KUDELSKI GROUP
FINANCIAL STATEMENTS 2016

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CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Revenues	5	1 048 924	939 594
Other operating income	6	18 508	11 236
Total revenues and other operating income		**1 067 433**	**950 830**
Cost of material, licenses and services		-339 550	-286 724
Employee benefits expense	7	-423 721	-392 984
Other operating expenses	8	-162 287	-148 569
Operating income before depreciation, amortization and impairment		**141 875**	**122 553**
Depreciation, amortization and impairment	9	-44 070	-41 330
Operating income		**97 805**	**81 223**
Interest expense	10	-9 934	-14 515
Other finance income/(expense), net	11	5 131	-9 242
Share of result of associates	17	841	1 671
Income before tax		**93 843**	**59 137**
Income tax expense	12	-19 039	-9 827
Net income for the period from continuing operations		**74 804**	**49 311**
Net result from discontinued operations	36	-7 443	–
Net income for the period		**67 361**	**49 311**
Attributable to:			
- Equity holders of the company		*62 649*	*44 421*
- Non-controlling interests		*4 712*	*4 890*

Earnings per share (in CHF)			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	13	1.1549	0.8191
- Continuing operations		*1.2921*	*0.8191*
- Discontinued operations		*-0.1372*	*-*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	13	0.1155	0.0819
- Continuing operations		*0.1292*	*0.0819*
- Discontinued operations		*-0.0137*	*-*

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Net income		**67 361**	**49 311**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:			
Currency translation differences		11 257	-34 030
Cash flow hedges, net of income tax		778	380
Net (loss)/gain on available-for-sale financial assets, net of income tax		203	-638
		12 238	**-34 288**
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		-3 308	-10 432
		-3 308	**-10 432**
Total other comprehensive income, net of tax		**8 930**	**-44 720**
Total comprehensive income		**76 291**	**4 591**
Attributable to:			
Shareholders of Kudelski SA		71 708	-486
- Continuing operations		*-79 150*	*-486*
- Discontinued operations		*-7 443*	*-*
Non-controlling interests		4 583	5 077

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

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Tangible fixed assets	14	147 957	139 120
Intangible assets	15	434 138	349 127
Investment property	16	–	1 096
Investments in associates	17	5 013	4 499
Deferred income tax assets	18	62 104	61 407
Financial assets and other non-current assets	19	33 199	44 051
Total non-current assets		**682 411**	**599 300**
Current assets			
Inventories	20	54 019	48 087
Trade accounts receivable	21	283 479	256 977
Other current assets	22	66 687	47 892
Derivative financial instruments	34	355	365
Cash and cash equivalents	23	177 057	136 840
Total current assets		**581 596**	**490 161**
Total assets		**1 264 007**	**1 089 461**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	434 005	540 911
Reserves		43 288	-117 777
Equity attributable to equity holders of the parent		**477 293**	**423 135**
Non-controlling interests	25	21 700	23 872
Total equity		**498 992**	**447 006**
Non-current liabilities			
Long-term financial debt	26	348 749	199 660
Deferred income tax liabilities	18	11 009	11 509
Employee benefits liabilities	28	67 375	77 823
Other long-term liabilities and derivative financial instruments	29	24 346	20 952
Total non-current liabilities		**451 480**	**309 944**
Current liabilities			
Short-term financial debt	30	31 943	123 459
Trade accounts payable	31	67 799	50 662
Other current liabilities	32	156 300	123 409
Current income taxes		14 827	9 739
Advances received from clients	33	32 469	22 040
Derivative financial instruments	34	98	434
Provisions for other liabilities and charges	35	10 097	2 768
Total current liabilities		**313 535**	**332 511**
Total liabilities		**765 014**	**642 455**
Total equity and liabilities		**1 264 007**	**1 089 461**

