212 thousand (2018: USD 72 thousand) (carrying value as at 31 December 2019 of USD 310 thousand). The loan carries interest at 5% and is repayable on 31 December 2020.

### **(d) Pricing policies**

Related party transactions are based on the Group's estimates of market prices.

## 28. Subsidiaries

		2019	2018
	Registered office address	Ownership/ voting	Ownership/ voting
JSC Kaspersky Lab	39A/3 Leningradskoe shosse, Moscow, 125212, Russia	99.9%	100%
JSC VSSI	39A/3 Leningradskoe shosse, Moscow, 125212, Russia	99.9%	100%
Kaspersky Lab UK Limited	2 Kingdom Street, Paddington, W2 6BD, United Kingdom	100%	100%
Kaspersky Lab Inc	500 Unicorn Park Dr., Ste 300, Woburn MA 01801, USA	100%	100%
Kaspersky Labs GmbH	Despag-Straße 3, 85055 Ingolstadt, Germany	100%	100%
Kaspersky Lab France EURL	2 rue Joseph Monier, Immeuble Européen - Bat C, 92500 Rueil Malmaison, France	100%	100%
Kaspersky Lab Asia Ltd	Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Kowloon, Hong Kong	100%	100%
KK Kaspersky Labs Japan	7F Sumitomo Fudousan Akihabara bldg., 3-12-8 Sotokanda, Chiyoda-ku, Japan	100%	99.9%
KL Anti-Virus Solutions	Cuernavaca 106, Condesa, Mexico D.F. C.P. 06140, México	100%	100%
JSC Kaspersky Group	39A Blg.2, Leningradskoe Shosse, 125212, Moscow, Russia	99.9%	100%
Kaspersky Lab ME FZ-LLC	Premises 2201, 2203&2205, Floor 22 Arenco Tower, Dubai, United Arab Emirates	100%	100%
Kaspersky Info Systems SRL	Bucharest, Iride Business Park, Building no. 24, first floor, 9-9A Dimitrie Pompei Bldv., sector 2, Romania	100%	100%

	Registered office address	2019 Ownership/ voting	2018 Ownership/ voting
Kaspersky Lab Czech Republic S.R.O.	Nádražní 344/23, Smíchov, 150 00 Praha 5, Czech Republic	100%	100%
Kaspersky Lab South Africa	Republic of South Africa, KPMG Crescent, 85 Empire Road Parktown 2193, South Africa	99.9%	100%
Kaspersky Bilisim Hizmetleri San. Ve Tic Ltd	Ağaoğlu My Prestige Barbaros Mah. Şarkaç Sok. No:1 K:11 D:91-92, 34746 Ataşehir, Istanbul, Türkiye	100%	100%
Kaspersky Lab KZ	Almaty, Kazylbek Bi 20A, office 309, Kazakhstan	100%	100%
Kaspersky Lab Israel Ltd	The Technology Garden – Malha, Agudat Sport Hapoel St. 2, Tower building floor 11, P.B. 89, Jerusalem	100%	100%
Kaspersky Lab Denmark Aps	Sundkrogsgade 21, 2100 Copenhagen, Denmark	100%	100%
Kaspersky Lab S.L.U.	Paseo Club Deportivo, nº1, Edificio 11, Planta 1, Izquierda 1, Parque Empresarial La Finca, Somosaguas, Pozuelo de Alarcón, Madrid, 28223, Spain	100%	100%
Kaspersky Lab Italia S.r.l.	Francesco Benaglia 13, 00153 Rome, Italy	100%	100%
Kaspersky Lab B.V.	Papendorpseweg 77 79, 3528BJ Utrecht, Netherlands	100%	100%
Kaspersky Lab Unipessoal LDA	Avenida dos Oceanos, nr. 142, 0º B, 1990-502 Parque das Nações, in the parish of Parque	100%	100%
Kaspersky Lab Switzerland GmbH	Bahnhofstrasse 100, CH-8001 Zürich, Switzerland	100%	100%
Kaspersky Security Solutions Ireland Limited	572093, 32 Molesworth Street, Dublin 2, Ireland	100%	100%
Threatpost, Inc	500 Unicorn Park Drive, Woburn, MA, 01801, USA	100%	100%
Kaspersky Lab Soluções Seguras Brasil LTDA	City of São Paulo, State of São Paulo, at Avenida Queiroz Filho, 1700, tower A, rooms 801, 802, 803 and 804, Vila Hamburguesa, Zip Code 05319-000, Brazil	100%	100%



