KUDELSKI GROUP
2014 FINANCIAL STATEMENTS

NAGRA
KUDELSKI GROUP

CONTENTS

KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	2014	2013
Revenues	6	879 814	820 918
Other operating income	7	15 304	15 233
Total revenues and other operating income		**895 118**	**836 151**
Cost of material, licenses and services		-239 492	-247 756
Employee benefits expense		-380 603	-348 387
Other operating expenses	8	-163 762	-140 307
Operating income before depreciation, amortization and impairment		**111 261**	**99 701**
Depreciation, amortization and impairment	9	-43 183	-45 207
Operating income		**68 078**	**54 494**
Interest expense	10	-11 867	-8 398
Other finance income/(expense), net	11	5 648	1 468
Share of result of associates	18	1 554	1 681
Income before tax		**63 413**	**49 245**
Income tax expense	12	-12 974	-9 820
Net income for the period from continuing operations		**50 439**	**39 425**
Net result from discontinued operations	39	-17 376	3 933
Net income for the period		**33 063**	**43 358**
Attributable to:			
- Equity holders of the company		*25 702*	*42 150*
- Non-controlling interests		*7 361*	*1 208*

Earnings per share (in CHF)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	14	0.4753	0.7795
- Continuing operations		*0.8160*	*0.6381*
- Discontinued operations		*-0.3407*	*0.1414*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	14	0.0475	0.0780
- Continuing operations		*0.0816*	*0.0638*
- Discontinued operations		*-0.0341*	*0.0140*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	2014	2013
Net income	**33 063**	**43 358**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-7 841	-3 855
Cash flow hedges, net of income tax	-234	358
Net (loss)/gain on available-for-sale financial assets, net of income tax	-793	-1 137
	-8 868	**-4 634**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	-12 542	3 762
Total other comprehensive income, net of tax	**-12 542**	**3 762**
Total comprehensive income	**11 653**	**42 486**
Attributable to:		
Shareholders of Kudelski SA	2 088	41 558
- Continuing operations	*20 527*	*33 906*
- Discontinued operations	*-18 439*	*7 652*
Non-controlling interests	9 565	928

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	15	133 145	147 487
Intangible assets	16	368 549	169 250
Investment property	17	1 347	1 459
Investments in associates	18	6 217	4 768
Deferred income tax assets	19	60 797	56 118
Financial assets and other non-current assets	20	52 233	60 198
Total non-current assets		**622 288**	**439 280**
Current assets			
Inventories	21	47 083	64 383
Trade accounts receivable	22	219 998	197 233
Other current assets	23	70 553	49 959
Cash and cash equivalents	24	92 382	100 273
Total current assets		**430 016**	**411 848**
Total assets		**1 052 304**	**851 128**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	539 047	537 882
Reserves		-124 406	-96 999
Equity attributable to equity holders of the parent		**414 641**	**440 883**
Non-controlling interests	27	22 731	5 618
Total equity		**437 372**	**446 501**
Non-current liabilities			
Long-term financial debt	28	255 223	123 444
Deferred income tax liabilities	19	13 417	491
Employee benefits liabilities	31	79 251	61 281
Provisions for other liabilities and charges	32	65	288
Other long-term liabilities and derivative financial instruments	33	3 337	2 288
Total non-current liabilities		**351 293**	**187 792**
Current liabilities			
Short-term financial debt	34	75 796	59 257
Trade accounts payable	35	52 134	37 729
Other current liabilities	36	108 726	98 034
Current income taxes		7 846	2 137
Advances received from clients	37	13 055	13 620
Derivative financial instruments	38	1 086	–
Provisions for other liabilities and charges	32	4 996	6 058
Total current liabilities		**263 639**	**216 835**
Total liabilities		**614 932**	**404 627**
Total equity and liabilities		**1 052 304**	**851 128**

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	2014	2013
Net income for the year		**33 063**	**43 358**
Adjustments for net income non-cash items:			
- Current and deferred income tax		12 974	10 242
- Interests, allocation of transaction costs and foreign exchange differences		6 452	8 456
- Depreciation, amortization and impairment	9	45 206	51 511
- Share of result of associates	18	-1 554	-1 681
- Non-cash employee benefits expense		5 057	5 401
- Deferred cost allocated to income statement		9 690	10 406
- Additional provisions net of unused amounts reversed		2 946	-979
- Non-cash government grant income		-6 742	-6 479
- Other non cash income/expenses		7 576	2 647
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		5 315	–
- Other non operating cash items		91	622
Adjustements for change in working capital:			
- Change in inventories		12 866	2 313
- Change in trade accounts receivable		-17 976	-3 271
- Change in trade accounts payable		10 981	-2 364
- Change in deferred costs and other net current working capital headings		1 235	6 724
Dividends received from associated companies	18	1 905	1 230
Interest paid		-8 412	-6 409
Interest received		1 417	1 247
Income tax paid		-12 827	-2 054
Cash flow from operating activities		**109 263**	**120 920**
Purchases of intangible fixed assets		-13 184	-9 854
Purchases of tangible fixed assets		-16 217	-20 342
Proceeds from sales of tangible and intangible fixed assets		339	510
Investment in financial assets and loans granted		-4 140	-730
Divestment of financial fixed assets and loan reimbursement		2 527	2 768
Acquisition of subsidiaries, cash outflow	4	-211 286	–
Disposal of subsidiaries and operations, cash inflow	5	3 461	–
Acquisition of associated companies	18	-2 193	–
Cash flow used in investing activities		**-240 693**	**-27 648**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-75 437	-86 659
Increase in bank overdrafts, long term loans and other non-current liabilities		219 235	1
Proceeds from employee share purchase program		63	57
Acquisition of non controlling-interests		–	-246
Sale of treasury shares		–	119
Dividends paid to non-controlling interests		-4 711	-4 655
Dividends paid to shareholders	41	-16 170	-10 757
Cash flow from/(used in) financing activities		**122 980**	**-102 140**
Effect of foreign exchange rate changes on cash and cash equivalents		559	-945
Net increase / (decrease) in cash and cash equivalents		**-7 891**	**-9 813**
Cash and cash equivalents at the beginning of the year	24	100 273	110 086
Cash and cash equivalents at the end of the year	24	92 382	100 273
Net increase / (decrease) in cash and cash equivalents		**-7 891**	**-9 813**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non-controlling interests	Total equity
January 1, 2013		**536 122**	**52 380**	**-104 277**	**-619**	**-74 325**	**-290**	**9 425**	**418 415**
Net income				42 150				1 208	43 358
Other comprehensive income				3 762	-958	-3 395		-281	-872
Total comprehensive income		**–**	**–**	**45 912**	**-958**	**-3 395**	**–**	**927**	**42 486**
Employee share purchase program	42	79	-17						62
Shares issued for employees		1 681	-537						1 144
Dividends	41		-8 068	-2 689					-10 757
Dividends to non-controlling interests								-4 655	-4 655
Sale of treasury shares				-134			253		119
Transactions with non-controlling interests				-240				-79	-319
Shares granted to employees	27			-37			37		–
Shares allocated over the vesting period	42			5					5
December 31, 2013		**537 882**	**43 758**	**-61 460**	**-1 577**	**-77 720**	**–**	**5 618**	**446 501**
Net income				25 702				7 361	33 063
Other comprehensive income				-12 542	-1 190	-9 882		2 204	-21 410
Total comprehensive income		**–**	**–**	**13 160**	**-1 190**	**-9 882**	**–**	**9 565**	**11 653**
Employee share purchase program	42	81	14						95
Exercise of stock options by employees		1							1
Shares issued for employees		1 083	-164						919
Dividends	41		-10 780	-5 390					-16 170
Dividends to non-controlling interests								-4 711	-4 711
Non-controlling interests arising on business combination								465	465
Transactions with non-controlling interests	4			-13 175				11 794	-1 381
December 31, 2014		**539 047**	**32 828**	**-66 865**	**-2 767**	**-87 602**	**–**	**22 731**	**437 372**

Fair value and other reserves as of December 31, 2014 include kCHF -2 002 (2013: kCHF -1 209) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF -765 (2013: kCHF -368) relating to cash flow hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

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

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all years presented. Prior year figures have been reclassified where necessary to ensure comparison.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities incurred by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible fixed assets. When determining the purchase price allocation, the Group considers mainly development technologies, customer lists, trademarks and brands as intangibles.
Any contingent consideration depending on the future financial performance of the acquired company ("earn out clause") is recognized at fair value at acquisition date using management's best estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve month after the balance sheet date is discounted to its present value and disclosed within other long term liabilities.

The Group recognizes non-controlling interest as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate value of the consideration transferred plus the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the control of those policies. Significant influence is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associ-

ates are accounted for using the equity method of accounting and are initially recognized at cost.
Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(C) Foreign currencies
The consolidated financial statements of the Group are expressed in Swiss francs ("CHF"), which is the presentation currency.

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

Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using average exchange rates. The balance sheets are translated using the year-end exchange rates. Translation differences arising from movements in the exchange rates used to translate equity, long-term internal financing deemed as net investment in a foreign operation and net income are recognised in other comprehensive income. The loss of control or total disposal of a subsidiary triggers the recycling of the translation difference to the income statement.

(D) Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.
The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods
Sales of goods are recognized when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sales of goods may include delivery of complete systems comprising hardware, software, specific developments, an initial batch of smartcards, licenses and other services. When the revenue from a sale of goods is subject to a performance obligation other than a warranty, the revenue is only recognized for the estimated acquired portion.

(b) Services rendered
Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training, as well as revenues from complete security solutions which generate recurring service revenues.

Revenue from system integrations, specific developments and customization is recognized using the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract. Revenue from maintenance agreements is allocated over the contractual period. Revenue from training is recognized when earned.

(c) Royalties and licenses
Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled.
For software license arrangements, the Group recognizes new software license revenue when: (1) The company has entered into a legally binding arrangement; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Multiple element arrangements – service mode
The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements is recognized when contractually earned, and is usually dependent on

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

the client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms to be multiple element arrangements. When the fair value of a particular element cannot be determined, the revenue is fully allocated to any undelivered elements.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized on the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract or the useful lives of those assets, and is shown under depreciation in the income statement. When the title is transferred, the cost is deferred and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract or the useful lives of those assets.

In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will exceed total contract revenue, the estimated loss is recognized immediately.

(e) Payment to customers

Payments made by the Group to customers to enter into or to renew existing customer relationships are initially recorded under deferred costs and are subsequently released to the income statement on a straight-line basis over the term of the contract, as reduction in revenue. They are subject to periodic impairment reviews.

(f) Government grants

Government grants are recognized when the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. They are recognized in the income statement as operating income unless they are linked to a capitalized fixed asset, in which case they are deducted from the amount of the fixed asset.