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

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Net income for the year		**67 361**	**49 311**
Adjustments for net income non-cash items:			
- Current and deferred income tax		19 039	9 827
- Interests, allocation of transaction costs and foreign exchange differences		5 314	23 383
- Depreciation, amortization and impairment	9	44 070	41 330
- Share of result of associates	17	-841	-1 671
- Non-cash employee benefits (income) / expense		-14 087	7 410
- Deferred cost allocated to income statement		9 995	9 084
- Additional provisions net of unused amounts reversed		9 164	558
- Non-cash government grant income		-12 096	-902
- Other non cash (income) / expenses		2 262	-17 357
Adjustments for items for which cash effects are investing or financing cash flows:			
- Other non-operating cash items		-1 439	19
Adjustements for change in working capital:			
- Change in inventories		5 032	5 789
- Change in trade accounts receivable		-13 480	-31 616
- Change in trade accounts payable		2 275	-3 386
- Change in deferred costs and other net current working capital headings		7 402	23 080
Government grant from previous periods received		5 237	11 520
Dividends received from associated companies	17	1 252	1 191
Interest paid		-8 275	-9 527
Interest received		1 065	1 131
Income tax paid		-6 629	-12 787
Cash flow from operating activities		**122 621**	**106 387**
Purchases of intangible fixed assets		-19 897	-13 358
Purchases of tangible fixed assets		-27 659	-19 280
Proceeds from sales of tangible and intangible fixed assets		1 128	144
Proceeds from sale of investment property		2 359	–
Investment in financial assets and loans granted		-3 593	-2 808
Divestment of financial assets and loan reimbursement		1 976	1 985
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Cash consideration arising from business combinations	4	-69 991	-14 455
- Cash acquired from business combinations	4	10 462	2 307
- Payment arising from prior year business combinations		-3 017	
Acquisition of associated companies	17	-1 010	–
Cash flow used in investing activities		**-109 242**	**-45 465**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-115 146	-205 103
Increase in bank overdrafts, long term loans and other non-current liabilities		168 073	201 862
Proceeds from employee share purchase program		84	61
Acquisition of non-controlling interests		-2 737	-187
Proceed from a partial sale of subsidiary and loan not resulting in a loss of control		–	12 741
Capital contribution from non-controlling interests		177	–
Dividends paid to non-controlling interests		-5 130	-5 399
Dividends paid to shareholders	38	–	-16 225
Reimbursment of share capital to Shareholders of Kudelski SA		-18 984	–
Cash flow from/(used in) financing activities		**26 337**	**-12 250**
Effect of foreign exchange rate changes on cash and cash equivalents		501	-4 214
Net increase in cash and cash equivalents		**40 217**	**44 458**
Cash and cash equivalents at the beginning of the year	23	136 840	92 382
Cash and cash equivalents at the end of the year	23	177 057	136 840
Net increase in cash and cash equivalents		**40 217**	**44 458**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2015		**539 047**	**32 828**	**-50 791**	**-2 767**	**-87 604**	**22 731**	**453 444**
Net income		–	–	44 421	–	–	4 890	49 311
Other comprehensive income		–	–	-10 445	-495	-33 967	187	-44 720
Total comprehensive income		**–**	**–**	**33 976**	**-495**	**-33 967**	**5 077**	**4 591**
Employee share purchase program	39	81	6	–	–	–	–	87
Shares issued for employees		1 783	-522	–	–	–	–	1 261
Dividends paid to shareholders	38	–	-10 817	-5 408				-16 225
Dividends paid to non-controlling interests		–	–	–	–	–	-5 399	-5 399
Non-controlling interests arising on business combinations	4	–	–	–	–	–	3 449	3 449
Transactions with non-controlling interests	4	–	–	7 784	–	–	-1 986	5 798
December 31, 2015		**540 911**	**21 495**	**-14 439**	**-3 262**	**-121 571**	**23 872**	**447 006**
Net income		–	–	62 649	–	–	4 712	67 361
Other comprehensive income		–	–	-3 293	981	11 370	-129	8 929
Total comprehensive income		**–**	**–**	**59 356**	**981**	**11 370**	**4 583**	**76 290**
Employee share purchase program		63	58	–	–	–	–	121
Shares issued for employees		1 512	71	–	–	–	–	1 583
Par value reduction of share capital		-108 481	89 497	–	–	–	–	-18 984
Dividends paid to non-controlling interests		–	–	–	–	–	-5 130	-5 130
Impairment of contingent consideration		–	–	1 461	–	–	–	1 461
Transactions with non-controlling interests	4	–	–	-1 730	–	–	-1 802	-3 532
Equity contribution from non-controlling interest		–	–	–	–	–	177	177
December 31, 2016		**434 005**	**111 121**	**44 648**	**-2 281**	**-110 201**	**21 700**	**498 992**

Fair value and other reserves as of December 31, 2016 include kCHF -2 437 (2015: kCHF -2 640) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF 156 (2015: kCHF -622) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 better enable comparison. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises significant power to govern their financial and operating policies and bears an over-proportional responsibility for the main risks. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.
Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations

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

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

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

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

(c) Disposal of subsidiaries

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

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

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

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

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

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

(D) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable from 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 such contingencies 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 share of performance obligation fulfilled in the reporting period.

(b) Services rendered
Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training, and 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 to complete 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 determi-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

nable 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, which 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 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 to 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 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 recognized to the income statement on a straight-line basis over the term of the contract, as a reduction of revenue. They are subject to periodic impairment reviews.

(f) Interest income

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

(E) Government grants

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

(F) Cost of material, licenses and services

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

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

(G) Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The 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 hedging 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 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 and 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. Derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(H) Taxes

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

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

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

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

(I) Tangible fixed assets

(a) General

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

Technical equipment and machinery

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

Other equipment

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

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

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

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

(d) Borrowing costs

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

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

(J) Intangible assets

(a) Goodwill

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

(b) Internal research and development

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

(c) External research and development

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

(d) Computer software

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

(e) Customer lists, Trademarks and Brands

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

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

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

(K) Investment property
Investment property is property held to earn rental income or for capital appreciation as opposed to property intended for internal use. If part of a building is leased, it is accounted for 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.

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 I).

(L) 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 those with 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 44. 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.