		2019	2018
	Registered office address	Ownership/ voting	Ownership/ voting
Kaspersky Technology Development	1# Qing Long Bystreet, Dongcheng District, Beijing 100007, China	100%	100%
Kaspersky Lab Australia and New Zealand Pty Ltd	Level 2, 19 Shierlaw avenue, Canterbury Vic 3126, Australia	100%	100%
Kaspersky Lab India Private Limited	102, 1st Floor, Gala Impecca, A-2, Jitendra Estate, M.V.Road, Andheri (East) Mumbai Mumbai, City MH 400059, India	100%	100%
Kaspersky Lab SEA SDN. BHD.	Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	100%	100%
Kaspersky Lab Korea Ltd	Sun Tower Building 5F, 42, Seolleung-ro 90-gil, Gangnam-gu, Seoul, Korea	100%	100%
Kaspersky Lab Singapore Pte Ltd	2 Shenton Way 18-01, SGX Center 1, Singapore, 068804	100%	100%
Kaspersky Lab Canada Limited	750 – 1055 West Georgia Street Vancouver, BC V6E 3P3	100%	100%

## 29. Non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations.

**31 December 2019**

'000 USD	JSC Kaspersky Lab	JSC VSSI	Kaspersky Lab South Africa (Pty) Limited
<b>NCI percentage</b>	0.1%	0.1%	0.1%
Non-current assets	440,190	241,417	830
Current assets	215,244	46,326	8,111
Non-current liabilities	(267,686)	(6,820)	(597)
Current liabilities	(229,985)	(393)	(6,784)
Net assets	157,763	280,530	1,560
Carrying amount of NCI	158	281	2
Revenue	374,819	32,414	5,457
Profit	208,647	222,972	1,842
Other comprehensive income	(58,795)	-	(282)
<b>Total comprehensive income</b>	149,852	222,972	1,560
Profit allocated to NCI	209	223	2
Other comprehensive income allocated to NCI	(59)	-	-
Cash flows from operating activities	202,720	34,236	(131)
Cash flows used in investing activities	(74,358)	(15,307)	(86)
Cash flows from financing activities	(3,046)	-	(55)
<b>Net increase in cash and cash equivalents</b>	125,316	18,929	(272)

**31 December 2018**

<b>'000 USD</b>	<b>KK Kaspersky Lab Japan</b>
<b>NCI percentage</b>	<b>0.1%</b>
Non-current assets	4,127
Current assets	8,166
Non-current liabilities	(8,210)
Current liabilities	(11,947)
<b>Net liabilities</b>	<b>(7,864)</b>
Carrying amount of NCI	(8)
Revenue	17,197
Loss	(207)
Other comprehensive income	(160)
<b>Total comprehensive income</b>	<b>(367)</b>
Loss allocated to NCI	-
Other comprehensive income allocated to NCI	-
Cash flows from operating activities	516
Cash flows used in investing activities	(149)
<b>Net increase in cash and cash equivalents</b>	<b>367</b>

### 30. Financial instruments

The group holds the following financial instruments:

	2019	2018
	'000 USD	'000 USD
<b>Financial assets</b>		
Financial assets at amortised cost:	372,965	373,382
Financial assets at fair value through profit or loss	68,887	1,498
<b>Total financial assets</b>	<b>441,852</b>	<b>374,880</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost:	176,893	142,361
Financial liabilities at fair value through profit or loss	-	-
<b>Total financial liabilities</b>	<b>176,893</b>	<b>142,361</b>

### 31. Events subsequent to the reporting date

On 15 April 2020 the Group acquired a 100% share in Nexway Group AG, a distributor, for a cash consideration of EUR 2 million (USD 2,173 thousand, at the exchange rate as at the date of the transaction). As at the date when these financial statements were authorised for issue the determination of the amounts to be recognised as of the acquisition date for each major class of assets acquired and liabilities assumed has not been finalised.