(g) Interest income

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

(E) Cost of material, licenses and services

The cost of material, licenses and services includes direct costs which are attributable to selected revenues. The cost of material includes only the cost of materials paid to external suppliers in connection with recognized sales transactions. It therefore does not include other direct and indirect costs associated with the manufacturing process, such as labor costs, utilities or depreciation of manufacturing assets.
Cost of licenses includes amounts charged for sublicenses on a per-unit basis by external suppliers for each unit of delivered product (e.g. CODEC licenses charged on each set-top-box sold). It therefore specifically excludes licenses paid independently of the number of units sold, deployed or used in a development process. Cost of services includes outsourced services that are directly connected to a recognized sales transaction, such as subcontracting a portion of a maintenance agreement or outsourcing the implementation of a revenue-generating customer solution.

(F) Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized on the balance sheet and subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets, liabilities or cash flows. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

(a) Derivatives that do not qualify for hedge accounting

Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement as part of other finance income/(expense), net.

(b) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(c) Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognized in comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other finance income/(expense), net'. When the forecasted transaction results in the recognition of an asset or liability, the gains and losses previously included in comprehensive income are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in comprehensive income are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement.

The currency instruments that may be used include forward foreign exchange contracts, currency swaps as well as zero cost option strategies with terms generally not exceeding six months, while interest rate instruments that may be used include interest rate swaps and collars strategies with maturities not exceeding the underlying contract maturity. The derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(G) Taxes

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

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred taxes are determined using the comprehensive liability method and are calculated on the temporary differences at the substantially enacted rates of tax expected to prevail when the temporary differences reverse, except for those temporary differences related to investments in subsidiaries where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Temporary differences and tax losses carried forward that could be offset against future profits, generating deferred tax assets and liabilities, are combined within one legal entity to determine the net deferred tax asset or liability amount. Net deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against the temporary differences or that tax losses carried forward can be utilized.
Deferred income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

(H) Tangible fixed assets

(a) General

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

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

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

Technical equipment and machinery

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

Other equipment

	Useful life in years
Office furniture and equipment	5 - 7
Vehicles	4 - 5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

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

(b) Leased tangible fixed assets
Assets acquired under long-term finance leases are capitalized and depreciated in accordance with the Group's policy on property, plant and equipment. The financial commitments resulting therefrom are reported as other current and long-term liabilities. Rentals payable under operating leases are charged to the income statement as incurred.

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

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

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

(l) Intangible assets

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

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

(d) Computer software
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as an expense as incurred.

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

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

	Over the useful life, in years
Core development technologies	4 - 10
Customer lists	10
Trademarks and brands	5

(J) Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for internal use. If part of a building is leased, it is accounted separately under investment property only if the portion of building could be sold separately and if the portion held for internal use is insignificant. Transfers are made to or from investment property only when there is a change in use. If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use – cost being equal to carrying value.

Investment property is carried at historical cost less provisions for depreciation and impairment, and is subject to the same accounting treatment and subsequent measurement methodology applied to building acquisitions or construction and building improvements (note H).

(K) Financial assets

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired or granted. Management determines the classification of its financial instruments at initial recognition and re-assesses this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for sale in the short term, or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets held for trading are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Financial assets designated at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss also incorporates any dividend or interest earned on the financial asset.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as long-term assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified in another category.
Listed redeemable notes held by the Group that are traded in an active market are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period.
The Group also has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period because management considers fair value can be reliably measured. Fair value is determined in the manner described in note 47. Interest income, dividends and exchange differences arising on monetary available-for-sale financial assets is recognized in the income statement, while all other changes in the carrying amount of available-for-sale financial assets are recognized in comprehensive income and accumulated under the heading of ‘Fair value and other reserves’. When the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in ‘Fair value and other reserves’ is reclassified to the income statement.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting date.

(L) Inventories

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

The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overhead and factory depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories which are no longer part of production and sales plans are directly written off from the value of inventories.

(M) Deferred costs

Deferred costs are measured at cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

and are allocated to the income statement over the shorter of their useful life and the contract period. The portion of deferred cost to be expensed in the income statement in a period exceeding 12 months is disclosed under other non-current assets.

(N) Trade accounts receivable

Trade accounts receivable are initially measured at fair value and subsequently valued using the amortized cost method. A provision for impairment is made for doubtful receivables based on a review of all material outstanding amounts at each reporting date.

(O) Cash and cash equivalents

Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash. Bank overdrafts are shown within short-term financial debt in current liabilities on the balance sheet.

(P) Marketable securities

Marketable securities consist of equity and debt securities which are traded in liquid markets. All purchases and sales of marketable securities are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset.

(Q) Share capital

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

(R) Borrowings

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

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

(S) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

(T) Employee benefits

(a) Pension obligations

The Group operates a number of defined benefits and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.
The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability.
Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.
The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

(b) Other long-term employee benefits

Other long-term employee benefits

represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. Benefits cost is recognized on an accrual basis in the employee benefits expense.

(c) Employee Share Purchase Program (ESPP)

The Group's employee share purchase program allows certain employees to buy a specific number of shares at preferred condition, subject to a restriction to sell for a period of 3 years. The difference between the fair value of these shares and the employees' payments for the shares is expensed in the income statement at subscription date. The fair value of the shares transferred is determined based on the market price of the shares including an adjustment to reflect the value of the restriction to sell.

(d) Profit sharing and bonus plan

The Group recognizes a liability and an expense for bonuses and profit sharing where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Board of Directors may grant shares to certain employees. These shares may be subject to a blocking period of up to 7 years and are expensed in the income statement at their fair value at grant date taking into account the estimated value reduction due to the blocking period.

(e) Other employee benefits

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

(U) Trade accounts payable

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

(V) Dividends

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

(W) New and amended accounting standards and IFRIC interpretations

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations as of January 1, 2014 described below.

The following amendments to IFRS standards had no impact, or only limited impact on the accounting policies, financial position or performance of the Group:
- IFRIC 21 - 'Levies' clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.
- IFRS 10, 12 and IAS 27 (amendments) – 'Investment entities' provides an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 and had no impact for the Group.
- IAS 32 (amendment) – 'Offsetting Financial Assets and Financial Liabilities' clarifies the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.
- IAS 36 – (amendment) – 'Recoverable Amount Disclosures for Non-Financial Assets' removes the unintended consequences of IFRS 13 on the disclosures required by IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.
- IAS 39 (amendment) – 'Novation of Derivatives and Continuation of Hedge Accounting' provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standard and Interpretations in issue not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2014 or later periods, but which the Group has not early adopted:
- IAS 19 – 'Defined Benefit Plans: Employee Contributions' (amendment) – (effective from 1 July 2014). This amendment to IAS 19R (2011) issued in November 2013 clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The implementation of such amendment will have a material impact by reducing employee benefit liabilities and increasing total equity net of income tax of approximately CHF 21 million and CHF 16 million respectively (CHF 20 million and CHF 16 million respectively as of 31.12.2013).
- IFRS 15 – 'Revenue from Contracts with Customers' – (effective from 1 January of 2017) – This new revenue standard establishes a new five-step

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:
- IFRS 9 - 'Financial instruments' (amendment) comprises two measurement categories for financial assets and liabilities: amortized cost and fair value.
- IFRS 11 – 'Joint Arrangements: Accounting for Acquisitions of Interests' (amendment)
- IFRS 14 – 'Regulatory Deferred Accounts'
- IAS 16 and IAS 38 – 'Joint Arrangements: Accounting for Acquisitions of Interests' (amendments)
- IAS 16 and IAS 41 –'Agriculture: Bearer Plants' (amendments)
- Annual IFRS improvement projects

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Furthermore, those contracts may also include payments made to customers which are subject to impairment reviews. In case of impairment of these assets, the profitability of the Group could be affected through a reduction of the deferred costs and revenues.

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

Income tax, deferred tax assets and government grants
The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 19). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore modify significantly the deferred tax asset and the income taxes captions. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods, occurring after the accounts have been approved might affect the tax asset capitalized.
A tax audit may also lead to significant adjustments, due to a rejection of key components of a tax return or a government grant (e.g. related to transfer pricing).

Retirement benefit plans
The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.
Assumptions used (note 31) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.
The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.
The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including forward foreign exchange contracts or option strategies to hedge the exchange rate risks and interest rate swaps to mitigate the risk of rising interest rates.
The Group does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded; i.e. it does not sell assets short. The Group only sells existing assets or hedges transactions and future transactions that are likely to happen. Future transaction hedges are contracted according to treasury policy based on a foreign exchange cash flow forecast. In the case of liquid funds, it writes options on assets it has, or on positions it wants to acquire, and for which it has the required liquidity. The Group therefore expects that any loss in value for these instruments would be generally offset by increases in the value of the hedged transactions.

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in Swiss francs. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.
It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to the Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion of the exposure generated, as defined in the treasury policy.
Net investments in Group affiliates with a functional currency other than the Swiss Franc are of a long-term nature: the Group does not hedge such foreign currency translation exposures.

(b) Interest rates

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

Other price risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

ments.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial informations and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the department in charge annually.
The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.
The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management
The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.
The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS

On April 7, 2014, the Group purchased 100% of Conax AS, Norway, from Telenor Broadcast Holding AS, for total consideration of kCHF 211 904. Conax AS is a global provider of content protection for digital TV services over broadcast, broadband and connected devices. The goodwill arising from this acquisition amounts to kCHF 144 980 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors including expected synergies considered when purchasing the company, a highly skilled and experienced workforce, as well as a complementary geographic footprint and solution portfolio. With this acquisition, the Group further expands its customer portfolio in Asia, Latin America, Eastern Europe and Scandinavia. Conax's customer base will benefit of the Group's broad portfolio of best-in-class products.

Acquisition-related costs of kCHF 1 772 have been charged to Other operating expenses in the consolidated income statement for the period. The gross contractual amount of trade receivables due is kCHF 20 087, of which kCHF 528 is expected to be uncollectable, leading to a fair value of kCHF 19 559.

On July 1, 2014, the Group purchased an additional 21% of Hantory Co., Ltd, South Korea, for a total consideration of kCHF 410, bringing its total stake to 70%. Hantory Co., Ltd is a provider of multimedia and access control solutions. The fair value of the equity-interest in Hantory Co. Ltd held by the Group prior to this additional acquisition of 21% was kCHF 642. No gain or loss has been recognized as a result of remeasuring this fair value.
The fair value of the non-controlling interest in Hantory Co. Ltd, an unlisted company, was estimated by using the purchase price allocation for acquisition of the additional 21%.
No goodwill arose from this business combination.