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

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

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

(O) 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.

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

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

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

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

(S) Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

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

The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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

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

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

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

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

(U) Trade accounts payable
Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

(V) 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 and change in accounting policies
The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations as of January 1, 2016 described below.
The Group for the first time applied the amendments included in the annual improvement to IFRSs 2012-2014 cycle, effective from 1 January 2016. The following amendments had only limited impact on the accounting policies, financial position or performance of the Group:
- IFRS 11 – 'Joint Operations: Accounting for Acquisitions of Interests' (amendment)
- IFRS 14 – 'Regulatory Deferred Accounts'
- IAS 16 and IAS 38 – 'Clarification of Acceptable methods of depreciation and amortisation' (amendments)
- IAS 16 and IAS 41 –'Agriculture: Bearer Plants' (amendments)
- IFRS 10 and and IAS 28 – 'Sale between investor and its associates or joint ventures' (amendments)
- IFRS 10, IFRS 12 and and IAS 28 – 'Investment entities: Applying the consolidation exception' (amendments)
- IAS 27 – 'Equity method in separate financial statements' (amendments)
- IAS 1 – 'Disclosure initiative' (amendments)
- Annual IFRS improvement projects.

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 2017 or later periods, and which the Group has not early adopted:
- IFRS 15 – 'Revenue from Contracts with Customers' – (effective from 1 January of 2018) – This new revenue standard establishes a new five-step 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 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. At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.

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- IFRS 16 – 'Leases' – (effective from 1 January of 2019) – IFRS 16 will substantially change the financial statements as it requires the majority of leases to be recognized on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases.
The standard will affect primarily the accounting for the group's operating leases. As of the reporting date, the group has non-cancelable operating lease commitments of kCHF 55 732. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

- IFRS 9 - 'Financial instruments' – (effective from 1 January of 2018) – IFRS 9 introduces new requirements for the classification and measurement, impairment and hedge accounting of financial assets and liabilities. This new standard comprises two measurement categories for financial assets and liabilities: amortized cost and fair value. It also introduces a new impairment model based on expected credit loss.
While the group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income and hence there will be no change to the accounting for these assets. Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.
There will be no change to the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.
The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of adoption.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:
- IAS 12 – 'Recognition of deferred tax assets for unrealised losses' (amendments)
- IAS 7 – 'Disclosure initiative' (amendments)
- Annual IFRS improvement projects.

All other standards and interpretations in issue were considered and were deemed not to have a significant impact on the Group's financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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 18). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore significantly modify the deferred tax asset and the income taxes. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods which occur after the accounts have been approved might affect the tax asset capitalized.
A tax audit may also lead to significant adjustments, due to a rejection of key components of a tax return or a government grant (e.g. related to transfer pricing or the assessment of the eligibility of a project qualifying for a grant).

Retirement benefit plans
The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. The factors include assumptions about the discount rate and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.
Assumptions used (note 28) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

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

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, 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 risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial 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 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 group manages this risk 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 the Group's defined risk appetite, which ensure that optimal hedging strategies are applied by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

Other price risks

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

Credit risk management

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

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

Liquidity risk management

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

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

4. BUSINESS COMBINATIONS

Integrated Digital Television

On April 21, 2016, the Group signed a share purchase agreement whereby it acquired 100% of Milestone Systems, Inc, for a total consideration of kCHF 41 295. Founded in 2000, Milestone Systems, Inc. is headquartered in Minneapolis, USA and is focused on enterprise network infrastructure and security as well as support services including certified training, project management, consulting, managed services, and 24x7 technical support. Total consideration includes an earn-out estimate of kCHF 2 744 and deferred consideration of kCHF 1472. The actual earnout payment is based on 2016 gross profit and specific customer retention targets, hence the Group does not expect an actual earn-out payment to be materially different. Management based its earnout estimate on the business plan used to establish the purchase price allocation and support the transaction. The goodwill arising from this acquisition amounts to kCHF 31 582 and arises from a number of factors, including expected synergies resulting from acquiring a workforce experienced in service support as well as valuable sales knowledge and expertise in the relevant market. For the acquisition, the Group made an election for tax purposes whereby the acquisition qualifies as an asset purchase rather than a stock purchase, which allows the difference between the net tax assets acquired and the purchase consideration to be amortized over time. Acquisition related costs of kCHF 179 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 9 694 is expected to be fully collectable leading to a fair value of kCHF 9 694.

On July 7, 2016, the Group signed a share purchase agreement whereby it acquired 100% of NexGuard Labs B.V (formely Civolution BV), for a total consideration of kCHF 28 059. NexGuard Labs BV, based in the Netherlands with offices in Los Angeles, New York, London, Dubai and Rennes (France), is a leading provider of forensic watermarking technology and solutions for protecting media content against illicit redistribution.The goodwill arising from this acquisition amounts to kCHF 24 753 and arises from a number of factors including expected synergies considered when purchasing the company, a highly skilled and experienced workforce, as well as a reinforcement of our content protection offering. Acquisition related costs of kCHF 177 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 896 is expected to be fully collectable leading to a fair value of kCHF 896.