There were no other major events after reporting date.

### 32. Financial commitments

The group has financial commitments totalling USD 22,456 thousand for sponsorship fees of which USD 11,228 thousand is expected to be expensed in the year ended 31 December 2020 with the remaining USD 11,228 thousand being expected to be expensed in the year ended 31 December 2021.

### 33. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### (a) Basis of consolidation

##### (i) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus  
the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the profit and loss account.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the profit and loss account.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the profit and loss account.

**(ii) Accounting for acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

**(iii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**(iv) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest

in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

**(v) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) *Foreign currency***

**(i) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in the profit and loss account, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

**(ii) *Foreign operations***

The assets and liabilities of all Group entities, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit and loss account as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the profit and loss account.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

**(c) Financial instruments**

The Group's accounting policies in respect of financial instrument transactions are explained below:

**(i) Financial assets**

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

**(ii) Fair value through profit or loss**

All of the Group's financial assets other than those which meet the criteria to be measured at amortised cost are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

**(iii) Debt instruments at amortised cost**

Debt instruments are subsequently measured at amortised cost where they are financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is calculated using the effective interest method and represents the amount measured at initial recognition less repayments of principal plus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

The Group provides for financial assets held at amortised cost using a lifetime expected credit loss model.

**(iv) Cash at bank and in hand**

Cash at bank and in hand includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

**(v) Financial liabilities**

Financial liabilities which are neither contingent consideration of an acquirer in a business combination, held for trading, nor designated as at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. This is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the amortised cost of a financial liability.

**(d) Share capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Repurchase, disposal and reissue of share capital (treasury shares)*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

**(e) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in the profit and loss account.

**(ii) Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit and loss account as incurred.

**(iii) Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.



The estimated useful lives for the current and comparative periods are as follows:

- |   |               |
|---|---------------|
| • buildings and constructions not in progress | 30 years      |
| • building sub-systems and equipment          | 10 - 15 years |
| • computer and other equipment                | 3 - 5 years   |
| • fixtures and fittings                       | 5 years       |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(I) Intangible assets**

**(i) Goodwill**

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 33 (a)(i).

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

**(ii) Patents**

Patents acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

**(iii) Research and development costs**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. This occurs when a product satisfies product trials in a live customer environment to establish technical and commercial feasibility. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Development expenditure incurred on minor or major upgrades and updates or other changes in software functionality does not meet the criteria for capitalisation, as the product is not substantially new in its design or functional characteristics. Such expenditure is, therefore, recognised as expense in the profit and loss account as incurred.

The Group has not capitalised any development costs as the qualifying amounts are not significant. On the basis that a development project meets the technical and commercial feasibility requirements

at the end of its development, subsequent costs that qualify for capitalisation are not material to the consolidated financial statements.

**(iv) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(v) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

**(vi) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- patents - 2 years
- other - 1 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(g) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Depreciation is recognised in the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of investment property, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the profit and loss account.

When the use of a property changes such that it is reclassified as property, plant and equipment, its cost, accumulated depreciation and impairment losses at the date of reclassification become its cost, accumulated depreciation and impairment losses for subsequent accounting.

Investment property includes buildings, equipment installed and fittings such as elevators, air conditioning and other communications installed.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. Subsequent expenditure includes further development of infrastructure and capital improvements. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

**(h) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(j) Deferred income**

Deferred income represents the monetary value of products and services sold and delivered to the customers, which was not recognized as revenues as at the reporting date because not all of the revenue recognition criteria are not yet met (refer to Note 33 (n) for the Group's revenue recognition policy). Deferred income will be recognised as revenue in future periods, when all performance obligations have been met. Deferred income as at a reporting date is calculated as the difference between the cumulative monetary amounts of invoices issued to the partners and customers and revenues recognised to date.