Skidata performed non-significant asset deals for an aggregate amount of CHF 0.5 m qualifying for as business combinations according to IFRS 3.

The acquired businesses contributed revenues of kCHF 77 206 and net income of kCHF 14 697 for the period from the respectve acquisition dates to December 31, 2014.
If the acquisitions had occurred on January 1, the consolidated revenues and net income from contining operations would have been approximately kCHF 906 740 and kCHF 54 868, respectively.

The fair values of the identifiable assets and liabilities as at the dates of acquisition for Conax AS and other business combinations were as follows:

In CHF'000	Conax AS	Others	Total
Tangible fixed assets	2 719	5	2 724
Intangible fixed assets :			
- Customer lists, Trademarks & Brands	53 216	337	53 553
- Technology	21 499	–	21 499
- Software	218	279	497
- Other intangibles	–	229	229
Trade accounts receivable	19 559	248	19 807
Other current assets	6 182	532	6 714
Cash and cash equivalents	381	1 179	1 560
Trade accounts payable	-5 148	-728	-5 876
Other current liabilities	-14 421	-46	-14 467
Employee benefits liabilities	-2 018	–	-2 018
Deferred income tax liabilities	-15 263	–	-15 263
Fair value of net assets acquired	**66 924**	**2 035**	**68 959**
Purchase consideration paid in cash	211 904	942	212 846
Fair value of equity interest held before the business combination	–	642	642
Non-controlling interest	–	451	451
Fair value of net assets acquired	-66 924	-2 035	-68 959
Goodwill	**144 980**	**–**	**144 980**
Purchase consideration in cash:			
- cash paid	211 904	942	212 846
Cash and cash equivalents acquired	-381	-1 179	-1 560
Net cash outflow from acquisitions	**211 523**	**-237**	**211 286**

No business combination arose in 2013.

Transaction with non-controlling interests

Prior to the divestment of NagraID Security SA (NIDS), the Group acquired the 50% NIDS shares it did not own for contingent consideration (no cash consideration). The fair value of the contingent consideration has been determined as the discounted value of the expected earn-out payment to be paid. The expected earn-out payments are based on the NIDS business plan.

In CHF'000	
Carrying amount of non-controlling interests acquired	-11 794
Contingent consideration	-1 381
Excess of consideration recognized in equity	**-13 175**

On July 1, 2013, the Group purchased an additional 28% of Skidata South Afrika (pty) Ltd, for a total consideration of KCHF 246 bringing its total stake to 72%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF 240 and non controlling interests for kCHF 79.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

5. DIVESTMENTS

On May 2, 2014 the Group disposed of its 100%-owned smart card manufacturer NagraID SA, based in La Chaux-de-Fonds, to a group of investors including NagraID's management team. NagraID's intellectual property was transferred to the Group prior to disposal. No cash consideration was involved. Total consideration includes contingent assets (earn-out payments and profit sharing on disposal of some underlying assets of the company).

On August 31, 2014, the Group disposed of its 100% equity stake in NagraID Security SA (NIDS), based in La Chaux-de-Fonds. Total consideration includes a payment in kind and contingent assets (earn-out payments on future NIDS revenues). NIDS develops and markets powered display cards providing secure two-factor authentication for electronic transactions, including e-banking and e-commerce, based on one-time password (OTP) and dynamic card verification value (DCVV) technologies. Prior to the sale, the Group had completed the acquisition of the 50% equity stake held by management (see note 4. transactions with non-controlling interests). Prior to the sale of the Group's 100% equity stake, NIDS full intellectual property portfolio was transferred to the Group, while selected tangible fixed assets were transferred to NIDS and financial stabilization of the company was completed. Both NagraID SA and NagraID Security SA were treated as discontinued operations (see note 39).

On October 30, 2014 the Group disposed of its OpenTV advertising business.

No divestment took place in 2013.

The fair values of the identifiable assets and liabilities as at the dates of disposal for Nagra ID SA, Nagra ID Security SA and OpenTV's advertising operations were as follows:

In CHF'000	Fair value of net assets disposed
Tangible fixed assets	15 369
Intangible fixed assets (Goodwill excl.)	1 047
Trade accounts receivable	3 084
Other current assets	12 126
Other non current assets	349
Cash and cash equivalents	127
Trade accounts payable	-1 795
Other current liabilities	-4 203
Employee benefits liabilities	-5 310
Fair value of net assets disposed	**20 794**
Purchase consideration:	
- cash received	4 596
- transaction costs paid	-355
- post-closing working capital adjustment paid	-653
- non cash consideration	11 890
Fair value of net assets disposed	-20 794
Net result on disposal of subsidiaries and operations	**-5 316**
Purchase consideration in cash:	
- cash received	4 596
- transaction costs paid	-355
- post-closing working capital adjustment paid	-653
Cash and cash equivalents disposed	-127
Net cash inflow from disposals	**3 461**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

6. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker. Group operating segments represent strategic business units that offer different products and services for which internal reporting is provided to the chief operating decision maker, who reviews internal reports in order to allocate resources to the segment and to assess its performance.
The Group is organized operationally on a worldwide basis in 2 operating segments:
- Integrated Digital Television
- Public Access

These operating segments, which are reflected in internal management reporting, can be described as follows:
The Integrated Digital Television division provides end-to-end integrated solutions including open conditional access solutions allowing digital TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform and middleware software solutions for set-top-boxes and other consumer devices, enabling an advanced user experience.
The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.
Income and expenses relating to Corporate include the costs of Group Headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions".
The measure of income statement presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that inter-segment sales are eliminated at the consolidation level.
Reportable segment assets include total assets allocated by segment excluding intersegment balances, which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance Sheet assets.

In CHF'000	Integrated Digital Television 2014	Integrated Digital Television 2013	Public Access 2014	Public Access 2013	Total 2014	Total 2013
Total segment Revenues	**649 377**	**593 920**	**231 383**	**230 578**	**880 760**	**824 498**
Inter-segment revenues	-944	-3 545	-2	-35	-946	-3 580
Revenues from external customers	**648 433**	**590 375**	**231 381**	**230 543**	**879 814**	**820 918**
Depreciation and amortisation	-35 735	-32 513	-7 372	-7 414	-43 107	-39 927
Impairment	-76	-4 978	–	-302	-76	-5 280
Operating income - excluding corporate common functions	**71 785**	**57 041**	**14 750**	**13 674**	**86 535**	**70 715**
Corporate common functions					-18 457	-16 221
Interest expense and other Finance income/(expense), net					-6 219	-6 930
Share of result of associates					1 554	1 681
Income before tax					**63 413**	**49 245**
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Total segment Assets	**859 840**	**698 042**	**163 703**	**141 198**	**1 023 543**	**839 240**

In CHF'000	31.12.2014	31.12.2013
Total Segment Assets	1 023 543	839 240
Cash & Cash equivalents	14 981	7 590
Other current assets	3 198	1 034
Financial assets and other non-current assets	10 582	3 264
Total Assets as per Balance Sheet	**1 052 304**	**851 128**

GEOGRAPHICAL INFORMATION

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

	Revenues from external customers		Non-current assets	
In CHF'000	**2014**	**2013**	**31.12.2014**	**31.12.2013**
Switzerland	34 161	29 139	121 875	155 168
United States of America	190 962	141 479	124 235	112 862
France	71 470	75 952	22 861	23 896
Germany	49 585	55 284	4 468	4 556
Netherlands	46 668	47 365	339	334
Brazil	45 959	68 005	748	280
Italy	37 320	36 338	389	459
Norway	12 401	4 784	192 492	0
Rest of the world	391 288	362 572	60 812	53 678
	879 814	**820 918**	**528 219**	**351 233**

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

INFORMATION ABOUT MAJOR CUSTOMERS

No revenues resulting from transactions with a single external customer reach 10 per cent of the Group's revenue.

REVENUE CATEGORIES

In CHF'000	**2014**	**2013**
Sale of goods	413 061	412 190
Services rendered	300 259	284 080
Royalties and licenses	166 494	124 648
	879 814	**820 918**

7. OTHER OPERATING INCOME

In CHF'000	**2014**	**2013**
Government grants (research, development and training)	8 655	10 591
Indemnity received on surrender of lease and reversal of dilapidation costs	–	1 452
Income from rental of property	2 174	1 315
Gain/(Loss) on fixed assets sales proceeds	-91	-14
Gain on sale of subsidiares and operations	3 214	–
Others	1 352	1 889
	15 304	**15 233**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

8. OTHER OPERATING EXPENSES

In CHF'000	2014	2013
Development and engineering expenses	21 084	26 380
Travel, entertainment and lodging expenses	29 080	26 664
Legal, experts and consultancy expenses	33 115	21 348
Administration expenses	23 848	22 145
Building and infrastructure expenses	24 223	21 750
Marketing and sales expenses	10 178	7 493
Taxes other than income tax	4 678	4 532
Change in provisions	9 277	2 432
Insurance, vehicles and others	8 279	7 563
	163 762	**140 307**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2014	2013
Land and buildings	15	3 694	3 924
Equipment and machines	15	15 398	16 213
Investment property	17	113	137
Total depreciation and impairment of tangible fixed assets		**19 205**	**20 274**
Intangible assets	16	23 978	24 933
Total amortization and impairment on intangible fixed assets		**23 978**	**24 933**
Depreciation, amortization and impairment		**43 183**	**45 207**

10. INTEREST EXPENSE

In CHF'000	Note	2014	2013
Interest expense:			
- Bond 2011-2016	30	3 581	3 561
- Credit facility	29	5 440	2 188
- Net interest expense on pension plan	31	1 404	1 263
- Other and bank charges		1 442	1 386
		11 867	**8 398**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2014	2013
Interest income		2 132	2 725
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-1 702	-7
Loss on sale of marketable securities (available for sale)		–	-405
Net foreign exchange transaction gains/(losses)	13	6 174	-338
Others		-956	-507
		5 648	**1 468**

Loss on available-for-sale financial assets amounting to kCHF 0 (2013: kCHF -405). Change in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kCHF -793 (2013: kCHF -1 209). The change in fair value of held for trading financial assets amounting to kCHF 1 702 (2013: kCHF -7) is disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2014	2013
Current income tax		-12 905	-7 270
Deferred income tax	19	1 719	-905
Non refundable witholding tax		-1 788	-1 645
		-12 974	**-9 820**

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

In CHF'000	2014	2013
Income before taxes	**63 413**	**49 245**
Expected tax calculated at domestic tax rates in the respective countries	-11 895	-10 186
Effect of income not subject to income tax or taxed at reduced rates	2 359	9 781
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	6 573	2 180
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-8 966	-12 267
Efffect of associates' result reported net of tax	322	357
Effect of disallowed expenditures	-1 814	-243
Effect of prior year income taxes	-157	333
Effect of non-refundable withholding tax	-1 788	-1 644
Other	2 392	1 869
Tax expense	**-12 974**	**-9 820**

Income before tax includes the full income before tax of non-fully owned subsidiaries whose taxes are paid by its shareholders since they are tax-transparent companies. As a result, 100% of the income before tax of these companies is included in income before tax while the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 2 289 (2013: kCHF 2 274) and is disclosed under Other in the above table.