Public Access

During the year, SKIDATA completed two business combinations by acquiring two distributors. On July 2, 2016 it completed an asset deal to take over the business of Mexico Grupo Signal S.A. de C.V. for a total consideration of kCHF 2 629 including a deferred consideration of kCHF 975 payable on March 19, 2019. On August 15, 2016 it acquired 100% of Protection Technology Inc., USA, its former distribution partner for the US market in the states of Washington, Utah and Colorado for a total consideration of kCHF 5 959 which includes a contingent consideration of kCHF 2 761. In the event that certain revenue thresholds are achieved for the years 2016, 2017 and 2018, additional consideration of up to kCHF 1 000 may be payable in cash in 2017, 2018 and 2019. The fair value of the contingent consideration of kCHF 2 761 was estimated by calculating the present value of the future expected cash flows at a discount rate of 7.1% and assumed probability that the maximum additional consideration should be paid.

The Goodwill arising from these acquisitions are kCHF 1 230 and kCHF 5 850 respectively and are attributed to the Public Access cash generating unit. Goodwill is mainly attributed to the skilled workforce for both acquisitions. Acquisition related costs of kCHF 143 are included in other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

In CHF'000	Milestone Systems, Inc.	Nexguard Labs BV	SKIDATA acquisitions	Fair value of net assets acquired 31.12.2016
Tangible fixed assets	319	109	115	543
Intangible fixed assets:				
- Technology	–	1 693	–	1 693
- Customer lists, Trademark & Brands	8 269	2 288	2 534	13 091
- Other Intangibles	90	45	–	135
Other non current assets	274	29	4	307
Trade accounts receivable:				
- gross contractual amount	9 723	1 400	1 440	12 563
- allowance for doubtful accounts	-29	-504	–	-533
Other current assets	480	2 571	2 998	6 049
Cash and cash equivalents	8 110	1 199	1 153	10 462
Trade accounts payable	-12 943	-313	–	-13 256
Other current liabilities	-4 580	-3 012	-6 272	-13 864
Non current liabilities	–	-707	–	-707
Employee benefits liabilities	–	-121	–	-121
Deferred income tax liabilities	–	-1 371	-463	-1 834
Total identified net assets	**9 713**	**3 306**	**1 509**	**14 528**
Goodwill	31 582	24 753	7 080	63 415
Total consideration	**41 295**	**28 059**	**8 589**	**77 943**
Total consideration, of which:				
- cash	37 079	28 059	4 853	69 991
- deferred	1 472	–	975	2 447
- contingent	2 744	–	2 761	5 505
Total consideration	**41 295**	**28 059**	**8 589**	**77 943**

Goodwill is expected to be deductible for tax purposes for Milestone Systems, Inc and both of the SKIDATA acquisitions as those transaction are either asset deals or a tax election has been made in order to treat those transaction as asset deals. NexGuard Labs BV goodwill is not expected to be deductible from a tax perspective.

Proforma information

From the date of acquisition, the acquired companies have contributed kCHF 58 862 of revenues and kCHF 1 992 to the net income to the continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kCHF 1 085 528 and the net income from continuing operations for the period for the Group would have been approximately kCHF 72 372.

Transaction with non-controlling interests

On June 30, 2016, the Group acquired the remaining 50% interest of SKIDATA Australasia Pty Ltd for a total consideration of kCHF 3 532, including contingent consideration related to the achievement of targeted financial performances and payable in two tranches. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kCHF 1 730 and non-controlling interests for kCHF 1 802.

The contingent consideration resulting from the acquisition of the remaining 50% of NagraID Security SA in 2014 has been written off against retained earnings as we no longer expect an earn-out payment due to actual performance of this company compared to the earn-out patterns.

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5. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker. Group operating segments represent strategic business units that offer products and services for which such internal reporting is maintained. The chief operating decision maker reviews the internal segment reporting in order to allocate resources to the segments and assess their performance.
The Group is organized operationally on a worldwide basis in two operating segments which are reflected in internal management reporting:
- Integrated Digital Television
- Public Access

The Integrated Digital Television division provides end-to-end integrated solutions, including open conditional access solutions, which allow TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform, and middleware software solutions for set-top-boxes and other consumer devices, enabling an advanced end-user experience. The Integrated Digital Television operating segment also includes the Group's Cybersecurity and Intellectual Property activities.
The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.
The measure of income presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) except that intersegment sales are eliminated at the consolidation level. Income and expenses relating to Corporate include the costs of Group headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions". Reportable segment assets include total assets allocated by segment with the exclusion of intersegment balances, which are eliminated. Unallocated assets include assets managed on a centralized basis, included in the reconciliation to balance sheet assets.