**(k) Impairment**

**(i) Financial assets**

A financial asset not carried at fair value through the profit and loss account is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise or indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss account and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit and loss account.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(l) Employee benefits**

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including state pension funds, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(ii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(m) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(i) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(ii) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

**(n) Revenue**

Revenue from the sale of licences and provision of services is recognised based on the five-step model where the contract has been identified with the customer, the performance obligation in the contract has been identified, the transaction price has been identified and allocated to the performance obligation, revenue is then recognized as the performance obligation is satisfied over time. Payment is due after an order has been placed; satisfaction of the performance obligation is carried out over time and as payment is received before all performance obligations have been satisfied, an element of revenue equal to the unsatisfied performance obligation is deferred. Revenue is measured at fair

value of the consideration received or receivable, net of returns, vendor and end-user discounts and taxes. The following specific criteria are also applied.

**(i) Licence fees**

Revenue from the sale of licences is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of licences can be estimated reliably, and there is no continuing management involvement with the licences, and the amount of revenue can be measured reliably. Revenue is measured at fair value of the consideration received or receivable, net of returns, vendor and end-user discounts and taxes. The following specific criteria are also applied.

*Licence agreements with end customers and resellers*

Licence agreements with end-users and resellers involve the sale of a licence for multiple products and services: a software licence for a fixed period of time together with regular updates, upgrades of the software and other services under a fixed licence term. The portion of the revenue corresponding to each element of the arrangement cannot be identified and measured reliably, and the entire amount of revenue under a multiple element arrangement is recognised rateably over the duration of the licence, starting from the time of the delivery of the licence as the performance obligation is considered to be met over time.

The Group offers the right of return of its products under various policies and programs with its distributors, resellers, and end-user customers. The Group estimates and recognizes provisions for estimated product returns as deduction from revenue.

*Licence agreements with technology partners*

Licence agreements with technology partners involve the sale of a licence for the use of the Group's software in a licensee's products together with regular updates, upgrades of the software and other services over a fixed term. Revenue is recognised rateably over the duration of the term specified in the licence agreement as performance obligations are met, upon sale of the technology partner's products as reported by the partner.

**(ii) Services**

Revenue from cyber security services rendered is recognised in the profit and loss account as the related performance obligations are met.

**(a) Cost of sales**

Cost of sales include expenses incurred in conducting the Group's main activities, including the cost of inventories sold, expenses related to geographical localisation of the Group's products, the cost of providing technical support and relevant overheads.

**(p) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during

the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(q) Finance income and costs**

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**(r) Income tax**

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 January 2019. The adoption of IFRIC 23 resulted in no net impact on the retained earnings.

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit and loss account except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in

respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

When the applicable tax law is not very clear, or in tax regimes where the amounts finally payable to the tax authorities are the outcome of lengthy negotiations involving a high degree of subjectivity and discretion, the Group's tax positions may be challenged by the tax authorities, which may result in additional taxes, penalties or late-payment interest, or in changes in the tax basis of assets or liabilities, or changes in the amount of available tax loss carry-forwards that would reduce a deferred tax asset or increase a deferred tax liability. If such tax positions are taken by the Group and Management believes that it is probable that an outflow of economic benefits will be required to settle an obligation due to the Group's specific tax positions, the Group recognises current/deferred tax liabilities in the Statement of financial position and income tax expense in profit and loss for the estimated amount of the additional tax, penalties and late-payment interest.

## **(s) IFRS 16 Leases**

### **(i) Transition**

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application 1 January 2019, without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;



(b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

(c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

(d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

- Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

- Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 3.23%.

The following table reconciles the minimum lease commitments disclosed in the group's 31 December 2018 annual financial statements to the amount of lease liabilities recognized on 1 January 2019:

	1 January 2019
	'000 USD
Minimum operating lease commitment at 31 December 2018	33,982
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(3,394)
<b>Lease liability as at 1 January 2019</b>	<b>30,588</b>

**(ii) Leases in which the Group is a lessee**

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see accounting policy s(i). The following policies apply subsequent to the date of initial application, 1 January 2019.

**(iii) Identifying Leases**

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- (a) There is an identified asset;
- (b) The Group obtains substantially all the economic benefits from use of the asset; and
- (c) The Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

**(iv) Lease Measurement**

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are

discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

*(v) Leases in which the Group is a lessor*

No changes will be made in the accounting for leases where the Group is a lessor with the adoption of IFRS 16 Leases.