The weighted average applicable tax rate decreased from 20.68% in 2013 to 18.76% in 2014. The decrease can be explained by a more advantageous revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

13. NET FOREIGN EXCHANGE RESULT

The exchange differences accounted for in the income statement are as follows:

In CHF'000	2014	2013
Sales	8 445	-1 633
Cost of material	-2 863	-160
Other finance income/(expense) net	6 174	-338
Total exchange differences	**11 756**	**-2 131**

14. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares in issue during the year. The weighted average number of shares outstanding for all period presented are adjusted for events that have changed the number of ordinary shares without a corresponding change in resource.

In CHF'000	2014	2013
Net income attributable to bearer shareholders	23 501	38 541
- Continuing operations	*40 352*	*31 548*
- Discontinued operations	*-16 851*	*6 993*
Net income attributable to registered shareholders	2 201	3 609
- Continuing operations	*3 778*	*2 954*
- Discontinued operations	*-1 577*	*655*
Total net income attributable to equity holders	**25 702**	**42 150**
Weighted average number of bearer shares outstanding	49 448 341	49 441 891
Weighted average number of registered shares outstanding	46 300 000	46 300 000

The diluted earnings per share calculation takes into account all potential dilutions to the earnings per share arising from the options on Kudelski SA shares. In 2014 and 2013, options were anti-dilutive, therefore diluted earnings per share equals basic earnings per share. Shares equivalent of 0 (2013: 145) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

15. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2014	31.12.2013
Land and buildings	102 740	103 830
Equipment and machines	30 405	43 657
	133 145	**147 487**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2013	**22 589**	**119 776**	**13 236**	**155 601**
Additions	–	1 404	253	1 657
Disposals and retirements	-1	-1 817	-1 568	-3 386
Currency translation effects	-144	-473	-210	-827
Reclassification & others	–	–	411	411
As of January 1, 2014	**22 444**	**118 890**	**12 122**	**153 456**
Additions	–	985	840	1 825
Impact of business combinations	–	1	18	19
Impact of discontinued operations	–	-12 427	–	-12 427
Disposals and retirements	–	-243	-129	-372
Currency translation effects	653	2 671	357	3 681
Reclassification & others	–	–	-11	-11
As of December 31, 2014	**23 097**	**109 877**	**13 197**	**146 171**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2013	**–**	**-36 827**	**-10 942**	**-47 769**
Systematic depreciation	–	-2 954	-920	-3 874
Impairment	–	-50	–	-50
Disposals and retirements	–	1 812	1 568	3 380
Impact of discontinued operations	–	-1 208	–	-1 208
Currency translation effects	–	-101	122	21
Reclassification & others	–	–	-126	-126
As of January 1, 2014	**–**	**-39 328**	**-10 298**	**-49 626**
Systematic depreciation	–	-2 817	-877	-3 694
Impact of discontinued operations	–	9 821	–	9 821
Disposals and retirements	–	147	100	247
Currency translation effects	–	87	-266	-179
As of December 31, 2014	**–**	**-32 090**	**-11 341**	**-43 431**
Net book values as of December 31, 2013	**22 444**	**79 562**	**1 824**	**103 830**
Net book values as of December 31, 2014	**23 097**	**77 787**	**1 856**	**102 740**
Useful life in years	Indefinite	10 – 50	4 – 8	

The 2013 impairment for building equipment results from the destruction of certain building equipment due to a natural disaster; the related insurance claim was resolved in 2014.

In CHF'000	31.12.2014	31.12.2013
Fire insurance value of buildings	132 831	129 872
Corporate buildings on land whose owner has granted a permanent and specific right of use	6 912	7 360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2013	**191 800**	**12 915**	**204 714**
Additions	17 158	1 527	18 685
Disposals and retirements	-15 413	-575	-15 988
Currency translation effects	-266	-182	-448
Reclassification & others	149	-563	-414
As of January 1, 2014	**193 428**	**13 122**	**206 549**
Additions	12 377	1 322	13 699
Impact of business combinations	2 691	33	2 724
Impact of disposal of operations	-2 841	–	-2 841
Impact of discontinued operations	-49 844	-3 061	-52 905
Disposals and retirements	-4 420	-601	-5 021
Currency translation effects	-2 315	-69	-2 384
Reclassification & others	-57	68	11
As of December 31, 2014	**149 019**	**10 814**	**159 832**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2013	**-148 431**	**-9 357**	**-157 788**
Systematic depreciation	-15 013	-1 100	-16 113
Impairment	-100	–	-100
Disposals and retirements	15 193	575	15 768
Currency translation effects	125	91	216
Impact of discontinued operations	-4 742	-262	-5 004
Reclassification & others	-12	140	128
As of January 1, 2014	**-152 980**	**-9 913**	**-162 893**
Systematic depreciation	-14 278	-1 104	-15 382
Impairment	–	-16	-16
Impact of disposal of operations	2 517	–	2 517
Impact of discontinued operations	36 720	2 413	39 133
Disposals and retirements	4 231	601	4 832
Currency translation effects	2 324	79	2 403
Reclassification & others	-7	-15	-22
As of December 31, 2014	**-121 473**	**-7 955**	**-129 428**
Net book values as of December 31, 2013	**40 448**	**3 209**	**43 657**
Net book values as of December 31, 2014	**27 546**	**2 859**	**30 405**
Useful life in years	4 – 10	4 – 7	

Technical equipment and machinery comprises assets made available to clients which generates recurring service revenue. 2014 and 2013 impairment represents technical and other equipment that is no longer used.

In CHF'000	31.12.2014	31.12.2013
Fire insurance value of technical equipment and machinery	114 173	137 013

16. INTANGIBLE ASSETS

In CHF'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2013	**100 502**	**3 396**	**67 388**	**132 483**	**400**	**304 169**
Additions	6 106	–	3 748	–	–	9 854
Disposals and retirements	-3 864	–	-4 985	–	–	-8 849
Currency translation effects	-128	-15	-56	-3 064	-5	-3 268
Reclassification & others	–	–	3	–	–	3
As of January 1, 2014	**102 616**	**3 381**	**66 098**	**129 419**	**395**	**301 909**
Additions	7 936	240	4 941	–	67	13 184
Impact of business combinations	21 779	53 553	218	144 980	228	220 758
Impact of disposal of operations	-959	–	-218	–	–	-1 177
Impact of discontinued operations	-3 366	–	-2 381	–	–	-5 747
Disposals and retirements	-1 702	–	-1 100	–	–	-2 802
Currency translation effects	-1 076	-5 288	551	-2 300	41	-8 072
As of December 31, 2014	**125 228**	**51 886**	**68 109**	**272 099**	**731**	**518 053**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2013	**-57 523**	**-2 540**	**-55 539**	**–**	**-400**	**-116 002**
Systematic amortization	-13 516	-214	-6 074	–	–	-19 804
Impairment	-2 951	–	-2 178	–	–	-5 129
Recovery of amortization on disposal and retirements	3 261	–	4 681	–	–	7 942
Impact of discontinued operations	–	–	-92	–	–	-92
Currency translation effects	326	23	72	–	5	426
As of January 1, 2014	**-70 403**	**-2 731**	**-59 130**	**–**	**-395**	**-132 659**
Systematic amortization	-15 698	-4 243	-3 874	–	-102	-23 917
Impairment	-61	–	–	–	–	-61
Impact of disposal of operations	–	–	210	–	–	210
Impact of discontinued operations	3 366	–	2 272	–	–	5 638
Recovery of amortization on disposal and retirements	1 596	–	1 103	–	–	2 699
Reclassification & others	–	201	–	–	–	201
Currency translation effects	-1 041	–	-541	–	-33	-1 615
As of December 31, 2014	**-82 241**	**-6 773**	**-59 960**	**–**	**-530**	**-149 504**
Net book values as of December 31, 2013	**32 213**	**650**	**6 968**	**129 419**	**–**	**169 250**
Net book values as of December 31, 2014	**42 987**	**45 113**	**8 149**	**272 099**	**201**	**368 549**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2014 and 2013 technology impairments relate to developments which were either terminated or for which future cash flows became uncertain. 2013 software impairment relates to projects for which future cash flows became uncertain.

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units which are defined, within the frame of the Group, as its operating segments.
In 2014, kCHF 267 701 of goodwill has been allocated to Integrated Digital Television (2013: kCHF 124 941) and kCHF 4 398 (2013: kCHF 4 478) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

Integrated Digital Television

Integrated Digital Television goodwill has been tested for impairment with a value in use calculation based on cash flow projections approved by the Group management covering a five-year period and a discount rate of 8.5 % (2013: 9.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% (2013: 1.0%) for core digital TV activities and 1.5% for initiatives (2013: 2.5%) per annum. Revenue assumptions for the five-year plan were generated from existing products and existing customers, and newly launched activities. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2014 and for 2013, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity and the loss of key customers representing approximately 10% of recurring revenue. Based on such analyses, and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. INVESTMENT PROPERTY

2014 rental income and direct operating expenses for the investment property were kCHF 251 (2013: kCHF 258) and kCHF 5 (2013 : kCHF 13) respectively. 2014 and 2013 fair value of the investement property is estimated at CHF 2.8 million and 2.9 million, respectively, corresponding to planned rental income capitalized at 9%.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2013	**2 702**
Currency translation effects	40
As of December 31, 2013	**2 742**
Additions	5
Currency translation effects	-50
As of December 31, 2014	**2 697**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2013	**-1 131**
Systematic depreciation	-137
Currency translation effects	-15
As of December 31, 2013	**-1 283**
Systematic depreciation	-113
Reclassification & others	22
Currency translation effects	24
As of December 31, 2014	**-1 350**
Net book values as of December 31, 2013	**1 459**
Net book values as of December 31, 2014	**1 347**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

18. INVESTMENTS IN ASSOCIATES

In CHF'000	2014	2013
At January 1	**4 768**	**4 398**
Share of profit	1 554	1 681
Dividends received	-1 905	-1 230
Acquisition of an associated company	2 193	–
Associated company fully consolidated	-642	–
Currency translation effects	249	-81
At December 31	**6 217**	**4 768**