In CHF'000	Integrated Digital Television 2016	Integrated Digital Television 2015	Public Access 2016	Public Access 2015	Total 2016	Total 2015
Total segment Revenues	**730 663**	**661 448**	**318 689**	**278 512**	**1 049 352**	**939 960**
Inter-segment revenues	-421	-366	-7	–	-428	-366
Revenues from external customers	**730 242**	**661 082**	**318 682**	**278 512**	**1 048 924**	**939 594**
Depreciation and amortisation	-27 006	-31 455	-9 181	-8 211	-36 187	-39 666
Impairment	-7 882	-1 664	–	–	-7 882	-1 664
Operating income - excluding corporate common functions	**99 388**	**83 305**	**17 091**	**15 684**	**116 479**	**98 989**
Corporate common functions					-18 674	-17 766
Interest expense and other Finance income/(expense), net					-4 803	-23 757
Share of result of associates	-322		1 164		841	1 671
Income before tax					**93 843**	**59 137**
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total segment Assets	**959 615**	**806 671**	**282 745**	**243 624**	**1 242 360**	**1 050 295**

In CHF'000	31.12.2016	31.12.2015
Total Segment Assets	1 242 360	1 050 295
Cash & Cash equivalents	18 662	28 603
Other current assets	130	87
Financial assets and other non-current assets	2 855	10 476
Total Assets as per Balance Sheet	**1 264 007**	**1 089 461**

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	**2016**	**2015**	**31.12.2016**	**31.12.2015**
Switzerland	36 397	36 923	83 890	108 436
United States of America	311 477	219 470	227 810	141 013
France	65 464	67 415	23 859	22 355
Norway	10 742	9 647	154 475	154 861
Rest of the world	624 844	606 139	98 753	77 691
	1 048 924	**939 594**	**588 787**	**504 356**

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

REVENUE CATEGORIES

In CHF'000	**2016**	**2015**
Sale of goods	513 850	501 463
Services rendered	328 945	296 791
Royalties and licenses	206 129	141 340
	1 048 924	**939 594**

6. OTHER OPERATING INCOME

In CHF'000	**2016**	**2015**
Government grants (research, development and training)	13 447	3 383
Gain on bargain purchase resulting from business combination	–	4 135
Income from rental of property	2 811	2 856
Gain on sale of investment property	1 258	–
Others	991	862
	18 508	**11 236**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

7. EMPLOYEE BENEFITS EXPENSE

In CHF'000	Note	2016	2015
Wages and salaries		351 296	307 405
Social security costs		51 166	46 709
Defined benefit plans expenses	28	-8 103	13 904
Defined contribution plans expenses		10 062	8 935
Other personnel expenses		19 301	16 032
		423 721	**392 984**

8. OTHER OPERATING EXPENSES

In CHF'000	2016	2015
Development and engineering expenses	15 137	16 815
Travel, entertainment and lodging expenses	33 714	29 136
Legal, experts and consultancy expenses	36 430	34 444
Administration expenses	24 881	22 687
Building and infrastructure expenses	26 728	25 526
Marketing and sales expenses	10 776	10 807
Taxes other than income tax	4 341	4 055
Change in provisions	331	-4 035
Insurance, vehicles and others	9 950	9 135
	162 287	**148 569**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2016	2015
Land and buildings	14	3 769	3 869
Equipment and machines	14	14 342	13 277
Investment property	16	3	115
Total depreciation and impairment of tangible fixed assets		**18 115**	**17 260**
Intangible assets	15	25 955	24 070
Total amortization and impairment on intangible fixed assets		**25 955**	**24 070**
Depreciation, amortization and impairment		**44 070**	**41 330**

10. INTEREST EXPENSE

In CHF'000	Note	2016	2015
Interest expense:			
- Bond 2011-2016	27	3 248	3 791
- Bond 2015-2022	27	3 889	2 462
- Bond 2016-2024	27	606	
- Credit facility		–	5 560
- Net interest expense recognized on defined benefit plans	28	904	954
- Other and bank charges		1 286	1 749
		9 934	**14 515**

In 2015, the total interest expense related to the credit facility amounted to kCHF 5 560 and included amortization of transaction costs for kCHF 2 874. This credit facility was fully reimbursed in 2015 and not renewed.

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2016	2015
Interest income		1 315	1 403
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-870	-2 051
Net foreign exchange transaction gains/(losses)		5 197	-9 053
Others		-510	459
		5 131	**-9 242**

Changes in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kCHF 203 (2015: kCHF -638). The change in fair value of held for trading financial assets amounting to kCHF -870 (2015: kCHF -2 051) 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	2016	2015
Current income tax		-20 233	-13 738
Deferred income tax	18	2 232	5 331
Non refundable witholding tax		-1 039	-1 420
		-19 039	**-9 827**

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

In CHF'000	2016	2015
Income before taxes	**93 843**	**59 137**
Expected tax calculated at domestic tax rates in the respective countries	-21 942	-13 338
Effect of income not subject to income tax or taxed at reduced rates	2 334	1 381
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	7 026	15 636
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-6 576	-16 721
Effect of changes in tax rates	269	949
Efffect of associates' result reported net of tax	313	415
Effect of disallowed expenditures	-1 769	-667
Effect of prior year income taxes	218	1 144
Effect of non-refundable withholding tax	-790	-1 420
Other	1 877	2 792
Tax expense	**-19 039**	**-9 827**

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose taxes are paid by the subsidiaries' shareholders. However, the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 2 578 (2015: kCHF 2 640) and is disclosed under 'Other' in the above table.