### **34. New standards and interpretations not yet adopted**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

**(b) Other amendments**

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

**35. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment and investment property**

The fair value of property, plant and equipment and investment property acquired recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(b) Intangible assets**

The fair value of distribution agreements and customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(c) Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(d) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**(f) Contingent consideration**

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term nature, it is discounted to present value.

**(g) Other investments**

Equity securities are measured at fair value and their performance is actively monitored. The fair value of investments is determined by reference to quoted market prices; these investments are listed on the Moscow and major European stock exchanges (including London and Frankfurt stock exchanges).

		2019	2018
	Notes	'000 USD	'000 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	C1	635,083	634,859
Long-term loans to subsidiaries	C7	-	1,147
Deferred tax assets		-	35
<b>Total non-current assets</b>		<b>635,083</b>	<b>636,041</b>
<b>Current assets</b>			
Short-term loans to subsidiaries	C7	2,858	1,977
Trade and other receivables	C2	3,405	5,702
Cash and cash equivalents		107	727
<b>Total current assets</b>		<b>6,370</b>	<b>8,406</b>
<b>Total assets</b>		<b>641,453</b>	<b>644,447</b>

The Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 83 to 88.

		2019	2018
	Notes	'000 USD	'000 USD
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	C3		
Share capital		1	1
Additional paid-in capital		17,221	17,221
Retained earnings		147,360	168,503
<b>Total equity</b>		<b>164,582</b>	<b>185,725</b>
<b>Non-current liabilities</b>			
Loans and borrowings	C5	-	454,816
<b>Total non-current liabilities</b>		<b>-</b>	<b>454,816</b>
<b>Current liabilities</b>			
Trade and other payables	C4	8,046	3,906
Loans and borrowings	C5	468,825	-
<b>Total current liabilities</b>		<b>476,871</b>	<b>3,906</b>
<b>Total liabilities</b>		<b>476,871</b>	<b>458,722</b>
<b>Total equity and liabilities</b>		<b>641,453</b>	<b>644,447</b>

The loss for the year ended 31 December 2019 was \$21,143k (2018: \$12,146k).

These Company financial statements were approved and authorised for issue by the Board of Directors on 7 August 2020 and were signed on its behalf by:

Andrey Tikhonov  
Director



The Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 83 to 88.

**Kaspersky Labs Limited**  
Registration number: 4249748  
*Company Statement of Cash Flows for the year ended 31 December 2019*

	2019	2018
	'000 USD	'000 USD
<b>Cash flows from operating activities</b>		
Profit/ (loss) for the year	(21,143)	(12,146)
<i>Adjustments for:</i>		
Net finance expense	11,295	20,839
Income tax expense	36	2,315
<b>Operating loss before changes in working capital and provisions</b>	<b>(9,812)</b>	<b>11,008</b>
Change in trade and other payables	4,140	1,424
Change in trade and other receivables	2,297	(6,078)
<b>Cash flows from operations before interest</b>	<b>(3,375)</b>	<b>6,354</b>
Interest paid	-	(582)
<b>Cash flows from operating activities</b>	<b>(3,375)</b>	<b>5,772</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of interest in a subsidiary	(354)	(1,950)
Loan provided to a subsidiary	(790)	(1,144)
Dividends received	-	1,728
<b>Cash flows from investing activities</b>	<b>(1,144)</b>	<b>(1,366)</b>
<b>FINANCING ACTIVITIES</b>		
Repayments of a bank loan	-	(24,091)
Loan from a subsidiary obtained	3,899	21,242
Share redemption	-	(2,862)
Dividends paid	-	(2,662)
<b>Cash flows used in financing activities</b>	<b>3,899</b>	<b>(8,373)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(620)</b>	<b>(3,967)</b>
Cash and cash equivalents at beginning of year	727	4,694
Effect of exchange rate fluctuations on cash and cash equivalents	-	-
<b>Cash and cash equivalents at end of year</b>	<b>107</b>	<b>727</b>

The Company statement of cash flows is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 83 to 88.