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

		Interest held	
Name of associate	**Principal activity**	**2 014**	**2 013**
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SKIDATA Australasia Pty Ltd, Australia	Sales of Public Access products	50%	0%
Hantory Co., Ltd, South Korea (subsidiary as of 31.12.2014)	Digital Television sales and service	70%-sub-sidiary	49%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2014	31.12.2013
Total assets	37 071	28 296
Total liabilities	21 688	15 204
Net assets	15 383	13 092
Group's share of associates' net assets	5 667	4 768

	2014	2013
Revenue	67 125	51 479
Result of the period	5 619	6 083
Group's share of associates' result for the period	1 554	1 681

19. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2014	31.12.2013
Deferred tax assets	60 797	56 118
Deferred tax liabilities	-13 417	-491
	47 380	**55 627**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

The movement on the deferred income tax account is as follows:

In CHF'000	Note	2014	2013
At January 1		**55 627**	**57 511**
Exchange differences		1 513	-152
Recognized against other comprehensive income		3 633	-827
Impact of business combinations		-15 112	–
Income statement (expense)/income	12	1 719	-905
At December 31		**47 380**	**55 627**

The movement in deferred tax assets and liabilities during 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In CHF'000	At January 1, 2014	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2014
Deferred tax assets associated with						
- intangibles	31 838	-911	–	–	7	30 934
- employee benefits	13 138	537	–	3 633	-71	17 237
32 - tax losses	7 269	843	118	–	74	8 304
- provisions and other elements tax deductible when paid	2 175	656	29	–	-32	2 828
- inter-company profit elimination	1 627	220	–	–	56	1 903
- others	145	-144	–	–	-46	-45
Total deferred tax assets (gross)	**56 192**	**1 201**	**147**	**3 633**	**-12**	**61 161**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	-14	-25	–	–	–	-39
- intangibles	–	246	-15 259	–	1 531	-13 482
- provisions & accelerated tax depreciation	-500	384	–	–	-9	-125
- others	-51	-87	–	–	3	-135
Total deferred tax liabilities (gross)	**-565**	**518**	**-15 259**	**–**	**1 525**	**-13 781**
Net deferred tax asset/(liability)	**55 627**	**1 719**	**-15 112**	**3 633**	**1 513**	**47 380**

And for 2013:

In CHF'000	At January 1, 2013	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2013
Deferred tax assets associated with					
- intangibles	26 866	4 979	–	-7	31 838
- employee benefits	13 433	516	-827	16	13 138
- tax losses	15 586	-8 243	–	-74	7 269
- provisions and other elements tax deductible when paid	4 039	-1 852	–	-12	2 175
- inter-company profit elimination	2 304	-599	–	-78	1 627
- others	-83	223	–	5	145
Total deferred tax assets (gross)	**62 145**	**-4 976**	**-827**	**-150**	**56 192**
Deferred tax liabilities associated with					
- affiliates and allowances for Group companies	-4 137	4 123	–	–	-14
- provisions & accelerated tax depreciation	-490	-7	–	-3	-500
- others	-7	-45	–	1	-51
Total deferred tax liabilities (gross)	**-4 634**	**4 071**	**–**	**-2**	**-565**
Net deferred tax asset/(liability)	**57 511**	**-905**	**-827**	**-152**	**55 627**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 909.4 million (2013: CHF 860.1 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 282.5 million (2013: CHF 256.4 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 626.9 million (2013: CHF 603.7 million) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2014	2013
Expiration within:		
One year	8.7	2.9
Two years	3.6	33.0
Three years	1.3	9.2
Four years	112.3	5.5
Five years	33.8	92.1
More than five years	467.2	461.0
Total	**626.9**	**603.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

20. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2014	31.12.2013
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	834	834
- equity instruments with no quoted market price (level 3)	400	1 400
- marketable securities (level 1)	1 237	1 030
Loan – third party	5 481	4 992
Loan – related party	576	833
State and government institutions	13 442	19 765
Deferred contract cost (long term portion)	18 963	28 270
Contingent consideration	7 031	–
Others	4 269	3 074
	52 233	**60 198**

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Such assets are measured at cost net of impairment for kCHF 834 (2013: kCHF 834). Also is included one equity instrument listed in an active market and classified as marketable securities for kCHF 1 237 (2013: kCHF 1 030). A temporary value adjustment of kCHF -1 000 (2013: kCHF -1 209) has been booked against other comprehensive income on equity instruments with no quoted market price (level 3).

Third party and related party loans are measured at amortized cost. The 2014 and 2013 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity in 2011 that has been discounted using a 9.3% rate. The effective interest rate on third party loans is 2.30% (2013:2.83%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months.

A contingent asset consisting of an earn-out has been calculated using projections of revenue of a disposed company as estimated by management at the date of disposal. The fair value estimate is based on a discount rate of 5%.

Others mainly consist of guarantee deposits.

21. INVENTORIES

In CHF'000	31.12.2014	31.12.2013
Raw materials	7 232	24 843
Work in progress	2 634	5 553
Finished goods	37 217	33 987
	47 083	**64 383**

The cost of inventories recognised as an expense includes kCHF 906 (2013: kCHF 2 394) in respect of write-downs, and has been reduced by kCHF 1 191 (2013: kCHF 848) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kCHF 1 334 (2013: kCHF -2 597).

22. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2014	31.12.2013
Trade accounts receivable	229 511	203 025
Less: provision for impairment	-22 512	-19 312
Trade accounts receivable related parties	8 072	4 280
Trade receivables – net	**215 071**	**187 993**
Amounts due from customers for contract work	4 927	9 240
Total	**219 998**	**197 233**

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

The following table summarizes the movement in the provision for impairment:

In CHF'000	2014	2013
January 1	**-19 312**	**-17 635**
Provision for impairment charged to income statement	-7 811	-4 685
Utilization	951	652
Reversal	3 120	2 369
Change in scope	456	–
Translation effects	84	-13
December 31	**-22 512**	**-19 312**

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -7 811 (2013: kCHF -4 685). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

The following table contains details of the trade accounts receivables that are not overdue under the contractual payment terms, and an ageing analysis of overdue amounts that are not impaired:

In CHF'000	31.12.2014	31.12.2013
Not overdue	143 383	125 382
Past due and not impaired:		
- not more than one month	34 072	24 178
- more than one month and not more than three months	21 210	19 587
- more than three months and not more than six months	3 247	8 248
- more than six months and not more than one year	9 164	8 493
- more than one year	3 995	2 105
Total trade accounts receivable, net	**215 071**	**187 993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

23. OTHER CURRENT ASSETS

In CHF'000	31.12.2014	31.12.2013
Loans third parties – short term portion	37	948
Prepaid expenses	16 951	7 432
Accrued income	796	5 567
State and government institutions	33 510	19 972
Advances to suppliers and employees	4 263	1 658
Deferred contract cost (short term portion)	10 433	10 370
Other receivables - third parties	1 748	2 715
Other receivables - related parties	2 815	1 297
	70 553	**49 959**

Loans are measured at amortized cost. The effective interest rate on short term loans was 4.94% (2013: 5.0%).

24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2014	31.12.2013
Cash at bank and in hand	88 995	95 571
Short term deposits	3 387	4 702
	92 382	**100 273**

The effective interest rate on short term deposits was 0.51% (2013: 0.68%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2014	31.12.2013
49'274'709 / 49'158'230 bearer shares, at CHF 10 each	492 747	491 582
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	539 047	**537 882**

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

AUTHORIZED SHARE CAPITAL

In CHF'000	2014	2013
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 8, 2016, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2014	2013
Conditional share capital as of January 1	103 555	105 316
Increase of conditional share capital	8 000	–
Employee share purchase plan	-82	-79
Shares allotted to employees	-1 083	-1 682
Conditional share capital as of December 31	**110 390**	**103 555**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
1'039'047 / 355'526 bearer shares, at CHF 10 each	10 390	3 555
	110 390	**103 555**

26. TREASURY SHARES

	Number of bearer shares	Book value in CHF'000
As of January 1, 2013	**9 918**	**290**
Treasury shares granted to employees	-1 250	-37
Sale of Treasury shares	-8 668	-253
As of December 31, 2013	**–**	**–**
As of December 31, 2014	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

27. NON-CONTROLLING INTERESTS

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

As at December 31, 2014 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non-controlling interests percentage	**50.0%**	**50.1%**	**0.0%**
Non-current assets	4 587	36 385	
Current Assets	38 663	1 467	
Non-current liabilities	–	14 247	
Current liabilities	23 851	1 445	
Total Equity	**19 399**	**22 160**	
Non-controlling interests percentage	50%	50.1%	
Theoritical amount of non-controlling interests	9 700	11 102	
Losses not attributed to non-controlling interests*	–	–	
Carrying amount of non-controlling interests	**9 700**	**11 102**	
Revenue	24 246	3 703	
Net result	10 984	1 460	
Other comprehensive income	1 909	2 514	
Total comprehensive income	12 893	3 974	
Total comprehensive income allocated to non-controlling interests	6 446	1 991	
Dividend paid to non controlling interests	-4 578	–	
Net increase /(decrease) in cash and cash equivalents	2 094	164	

As at December 31, 2013 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non-controlling interests percentage	**50.0%**	**50.1%**	**50.0%**
Non-current assets	4 800	32 863	2 415
Current Assets	30 617	1 243	7 456
Non-current liabilities	–	14 637	39 373
Current liabilities	19 755	1 283	1 789
Total Equity	**15 662**	**18 186**	**-31 140**
Non-controlling interests percentage	50%	50.1%	50%
Theoritical amount of non-controlling interests	7 831	9 111	-15 570
Losses not attributed to non-controlling interests*	–	–	2 846
Carrying amount of non-controlling interests	**7 831**	**9 111**	**-12 724**
Revenue	22 457	3 363	
Net result	8 495	1 214	
Other comprehensive income	-430	-173	
Total comprehensive income	8 065	1 041	
Total comprehensive income allocated to non-controlling interests	4 032	521	
Dividend paid to non controlling interests	-4 634	–	
Net increase /(decrease) in cash and cash equivalents	-7 761	208	-27

* Under the prior version of IAS 27, the Group had stopped attributing losses to non-controlling interest because the losses exceeded the carrying amount of the non-controlling interest. Upon adoption of the current version of IAS 27, we did not revise the prior consolidated net income and at that date the non-controlling interest carrying amount was considered as being zero.

2014 and 2013 NagraID Security's income statement and other comprehensive income information are not disclosed as the company is treated as discontinuing operation (see note 5).
These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility for the main risks.

28. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2014	31.12.2013
Bank loans - long term	29	145 761	14 262
CHF 110 million 3% bond 2011/2016	30	109 444	109 174
Other long term financial liabilities		18	8
		255 223	**123 444**

29. LONG TERM BANK LOANS

In CHF'000	31.12.2014	31.12.2013
Credit facility agreement	132 000	–
Mortgage - long term portion	13 761	13 884
Other long term bank loans	–	378
Total long term bank loans	**145 761**	**14 262**

The average effective interest rate on total long term bank loans was 2.29% (2013: 2.48%).