The weighted average applicable tax rate increased from 22.55% in 2015 to 23.38% in 2016. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

13. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

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

In CHF'000	2016	2015
Net income attributable to bearer shareholders	57 302	40 629
- Continuing operations	*64 110*	*40 629*
- Discontinued operations	*-6 808*	*-*
Net income attributable to registered shareholders	5 347	3 792
- Continuing operations	*5 982*	*3 792*
- Discontinued operations	*-635*	*-*
Total net income attributable to equity holders	**62 649**	**44 421**
Weighted average number of bearer shares outstanding	49 616 010	49 720 756
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in CHF)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	1.1549	0.8191
- Continuing operations	*1.2921*	*0.8191*
- Discontinued operations	*-0.1372*	*-*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	0.1155	0.0819
- Continuing operations	*0.1292*	*0.0819*
- Discontinued operations	*-0.0137*	*-*

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

14. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2016	31.12.2015
Land and buildings	108 329	105 427
Equipment and machines	39 628	33 693
	147 957	**139 120**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2015	**23 097**	**109 877**	**13 197**	**146 171**
Additions	–	1 646	1 119	2 765
Impact of business combinations	1 365	3 719	198	5 282
Disposals and retirements	–	-144	-933	-1 077
Currency translation effects	-171	-1 969	-399	-2 539
Reclassification & others	–	-167	100	-67
As of January 1, 2016	**24 291**	**112 961**	**13 282**	**150 535**
Additions	–	2 683	3 603	6 285
Impact of business combinations	–	–	127	127
Disposals and retirements	–	-199	-1 121	-1 320
Currency translation effects	-40	38	122	120
Reclassification & others	–	–	323	323
As of December 31, 2016	**24 251**	**115 482**	**16 336**	**156 070**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2015	**–**	**-32 090**	**-11 341**	**-43 431**
Systematic depreciation	–	-2 955	-841	-3 796
Impairment	–	-69	-4	-73
Disposals and retirements	–	78	974	1 052
Currency translation effects		844	257	1 100
Reclassification & others	–	39	–	39
As of January 1, 2016	**–**	**-34 153**	**-10 956**	**-45 108**
Systematic depreciation	–	-2 902	-857	-3 759
Impairment	–	-10	–	-10
Disposals and retirements	–	98	1 003	1 101
Currency translation effects	–	68	-19	49
Reclassification & others	–	–	-13	-13
As of December 31, 2016	**–**	**-36 899**	**-10 842**	**-47 741**
Net book values as of December 31, 2015	**24 291**	**78 809**	**2 327**	**105 427**
Net book values as of December 31, 2016	**24 251**	**78 583**	**5 495**	**108 329**
Useful life in years	Indefinite	10 – 50	4 – 8	

In CHF'000	31.12.2016	31.12.2015
Corporate buildings on land whose owner has granted a permanent and specific right of use	7 797	6 708

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EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2015	**149 019**	**10 814**	**159 832**
Additions	15 383	1 132	16 515
Impact of business combinations	387	1 593	1 980
Disposals and retirements	-10 179	-1 051	-11 230
Currency translation effects	-4 891	-639	-5 530
Reclassification & others	149	-119	31
As of January 1, 2016	**149 867**	**11 730**	**161 598**
Additions	18 170	3 203	21 374
Impact of business combinations	357	59	416
Disposals and retirements	-5 713	-1 405	-7 118
Currency translation effects	-4	205	201
Reclassification & others	7	-331	-323
As of December 31, 2016	**162 686**	**13 462**	**176 147**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2015	**-121 473**	**-7 955**	**-129 428**
Systematic depreciation	-11 741	-1 530	-13 271
Impairment	-6	–	-6
Disposals and retirements	10 036	1 064	11 101
Currency translation effects	3 404	293	3 696
Reclassification & others	-74	76	2
As of January 1, 2016	**-119 854**	**-8 051**	**-127 905**
Systematic depreciation	-11 829	-1 365	-13 194
Impairment	-1 144	-5	-1 149
Disposals and retirements	5 327	559	5 886
Currency translation effects	-80	-91	-172
Reclassification & others	-14	27	13
As of December 31, 2016	**-127 594**	**-8 927**	**-136 520**
Net book values as of December 31, 2015	**30 014**	**3 679**	**33 693**
Net book values as of December 31, 2016	**35 092**	**4 535**	**39 628**
Useful life in years	4 – 10	4 – 7	

Technical equipment and machinery is comprised of assets made available to clients which generates recurring service revenue.

2016 Technical equipment impairment relates mainly to assets made available to clients which had to be impaired following a contract renegotiation with a customer.