*Kaspersky Labs Limited*  
*Registration number: 4249748*  
*Company Statement of Changes in Equity for the year ended 31 December 2019*

'000 USD	Ordinary shares	Additional paid- in capital	Retained earnings	Total equity
Balance at 1 January 2018	1	20,083	181,849	201,933
(Loss) for the year	-	-	(12,146)	(12,146)
<b>Total comprehensive income for the year</b>				<b>(12,146)</b>
Share redemption	-	(2,862)	-	(2,862)
Dividends declared	-	-	(1,200)	(1,200)
<b>Balance at 31 December 2018</b>	<b>1</b>	<b>17,221</b>	<b>168,503</b>	<b>185,725</b>
Balance at 1 January 2019	1	17,221	168,503	185,725
(Loss) for the year	-	-	(21,143)	(21,143)
<b>Total comprehensive income for the year</b>				<b>(21,143)</b>
<b>Balance at 31 December 2019</b>	<b>1</b>	<b>17,221</b>	<b>147,360</b>	<b>164,582</b>

The Company statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 83 to 88.

## **1 Basis of preparation**

### **(a) Statement of compliance**

These Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). Kaspersky Labs Limited is a private company limited by shares and incorporated and domiciled in the UK. The Company's registration number is 04249748. The principal activity of the Company is marketing and distribution of information security solutions which protect its customers from a wide range of IT threats, including viruses and other forms of malicious software, spam, hackers, intrusions, and unauthorized use or disclosure of confidential information. Its registered office and principal place of business is 2 Kingdom Street, Paddington Basin, London, W2 6BD.

On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

### **(b) Basis of measurement**

The Company financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The functional and presentation currency of the Company is the United States Dollar ("USD"). All financial information presented in USD has been rounded to the nearest thousand.

Balances and transactions were translated into USD using the principles set in Note 33 (b)(i) to the Group's consolidated financial statements.

### **(d) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The judgments applied are the same as Note 1 (d) of the group accounting policies.

## **2 Significant accounting policies**

The significant accounting policies applied in the preparation of the Company's financial statements are consistent with the accounting policies used in preparation of the Group's consolidated financial statements, which are described in Note 33 (a) to 33 (s) to the consolidated financial settlements. These accounting policies have been consistently applied.

Investments in subsidiaries are carried at cost less impairment and provisions.

**C1 Investments in subsidiaries**

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Cost of investment '000 USD	Cost of investment '000 USD	Ownership/ voting	Ownership/ voting
Kaspersky Lab UK Limited	449,133	449,133	100%	100%
JSC Kaspersky Group	174,204	174,204	99.9%	99.9%
Kaspersky Lab Asia Ltd.	3,557	3,557	100%	100%
Kaspersky Lab France EURL	2,259	2,259	100%	100%
Kaspersky Lab Switzerland GmbH	1,138	1,138	100%	100%
Kaspersky Labs GmbH	847	847	100%	100%
Kaspersky Lab Inc	494	494	100%	100%
Kaspersky Lab Italia S.r.l.	2,635	2,281	100%	100%
Kaspersky Info Systems SRL	262	262	100%	100%
Kaspersky Lab S.L.U.	193	193	100%	100%
Kaspersky Bilisim Hizmetleri San Ve Tic Ltd	125	125	99.9%	99.9%
KK Kaspersky Lab Japan	119	119	100%	100%
Kaspersky Lab Soluções Seguras Brazil LTDA	1	1	99.9%	99.9%
Other minor subsidiaries	116	246	100%	100%
	<b>635,083</b>	<b>634,859</b>		

All subsidiaries are listed with their registered office in Note 28 to the group financial statements.

**C2 Trade and other receivables**

	2019 '000 USD	2018 '000 USD
Receivables from subsidiaries (refer to Note C7(i))	1,235	3,504
Other current receivables	2,170	2,198
	<b>3,405</b>	<b>5,702</b>

### **C3 Equity**

#### **(a) Share capital and additional paid-in capital**

<i>Number of shares unless otherwise stated</i>	<b>Shares</b>	<b>Shares</b>
	<b>2019</b>	<b>2018</b>
Authorised shares at beginning of year	110,000,000	110,000,000
Authorised shares at end of year	110,000,000	110,000,000
Shares authorised, not issued at beginning of year	(45,042,750)	(44,852,911)
Share cancellation	-	(189,839)
Shares authorised, not issued at end of year	(45,042,750)	(45,042,750)
On issue at end of period, fully paid	64,957,250	64,957,250
	USD 0.0000148	USD 0.0000148
	(equivalent of	(equivalent of
Par value at beginning of year	0.00001 GBP)	0.00001 GBP)
	USD 0.0000123	USD 0.0000123
	(equivalent of	(equivalent of
Par value at end of year	0.00001 GBP)	0.00001 GBP)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### **(b) Dividends**

In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles. During the year ended 31 December 2019 no dividends were declared or paid (2018: USD 1,200 thousand were declared).