In 2012, the Group obtained a committed long term credit facility through March 2015 of CHF 145 million. As of December 31, 2013, the Group had drawn CHF 30 million, classified as short term in the balance sheet.
In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019 in relation to the acquisition of Conax AS. This new credit facility replaces the former facility of CHF 145 million. As of December 31, 2014, the Group has drawn CHF 165 million of which CHF 132 million are classified as long term and CHF 33 million as short term in the balance sheet and repaid CHF 30 million under the former facility.

30. BOND 2011/2016

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016, with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounted to kCHF 110 312 less issuance costs of kCHF 1 786 totaling an initial net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%. The bond is recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2014	2013
Initial balance	**109 174**	**108 912**
Amortization of transaction costs less premium	270	262
Liability component as of December 31	**109 444**	**109 174**

31. EMPLOYEE BENEFITS LIABILITIES

Apart from the social security plans fixed by law, the Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19. Retirement benefits are based on contributions, computed as a percentage of salary, adjusted for the age of the employee and shared approximately 46%/54% by employee and employer. In addition to retirement benefits, the plan provides death and long-term disability benefits to its employees. Liabilities and plan assets are revised every year by an independent actuary.

All employees in Switzerland are covered by this plan and IAS 19 requires that the plan is treated as defined benefit, with the primary risks around liability measurement being:
a) Mortality: the Group makes allowance for future anticipated improvements in life expectancy, however if life expectancy improves at a faster rate than assumed, pensions would be paid for longer and consequently the plan's IFRS liability would increase.
b) Investments: liabilities measured under IFRS increase with the interest cost each year and would also increase if bond yields (used to determine IFRS discount rates) fell, to the extent that the returns achieved on plan assets are insufficient to offset these increases in liabilities.

Outside Switzerland, the Group sponsors ten pension plans treated as defined benefit plans according to IAS 19. Liabilities and plan assets are revised every year by an independant local actuary. Plan assets have been estimated at fair market values. Liabilities have been calculated according to the "Projected Unit Credit" method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

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

In CHF'000	31.12.2014	31.12.2013
Fair value of plan assets	147 554	134 401
Defined benefit obligation	-226 805	-195 682
Funded status	**-79 251**	**-61 281**
Other comprehensive income	-35 262	-19 153
Prepaid/(accrued) pension cost	-43 989	-42 128
Funded status	**-79 251**	**-61 281**

The liability that is recognized in the balance sheet at December 31, 2014 amounts to kCHF 79 251 (kCHF 61 281 at December 31, 2013).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial years 2014 and 2013:

In CHF'000	2014	2013
Service cost	-17 373	-17 671
Interest cost	-4 316	-3 870
Interest income	2 912	2 607
Employees contributions	5 753	5 839
Amortization of gains/(losses)	-175	54
Curtailment gain / (loss)	68	295
Net pension (cost)/income	**-13 131**	**-12 746**
Exchange rate difference	**355**	**111**
Employer contribution	**7 578**	**7 236**

The net pension cost for the financial year 2014 amounts to kCHF 13 131 (kCHF 12 746 for the financial year 2013).
Some benefits are also provided by defined contribution plans. Contribution to such plans, amounting to KCHF 7 023 in 2014, are charged to the income statements as incurred.
The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2014 and 2013 are as follows:

	31.12.2014	31.12.2013
Switzerland		
Discount rate	1.50%	2.15%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	1.00%	1.00%
Interest rate credited on savings accounts	1.50%	2.15%
Turnover	10.0% on average	10.0% on average
Retirement age	64.84 on average	64.81 on average
Abroad		
Discount rate	2.25%	3.25%
Rate of future increase in compensations	2.83%	2.84%
Turnover	8.0% on average	8.3% on average
Retirement age	62.98 on average	62.97 on average

The changes in defined benefit obligation and fair value of plan assets during the years 2014 and 2013 are as follows:

A. Change in defined benefit obligation

In CHF'000	2014	2013
Defined benefit obligation as of 1.1.	**-195 682**	**-175 308**
Service cost	-17 373	-17 671
Interest cost	-4 316	-3 870
Change in demographic assumptions	30	-13 444
Change in financial assumptions	-21 773	11 958
Actuarial gains/(losses)	1 233	1 740
Curtailment	68	295
Benefits payments	-1 069	729
Exchange rate difference	927	-111
Acquisition of subsidiaries	-6 647	–
Disposal of subsidiaires	17 797	–
Defined benefit obligation as of December 31,	**-226 805**	**-195 682**

B. Change in fair value of plan assets

In CHF'000	2 014	2 013
Fair value of plan assets as of 1.1.	**134 401**	**115 075**
Interest income	2 912	2 607
Employees' contributions	5 753	5 839
Employer's contribution	7 578	7 236
Plan assets gains/(losses)	4 200	4 373
Benefits (paid)/received	1 069	-729
Exchange rate difference	-547	0
Acquisition of subsidiaries	4 675	0
Disposal of subsidiaires	-12 487	0
Fair value of plan assets as of December 31,	**147 554**	**134 401**

The change in demographic assumptions in 2013 relates to the current best practice of transitioning from a periodic demographic basis to a generational demographic basis taking into consideration an increase in the expected lifetime.
The change in financial assumptions in 2014 relates to the change in the discount rates and the interest rate credited on savings accounts. The actual return on plan assets amounts to kCHF 7 112 in 2014 (kCHF 6 980 for the year 2013). The estimated employer's contribution to the pension plans for the financial year 2015 amount kCHF 7 165.
The curtailment in 2014 is due to a reduction of the number of employees in one company.

The categories of plan assets and their corresponding expected return at December 31, 2014 and 2013 are as follows:

		Proportion in %		Proportion in %
In CHF'000	**31.12.2014**	**31.12.2014**	**31.12.2013**	**31.12.2013**
Cash	2 293	1.6%	24 204	18.1%
Swiss bonds	41 083	27.9%	32 997	24.6%
Foreign bonds	15 828	10.7%	10 409	7.7%
Swiss shares	43 304	29.4%	23 313	17.3%
Foreign shares	28 973	19.6%	22 431	16.7%
Real estates	7 437	5.0%	17 377	12.9%
Structured products	3 431	2.3%	3 670	2.7%
Assets held by insurance company	5 205	3.5%	–	0.0%
Total	**147 554**	**100.0%**	**134 401**	**100.0%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

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

In CHF'000	Switzerland	Abroad
2015	6 886	133
2016	64 260	43
2017	6 124	10
2018	5 816	60
2019	5 578	30
2020-2024	23 622	1 912

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

	Change in 2014 year-end defined obligation		Change in 2013 year-end defined obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	In CHF'000	In CHF'000
50 basis point increase in discount rate	22 097	1 494	18 986	687
50 basis point decrease in discount rate	-26 092	-1 677	-21 857	-753
50 basis point increase in rate of salary increase	-3 838	n/a	-3 253	n/a
50 basis point decrease in rate of salary increase	3 608	n/a	3 060	n/a
50 basis point increase of interest in saving accounts	-12 009	n/a	-10 011	n/a
50 basis point decrease of interest in saving accounts	10 960	n/a	9 156	n/a
50 basis point increase in rate of pension increase	-8 009	n/a	-7 008	n/a
50 basis point decrease in rate of pension increase	7 491	n/a	6 552	n/a

32. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2014	Total 2013
As of January 1	**4 154**	**500**	**1 692**	**6 346**	**12 381**
Additional provisions	2 435	8	493	2 936	1 063
Unused amounts reversed	–	–	-460	-460	-2 038
Used during the year	-3 268	-439	-13	-3 720	-5 209
Exchange differences	-14	6	-33	-41	149
As of December 31	**3 307**	**75**	**1 679**	**5 061**	**6 346**
Thereof:					
- Short term	3 242	75	1 679	4 996	6 058
- Long term	65	–	–	65	288
	3 307	**75**	**1 679**	**5 061**	**6 346**

Restructuring provisions

In 2013 and 2014, restructuring provisions were recognized following the reorganisation and the closure of several offices. Restructuring provisions also include the termination of leases considered as onerous contract.

Legal fees and litigation

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for legal fees and lawsuit are valued according to management's best estimate.
In 2013, a legal provision was reversed following the cancellation of the underlying risk.

Provision for warranty

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

33. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2014	31.12.2013
Other long-term liabilities		2 851	1 535
Derivative financial instruments	38	486	753
		3 337	**2 288**

34. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2014	31.12.2013
Short term bank borrowings		75 794	59 244
Other short term financial liabilities		2	13
		75 796	**59 257**

The average effective interest rate paid in 2014 for short term bank borrowings was 1.30% (2013: 1.33%). Short term bank borrowings include the short-term portion of a credit facility agreement (see note 29) for kCHF 33 000 (2013: kCHF 30 000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

35. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2014	31.12.2013
Trade accounts payable – third parties	52 014	37 727
Trade accounts payable – related parties	120	2
	52 134	**37 729**

36. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2014	31.12.2013
Accrued expenses	75 348	70 269
Deferred income	15 551	15 611
Payable to pension fund	542	551
Other payables	17 285	11 603
	108 726	**98 034**

37. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2014	31.12.2013
Amounts due to customers for contract work	2 265	4 272
Advances from clients	10 790	9 348
	13 055	**13 620**

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Currency related instruments (level 2)						
- Over the counter currency options	23 760	–	–	–	280	–
- Forward contracts	19 800	–	–	–	245	–
Interest related instrument (level 2)						
- Interest rate swap	88 860	12 460	–	–	1 047	753
Total of derivatives financial instruments	**132 420**	**12 460**	**–**	**–**	**1 572**	**753**
Of which:						
- Short-term	118 560	–	–	–	1 086	–
- Long-term	13 860	12 460	–	–	486	753

Interest-related instruments qualify as a cash flow hedge and have concomitant maturity with underlying loan agreement.

39. DISCONTINUED OPERATIONS

NagraID SA and NagraID Security SA were treated as discontinued operations. Details of the transactions are explained in note 5. Divestments.
Financial information relating to the manufacturing smartcard units' NagraID SA and NagraID Security SA from January 1, to the date of disposal is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued. Comparative figures have been restated.