15. INTANGIBLE ASSETS

In CHF'000	Technology	Customer lists, Trademarks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2015	**125 228**	**51 886**	**68 109**	**272 099**	**731**	**518 053**
Additions	9 920	–	3 439	–	–	13 359
Impact of business combinations	–	4 562	250	18 450	–	23 262
Disposals and retirements	-1 384	–	-310	–	-2	-1 696
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	-5 457	-7 597	-864	-21 624	-60	-35 602
As of January 1, 2016	**128 307**	**48 851**	**70 616**	**268 925**	**669**	**517 368**
Additions	10 643	31	9 225	–	–	19 898
Impact of business combinations	1 693	13 092	65	63 415	70	78 334
Disposals and retirements	-2 134	–	-754	–	-15	-2 903
Currency translation effects	1 009	2 409	168	10 526	4	14 117
As of December 31, 2016	**139 517**	**64 383**	**79 320**	**342 865**	**728**	**626 814**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2015	**-82 241**	**-6 773**	**-59 960**	**–**	**-530**	**-149 504**
Systematic amortization	-14 497	-5 142	-2 659	–	-186	-22 484
Impairment	-994	–	-591	–	–	-1 586
Recovery of amortization on disposal and retirements	1 384	–	310	–	2	1 695
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	2 096	903	603	–	45	3 646
As of January 1, 2016	**-94 253**	**-11 013**	**-62 305**	**–**	**-669**	**-168 241**
Systematic amortization	-10 245	-6 423	-2 506	–	-57	-19 231
Impairment	-6 724	–	–	–	–	-6 724
Recovery of amortization on disposal and retirements	2 134	–	572	–	15	2 722
Currency translation effects	-607	-433	-160	–	-3	-1 203
As of December 31, 2016	**-109 695**	**-17 869**	**-64 398**	**–**	**-714**	**-192 676**
Net book values as of December 31, 2015	**34 054**	**37 839**	**8 311**	**268 925**	**–**	**349 128**
Net book values as of December 31, 2016	**29 822**	**46 514**	**14 922**	**342 865**	**14**	**434 138**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2016 Technology impairment mainly relates to technologies than became obsolete and for which future cash flows became unsure.

Intangibles with indefinite useful lives are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units, which are defined within the framework of the Group as its operating segments.
In 2016, kCHF 312 846 of goodwill has been allocated to Integrated Digital Television (2015: kCHF 246 520) and kCHF 30 019 (2015: kCHF 22 405) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 Group management covering a five-year period and a discount rate of 8.5% (2015: 9.0%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% per annum (2015: 1.5%) for Digital Television. 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 2016 and 2015, 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 the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

16. INVESTMENT PROPERTY

In 2016, rental income and direct operating expenses for the investment property were kCHF 6 (2015: kCHF 219) and kCHF 1 (2015 : kCHF 7) respectively. In January 2016, the investment property was sold for CHF 2.3 million, corresponding to its fair value as of December 31, 2015.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2015	**2 697**
Currency translation effects	-270
As of December 31, 2015	**2 427**
Disposal	-2 445
Currency translation effects	18
As of December 31, 2016	**–**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2015	**-1 350**
Systematic depreciation	-115
Currency translation effects	134
As of December 31, 2015	**-1 331**
Systematic depreciation	-3
Disposal	1 344
Currency translation effects	-10
As of December 31, 2016	**–**
Net book values as of December 31, 2015	**1 096**
Net book values as of December 31, 2016	**–**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

17. INVESTMENTS IN ASSOCIATES

In CHF'000	2016	2015
At January 1	**4 499**	**6 217**
Share of profit	841	1 671
Dividends received	-1 252	-1 190
Acquisition of associated companies	1 010	–
Associated company fully consolidated	–	-2 095
Currency translation effects	-85	-104
At December 31	**5 013**	**4 499**

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

Name of associate	Principal activity	Interest held 2016	Interest held 2015
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SKIDATA Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SJack GmbH, Austria	Sales of Public Access products	26%	0%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45%	0%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%
Kryptus Segurança da Informaçao Ltda.	Cyber Security activities	* 16%	0%

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

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP’S ASSOCIATES

In CHF'000	31.12.2016	31.12.2015
Total assets	27 529	31 217
Total liabilities	15 030	18 803
Net assets	12 499	12 414
Group's share of associates' net assets	3 705	3 981

	2016	2015
Revenue	46 335	40 228
Result of the period	3 542	5 994
Group's share of associates' result for the period	841	1 671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

18. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2016	31.12.2015
Deferred tax assets	62 104	61 407
Deferred tax liabilities	-11 009	-11 509
	51 095	**49 898**

Movement on the deferred income tax account is as follows:

In CHF'000	Note	2016	2015
At January 1		**49 898**	**42 880**
Exchange differences		-175	1 098
Recognized against other comprehensive income		974	2 811
Impact of business combinations		-1 834	-2 222
Income statement (expense)/income	12	2 232	5 331
At December 31		**51 095**	**49 898**