#### **(c) Additional paid in capital**

The additional paid in capital reserve is used to record the value of own shares acquired in excess of par value.

#### **(d) Retained earnings**

Retained earnings is used to record the accumulated distributable profits and losses realized during the course of the year and prior years.

**C4 Trade and other payables**

	2019	2018
	'000 USD	'000 USD
<b>Current:</b>		
Other payables and accrued expenses	5,733	490
Other payables to a subsidiary	2,313	3,416
	<b>8,046</b>	<b>3,906</b>

**C5 Loans and borrowings**

	2019	2018
	'000 USD	'000 USD
<b>Non-current:</b>		
Loans from subsidiaries (USD nominated)	-	454,816
	-	<b>454,816</b>
<b>Current:</b>		
Loans from subsidiaries (USD nominated)	468,825	-
	<b>468,825</b>	<b>454,816</b>

Loans and borrowings as at 31 December 2019 are represented by loans from subsidiary (with the interest rates of 4.5% per annum.) repayable on 31 December 2020, see Note C7(iii). Management consider that the term of the loan will be extended beyond the existing maturity date, therefore, the loan was classified as non-current.

**C6 Staff numbers and costs**

During the period of the Company did not have employees other than directors and did not incur any personnel expenses. Information on the number and remuneration of directors is disclosed in Note 8(b) of the consolidated financial statements.

**C7 Related party transactions**

The company related party transactions are disclosed below.

**(i) Revenue**

'000 USD	Transaction value 2019	Transaction value 2018	Outstanding balance 2019	Outstanding balance 2018
Dividend income from:				
- Subsidiaries	-	11,725	-	-
Other revenue from:				
- Subsidiaries	83	92	1,235	3,504
	<b>83</b>	<b>11,817</b>	<b>1,235</b>	<b>3,504</b>

Other revenue received from subsidiaries relates to interest income received for loans granted to subsidiaries.

**(ii) Expenses**

'000 USD	Transaction value 2019	Transaction value 2018	Outstanding balance 2019	Outstanding balance 2018
- Services from subsidiaries	-	-	(7,660)	(3,416)
- Interest expense to subsidiaries	20,840	19,711	-	-
	<b>20,840</b>	<b>19,711</b>	<b>(7,660)</b>	<b>(3,416)</b>

All outstanding balances with related parties are to be settled in cash within six to nine months of the reporting date. None of the balances are secured.

**(iii) Loans**

'000 USD	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2019	2018	2019	2018
Loans/financing received from:				
Subsidiaries	(2,755)	(19,391)	(468,825)	(454,816)
Loans/prepayment granted to:				
Subsidiaries	(354)	(707)	2,858	3,124
	<b>(3,109)</b>	<b>(20,098)</b>	<b>(465,967)</b>	<b>(451,692)</b>

The unsecured loans granted to related parties are denominated in EUR and USD. The EUR-denominated loans carry interest at 0.35% per annum, and are repayable on 31 December 2020. The USD-denominated loans are at 2.5% per annum, and are repayable on 31 December 2020.

The loan from a related party carrying interest at 4.5% per annum, is repayable on 31 December 2020. Management expects that the maturity of the loan will be extended.

**C8. Financial instruments**

The Company holds the following financial instruments:

	2019 '000 USD	2018 '000 USD
<b>Financial assets</b>		
Financial assets at amortised cost:	6,370	9,553
Financial assets at fair value through profit or loss	-	-
<b>Total financial assets</b>	<b>6,370</b>	<b>9,553</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost:	476,871	458,722
Financial liabilities at fair value through profit or loss	-	-
<b>Total financial liabilities</b>	<b>476,871</b>	<b>458,722</b>