In CHF'000	2014	2013
Revenue	14 015	109 679
Expenses	-21 573	-103 960
Operating result	**-7 558**	**5 719**
Finance costs	-1 267	-1 364
Result before tax from discontinued operations	**-8 825**	**4 355**
Income tax	-23	-422
Result after tax from discontinued operations	**-8 848**	**3 933**
Pre-tax loss recognised on disposal of discontinued operations	-8 528	–
Income tax	–	–
Post-tax loss recognised on disposal of discontinued operations	-8 528	–
Net result from discontinued operations	**-17 376**	**3 933**

In CHF'000	2014	2013
Cash flow used in operating activities	-3 850	4 800
Cash flow used in investing activities	-1 160	-3 713
Cash flow from financing activities	3 029	-2 280

40. RESEARCH AND DEVELOPMENT

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

In CHF'000	2014	2013
Research and development	195 363	188 442

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

41. DIVIDEND

The ordinary dividend paid in 2014 was kCHF 16 170 (2013: kCHF 10 757) which corresponds to a dividend of CHF 0.30 (2013: CHF 0.20) per bearer share and CHF 0.03 (2013: CHF 0.02) per registered share.
For the current year, the Board of Directors proposes a distribution of CHF 0.30 per bearer share and CHF 0.03 per registered share. The distribution to be paid is kCHF 16 171 and may fluctuate upon issuance of additional share capital for employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies. The proposal of the Board of Directors is to pay a CHF 0.20 distribution out of capital contribution reserve and CHF 0.10 distribution out of retained earnings per bearer share (CHF 0.02 and CHF 0.01 per registred share respectively) and is subject to the approval of shareholders at the Annual General Meeting. It has not been included as a liability in these financial statements.

42. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

In 2004, the Group set up a plan to allow employees of certain Group companies preferential conditions to buy Kudelski SA bearer shares. All such shares purchased, and the additional shares and options obtained through this plan, are subject to a three-year blocking period. In 2011, the Board of Directors decided to modify the rules and regulations of the share purchase plan by replacing the distribution of options with the distribution of shares.

	Shares 2014	Shares 2013
Shares underwritten by employees	6 815	6 600
Bonus shares and options from ESPP	1 363	1 320
Total employee share program	**8 178**	**7 920**
Amount paid by employee (In CHF'000)	62	57
Booked corporate charges (excluding social charges) (In CHF'000)	33	5
	95	**62**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2014	Options 2013
In circulation on January 1	15	584	1 923
Total in circulation on January 1		**584**	**1 923**
Rights exercised	15	-50	–
Rights forfeited	15	-534	-1 339
In circulation on December 31		**–**	**584**
- of which exercisable as of January 1	15	584	1 339
- of which exercisable as of December 31	15	–	584

SHARES ISSUED TO EMPLOYEES

In 2014, 108 251 (2013: 168 155) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 65 980 (2013: 123 023) include a seven-year blocking period and 42 271 (2013: 45 132) include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 919 (2013: kCHF 1 144).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

43. RELATED PARTIES

Trading transactions

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in consolidation and are not disclosed in this note.
During the year, Group entities entered into the following significant trading transactions with related parties, associates or joint ventures that are not member of the Group:

In CHF'000	Sale of goods and services 2014	Sale of goods and services 2013	Purchase of goods and services 2014	Purchase of goods and services 2013	Amounts owed to related parties 31.12.2014	Amounts owed to related parties 31.12.2013	Amounts owed by related parties 31.12.2014	Amounts owed by related parties 31.12.2013
Hantory Co., Ltd	2 032	6 586	–	–	–	–	–	451
APT-Skidata Ltd	7 449	8 082	–	–	–	2	1 499	2 559
Skidata Parking System	2 854	8 931	–	–	–	–	1 559	1 055
SKIDATA India Private Limited	674	659	–	–	87	–	297	78
SKIDATA Australasia Private Limited	8 205	–	–	–	–		6 496	–
iWedia SA	138	144	618	195	421	–	42	46
Total associated companies	**21 352**	**24 402**	**618**	**195**	**508**	**2**	**9 893**	**4 189**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 998
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 998**

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

Key management compensation

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

In CHF'000	2014	2013
Salaries and other short-term employees benefits	8 182	7 765
Post-employments benefits	101	101
Share-based payments	981	830
	9 264	**8 696**

44. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Kudelski family pool	**63%**	**63%**	**35%**	**35%**

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Hardy, Mrs. Irene Kudelski Mauroux and their respective descendants.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2014 and 2013, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2014 and 2013 variable compensation - issued in 2015 and 2014 respectively):

	31.12.2014	31.12.2013
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 294 423	14 234 423
Smadja Claude, vice chairman	1 300	1 300
Bucher Norbert, member	n/a	1 700
Dassault Laurent, member	2 340	2 340
Deiss Joseph, member	1 000	1 000
Foetisch Patrick, member	1 000	1 000
Kudelski Marguerite, (as member of the family pool)	see above	see above
Lescure Pierre, member	2 000	2 000
Zeller Alexandre, member	–	–
Ross Alec, member	–	n/a
Total board members	**14 302 063**	**14 243 763**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	200 820	187 092
Roy Pierre, COO	62 900	51 413
Total Management (excluding CEO)	**263 720**	**238 505**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2014 and 2013.

No loans were granted in 2014 and 2013 to the members of the Board of Directors and Group management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

45. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 014	2 013
Within one year	11 870	7 376
In the second to fifth year inclusive	23 744	22 891
	35 614	30 267

46. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2014:

Assets as per balance sheet date December 31, 2014 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2014
Financial assets and non current assets:					
- equity instruments with no quoted market price	20	–	1 234	–	1 234
- marketable securities	20	–	1 237	–	1 237
- long term loans	20	–	–	5 481	5 481
- receivables long term	20	–	–	576	576
- guarantee deposits	20	–	–	4 270	4 270
- contingent consideration	20	7 031	–	–	7 031
Trade accounts receivable	22	–	–	215 071	215 071
Other current assets:					
- Loans	23	–	–	37	37
Cash and cash equivalents	24	–	–	92 382	92 382
		7 031	2 471	317 817	327 319

Liabilities as per balance sheet date December 31, 2014 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2014
Long term financial debt	28	–	–	255 223	255 223
Other long term liabilities	33	–	–	1 381	1 381
Short term financial debt	34	–	–	75 796	75 796
Trade accounts payable	35	–	–	52 134	52 134
Other payables	36	–	–	17 285	17 285
Derivative financial instruments (short and long term)	38	486	1 086	–	1 572
		486	1 086	401 819	403 391

And for 2013:

Assets as per balance sheet date December 31, 2013 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2013
Financial assets and non current assets:					
- equity instruments with no quoted market price	20	–	2 234	–	2 234
- marketable securities	20	–	1 030	–	1 030
- long term loans	20	–	–	4 992	4 992
- receivables long term	20	–	–	833	833
- guarantee deposits	20	–	–	3 074	3 074
Trade accounts receivable	22	–	–	187 993	187 993
Other current assets:		–	–	–	–
- Loans	23	–	–	948	948
Cash and cash equivalents	24	–	–	100 273	100 273
		–	**3 264**	**298 113**	**301 377**

Liabilities as per balance sheet date December 31, 2013 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2013
Long term financial debt	28	–	–	123 444	123 444
Short term financial debt	34	–	–	59 257	59 257
Trade accounts payable	35	–	–	37 729	37 729
Other payables	36	–	–	11 603	11 603
Derivative financial instruments (short and long term)	38	753	–	–	753
		753	**–**	**232 033**	**232 786**

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS requires disclosure of fair value measurement by level according to the following fair value measurement hierarchy:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (that is unobservable inputs)

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2014:

In CHF'000		Note	31.12.2014	31.12.2013
Financial assets:				
- marketable securities	Level 1	20	1 237	1 030
- equity instuments with no quoted market price	Level 3	20	400	1 400
Total financial assets			**1 637**	**2 430**
Financial liabilities:				
- derivative financial instruments	Level 2	38	1 572	753
Total financial liabilities			**1 572**	**753**

Level 3 equity instruments with no quoted market price are based on discounted cash flow calculation provided by the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

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

In CHF'000	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Financial liabilities				
- CHF 110 million bond (fair value determined using market value)	109 444	114 730	109 174	115 353

48. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

In CHF'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2 014	2 013	2 014	2 013	2 014	2 013	2 014	2 013	2 014	2 013
Bond	3 300	3 300	113 300	116 600	–	–	-7 156	-10 726	109 444	109 174
Long term bank loans	3 006	705	151 723	15 157	–	–	-8 968	-1 600	145 761	14 262
Short term financial debt	75 796	59 257	–	–	–	–	–	–	75 796	59 257
Trade accounts payable	52 134	37 729	–	–	–	–	–	–	52 134	37 729
Other payables	17 285	11 603	–	–	–	–	–	–	17 285	11 603
Total	**151 521**	**112 594**	**265 023**	**131 757**	**–**	**–**	**-16 124**	**-12 326**	**400 420**	**232 025**

49. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% (2013: 10%) increase and decrease in the USD and a 20% (2013: 5%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

	USD		EUR	
In CHF'000	**2 014**	**2 013**	**2 014**	**2 013**
Post-tax net income				
- Increase	13 615	6 901	6 555	3 767
- Decrease	-13 615	-6 901	-6 555	-3 767
Comprehensive income (post-tax effect)				
- Increase	5 407	9 390	4 176	1 063
- Decrease	-4 807	-9 390	-4 176	-1 063

Interest rates

The sensitivity analysis below is based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates have been selected in order to report the sensitivity analysis corresponding to the treasury which represent management's assessment of the reasonably possible change in interest rates:

- USD: increase of 150 basis points and decrease of 50 basis points (2013: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2013: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2013: 100 basis points increase or 20 decrease)

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

- post-tax profit for the year ended December 31, 2014 would decrease by kCHF 377 and decrease by kCHF 690 (2013: decrease by kCHF 366 /increase by kCHF 121). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 259 and decrease by kCHF 86 (2013: increase by kCHF 426 / decrease by 140) . The other comprehensive income impact is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting.

Equity prices

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

50. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2014	31.12.2013
Guarantees in favor of third parties	29 936	23 355

51. RISK CONCENTRATION

At December 31, 2014 and 2013, no financial asset exposure was more than 10% of the financial assets, with the exception of cash balances deposited with a highly rated bank.

52. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2014 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

53. CAPITAL RISK MANAGEMENT

The Group's capital management focus is to maintain a sound capital base to support the continued development of its business. The Group is not subject to externally imposed capital requirements. The Group's CHF 235 million committed credit facility includes a minimum equity covenant (ratio of total equity over total assets). The Group fulfills such covenant.

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

The operating cash flow to net financial debt ratio as at 31 December 2014 was 45.8% (2013: 146.7%).

54. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 014	2 013	2 014	2 013
1 USD	0.9900	0.8900	0.9155	0.9268
1 EUR	1.2025	1.2250	1.2145	1.2308
100 CNY	15.9700	14.7100	14.8610	15.0751
100 NOK	13.3250	14.6300	14.5380	15.7857
1 GBP	1.5400	1.4730	1.5070	1.4495
100 BRL	37.3000	37.7000	38,93	43.1100
100 INR	1.5700	1.4400	1.5004	1.5892
1 SGD	0.7480	0.7040	0.7222	0.7408
100 ZAR	8.5400	8.5000	8.4400	9.6400
100 RUB	1.7910	2.7035	2.4140	2.9113
1 AUD	0.8100	0.7940	0.8250	0.8970

55. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 18, 2015.

56. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2014	2013
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	Sold	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	100	100
Conax Group	NO - Oslo	Conditional access modules and set-top-boxes	100	0
Public Access				
SkiData Group	AT – Gartenau	People and car access systems	100	100
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100

These principal companies are all subsidiaries.

57. EVENT SUBSEQUENT TO BALANCE SHEET DATE

On September 6, 2011 the Swiss National Bank set a minimum EUR/CHF exchange rate of CHF 1.20 to mitigate the effects of the financial crisis on the Swiss economy and the subsequent appreciation of the Swiss Franc. On January 15, 2015 the Swiss National Bank discontinued this EUR/CHF exchange rate floor and, as a result, the Swiss Franc significantly appreciated compared to other currencies. As the Group presentation currency is the Swiss Franc and several Group companies with a Swiss Franc functional currency have asset and liability exposure to foreign currencies, the sudden appreciation of the Swiss Franc will have negative impact on assets and liabilities existing as of December 31, 2014. The sensitivity analysis in note 49 provides an estimate of the financial effect of this subsequent event. Goodwill impairment testing was completed in December 2014 and as such the underlying assumptions did not include the January 2015 exchange rate fluctuations. However, the Group has initiated measures aimed at mitigating the negative impact of the Swiss Franc appreciation.

58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

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

Global risk management

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

Financial Risk Management

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

TO THE GENERAL MEETING OF KUDELSKI SA, CHESEAUX-SUR-LAUSANNE

As statutory auditor, we have audited the accompanying consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 4 to 54), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz
Audit expert
Auditor in charge

Marc Ausoni
Audit expert

Lausanne, February 18, 2015

BALANCE SHEETS AT DECEMBER 31, 2014 AND 2013

ASSETS

In CHF'000	Notes	31.12.2014	31.12.2013
Fixed assets			
Financial fixed assets:			
Investments	3.1	337 514	287 224
Loans to Group companies		765 064	757 700
Other long term assets		1 081	–
Total fixed assets		**1 103 659**	**1 044 924**
Current assets			
Accounts receivable from Group companies		39 729	25 881
Other accounts receivable and accruals	3.2	3 754	1 859
Cash and cash equivalents	3.3	14 981	9 987
Total current assets		**58 464**	**37 727**
Total assets		**1 162 123**	**1 082 651**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2014	31.12.2013
Shareholders' equity			
Share capital		539 047	537 882
Legal reserves:			
- General reserve		110 000	110 000
- Capital contribution reserve		19 111	29 877
Retained earnings		221 129	260 391
Net income		-29 905	-33 872
Total shareholders' equity	**3.4**	**859 382**	**904 278**
Long-term liabilities			
Bonds	3.5	110 000	110 000
Bank, long term borrowings	3.6	132 000	–
Total long-term liabilities		**242 000**	**110 000**
Current liabilities			
Short-term loans from Group companies		25 528	34 325
Bank, short term borrowings	3.6	33 000	30 000
Other liabilities and accruals		2 213	1 651
Bank overdraft		–	2 397
Total current liabilities		**60 741**	**68 373**
Total liabilities		**302 741**	**178 373**
Total shareholders' equity and liabilities		**1 162 123**	**1 082 651**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2014

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

In CHF'000	Notes	2014	2013
Financial income	4.1	55 587	96 892
Loss on sale of investments	4.2	-35 499	–
Administrative and other expenses	4.3	-7 859	-4 588
Financial expenses and exchange result	4.4	-13 782	-7 809
Impairment of financial fixed assets	4.5	-28 352	-118 367
(loss)/Income before tax		**-29 905**	**-33 872**
Income tax		–	–
Net (loss)/income		**-29 905**	**-33 872**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2014

In CHF'000	Capital contribution reserve	Retained earnings
Balance brought forward from previous year	19 111	221 129
Net result	–	-29 905
Total available earnings	**19 111**	**191 224**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.30 on 49'274'709* bearer shares (of which CHF 0.20 out of capital contribution reserve and CHF 0.10 out of retained earnings)	-9 855	-4 927
- CHF 0.03 on 46'300'000 registered shares (of which CHF 0.02 out of capital contribution reserve and CHF 0.01 out of retained earnings)	-926	-463
Balance to be carried forward	**8 330**	**185 834**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2014 and may fluctuate upon issuance of additional share capital for the employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies.

NOTES TO THE FINANCIAL STATEMENTS 2014

1. GENERAL COMMENTS

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The statutory financial statements of Kudelski SA are prepared in accordance with the requirements of the Swiss Code of Obligations applicable prior to the changes introduced on January 1, 2013, in accordance with the transitional provisions of the new accounting law. These financial statements were prepared under the historical cost convention and on an accrual basis.

FINANCIAL FIXED ASSETS

Investments and loans to Group companies are accounted for at acquisition cost less adjustment for impairment of value.

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

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

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

NOTES TO THE FINANCIAL STATEMENTS 2014

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2014	2013
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	10	100	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	S	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	100	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	S	50
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Holding	kUSD	5 270	L	100
OpenTV Netherlands B.V.	NL - Amsterdam	Sales and support	kEUR	18	L	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	0

S = sold company

L= liquidated company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2014	31.12.2013
Prepaid expenses	3 440	1 852
Withholding tax	310	6
Other accounts receivable	4	1
	3 754	**1 859**

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bond (note 3.5) and transaction costs relating to the new CHF 235 million credit facility agreement (note 3.6) for kCHF 2 874 (2013: kCHF 0), while the former CHF 145 million transaction costs measured at amortized cost (2014: kCHF 0 and 2013: kCHF 945) has been impaired and expensed in full in the income statement. These amounts are allocated against income statement over the contractual periods of their underlying borrowings.

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2014	31.12.2013
Cash at bank and in hand	14 981	9 987
	14 981	**9 987**

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contribution reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2012	**536 122**	**110 000**	**37 945**	**290**	**262 790**	**947 147**
General reserve allocation						–
Dividend			-8 068		-2 689	-10 757
Share capital increase	1 760					1 760
Release of reserve for treasury shares				-290	290	–
Net Income					-33 872	-33 872
As of December 31, 2013	**537 882**	**110 000**	**29 877**	**–**	**226 519**	**904 278**
Dividend			-10 780		-5 390	-16 170
Share capital increase	1 165		14			1 179
Net Income					-29 905	-29 905
As of December 31, 2014	**539 047**	**110 000**	**19 111**	**–**	**191 224**	**859 382**

NOTES TO THE FINANCIAL STATEMENTS 2014

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2014	31.12.2013
49'274'709 / 49'158'230 bearer shares, at CHF 10 each	492 747	491 582
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	539 047	**537 882**

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

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2014	2013
Conditional share capital as of January 1	103 555	105 316
Increase of conditional share capital	8 000	–
Employee share purchase plan	-82	-79
Shares allotted to employees	-1 083	-1 682
Conditional share capital at December 31	**110 390**	**103 555**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
1'039'047 / 355'526 bearer shares, at CHF 10 each	10 390	3 555
	110 390	**103 555**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2014	31.12.2013
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 8, 2016, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Kudelski family pool	63%	63%	35%	35%

3.5 BOND

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016 with denominations of CHF 5 000 and multiples thereof.

The bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs amounting to kCHF 1 474 is considered as a prepaid expense and allocated against the income statement over the period of the bond.

3.6 BANK , LONG TERM BORROWINGS

In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019. This new credit facility replaces the former facility of CHF 145M obtained in 2012. As of December 31, 2014 the Group has drawn CHF 165 million of which CHF 132 million are classified as long term and CHF 33 million as short term in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS 2014

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2014	2013
Dividends received from Group subsidiaries	39 043	91 054
Interest income third parties	119	120
Interest on loans to Group subsidiaries	16 425	5 663
Other financial income	–	55
	55 587	**96 892**

In 2013, other financial income relates to the gain on sales of treasury shares.

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2014 loss relates to the sale of NagraID SA and NagraID Security SA, both located at la Chaux-de-Fonds.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2014	2013
Administrative expenses	-6 370	-3 076
Taxes other than income tax	-1 489	-1 512
	-7 859	**-4 588**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2014	2013
Net currency exchange result	-4 494	-1 771
Interest on loans from Group subsidiaries	-39	-51
Interest expenses and bank charges	-9 249	-5 987
	-13 782	**-7 809**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2014	2013
Change in provision on Group investments and loans	-26 143	-118 367
Value adjustment on investments	-2 209	–
	-28 352	**-118 367**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2014	31.12.2013
Guarantee commitments		
Commitment in favor of third parties	1 328	1 171
	1 328	**1 171**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE INTEREST DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

Kudelski SA, as the ultimate parent company of the Kudelski Group, is fully integrated into the Group-wide internal risk assessment process. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of Kudelski SA. Disclosure of the Group-wide risk assessment procedures are described in note 58 to the Group's consolidated financial statements.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

TO THE GENERAL MEETING OF KUDELSKI SA, CHESEAUX-SUR-LAUSANNE

As statutory auditor, we have audited the accompanying financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 56 to 64), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 18, 2015

INTERNET LINKS

GROUP WEBSITE
www.nagra.com

INVESTOR RELATIONS SECTION
www.nagra.com/investors.html

IMPORTANT DATES
www.nagra.com/investors-calendar.html

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E-MAIL ADDRESSES

GENERAL INFORMATION
info@nagra.com

INVESTOR RELATIONS
ir@nagra.com

MEDIA RELATIONS
communication@nagra.com

IMPRESSUM

PROJECT MANAGEMENT, EDITING AND GRAPHIC DESIGN
Corporate Communications, Kudelski Group

SUPPORT
Desrochers communication

DISCLAIMER

This report contains forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. These statements are subject to known and unknown risks and uncertainties and could be affected by other factors that could cause actual results, plans and objectives to differ materially from those expressed or implied in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, performance of the financial markets, competitive factors and changes in laws and regulations.

KUDELSKI SA

22-24, Route de Genève · P.O. Box 134 · 1033 Cheseaux · Switzerland
T +41 21 732 01 01 · F +41 21 732 01 00 · info@nagra.com · www.nagra.com