The movement in deferred tax assets and liabilities during 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In CHF'000	At January 1, 2016	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2016
Deferred tax assets associated with						
- intangibles	31 412	-2 250	–	–	1	29 163
- employee benefits	16 719	-3 174	–	974	-22	14 497
- tax losses	9 791	4 861	–	–	198	14 850
- provisions and other elements tax deductible when paid	1 710	787	–	–	43	2 540
- inter-company profit elimination	1 773	876	–	–	-34	2 615
- others	50	147	–	–	21	218
Total deferred tax assets (gross)	**61 455**	**1 247**	**–**	**974**	**207**	**63 883**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	-6	–	–	–	–
- intangibles	-11 245	1 813	–	–	-439	-9 871
- provisions & accelerated tax depreciation	-575	307	-1 834	–	39	-2 063
- others	257	-1 129	–	–	18	-854
Total deferred tax liabilities (gross)	**-11 557**	**985**	**-1 834**	**–**	**-382**	**-12 788**
Net deferred tax asset/(liability)	**49 898**	**2 232**	**-1 834**	**974**	**-175**	**51 095**

And for 2015:

In CHF'000	restated At January 1, 2015	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2015
Deferred tax assets associated with						
- intangibles	30 934	438	–	–	40	31 412
- employee benefits	12 721	1 475	–	2 811	-288	16 719
- tax losses	8 304	1 794	–	–	-307	9 791
- provisions and other elements tax deductible when paid	2 828	-813	–	–	-306	1 710
- inter-company profit elimination	1 903	–	–	–	-130	1 773
- others	-29	102	–	–	-23	50
Total deferred tax assets (gross)	**56 661**	**2 997**	**–**	**2 811**	**-1 014**	**61 455**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	-39	45	–	–	–	6
- intangibles	-13 482	2 096	-1 825	–	1 965	-11 245
- provisions & accelerated tax depreciation	-125	-176	-397	–	123	-575
- others	-135	368	–	–	24	257
Total deferred tax liabilities (gross)	**-13 781**	**2 334**	**-2 222**	**–**	**2 112**	**-11 557**
Net deferred tax asset/(liability)	**42 880**	**5 331**	**-2 222**	**2 811**	**1 098**	**49 898**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 896.9 million (2015: CHF 926.6 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 289.2 million (2015: CHF 283.5 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 607.7 million (2015: CHF 643.2 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	2016	2015
Expiration within:		
One year	1.3	3.6
Two years	32.1	1.3
Three years	30.3	61.1
Four years	37.8	32.6
Five years	20.0	36.4
More than five years	486.2	508.2
Total	**607.7**	**643.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

19. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2016	31.12.2015
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	500	500
- equity instruments with no quoted market price (level 3)	400	400
- marketable securities (level 1)	621	417
Loan – third party	9 361	7 191
State and government institutions	15 275	11 646
Deferred contract cost (long-term portion)	1 678	10 513
Contingent consideration	–	7 383
Trade accounts receivable (long-term portion)	1 772	1 938
Guarantee deposits	2 667	3 320
Prepaid expenses and accrued income (long-term portion)	925	743
	33 199	**44 051**

Available-for-sale financial assets include equity instruments that do not have a quoted market price in an active market or whose fair values cannot be reliably measured. Such assets are measured at cost net of impairment of kCHF 500 (2015: kCHF 500). Also included is one equity instrument listed in an active market and classified as marketable securities for kCHF 621 (2015: kCHF 417).

Third party loans are measured at amortized cost. The effective interest rate on third party loans is 2.51% (2015: 2.49%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months. Contingent consideration (earn-out payment) relates to the sale of NagraID Security SA in 2014. During 2016, the Group determined that the realization of this contingent consideration was not likely and impaired it in totality.

20. INVENTORIES

In CHF'000	31.12.2016	31.12.2015
Raw materials	5 176	1 727
Work in progress	6 334	4 360
Finished goods	42 508	42 000
	54 019	**48 087**

The cost of inventories recognised as an expense includes kCHF 176 (2015: kCHF 4 311) in respect of write-downs, and has been reduced by kCHF 86 (2015: kCHF 787) 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 -4 509 (2015: kCHF 6 833).

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2016	31.12.2015
Trade accounts receivable	263 358	245 517
Less: provision for impairment	-25 125	-20 811
Trade accounts receivable related parties	1 601	3 596
Trade receivables – net	**239 834**	**228 302**
Amounts due from customers for contract work	43 645	28 675
Total	**283 479**	**256 977**

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	2016	2015
January 1,	**-20 811**	**-22 512**
Provision for impairment charged to income statement	-7 402	-2 753
Utilization	606	944
Reversal	3 074	3 152
Change in scope	-522	–
Translation effects	-70	358
December 31,	**-25 125**	**-20 811**

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 -7 402 (2015: kCHF -2 753). 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	31.12.2016	31.12.2015
Not overdue	133 717	133 788
Past due and not impaired:		
- not more than one month	48 981	49 234
- more than one month and not more than three months	25 287	22 609
- more than three months and not more than six months	18 475	7 451
- more than six months and not more than one year	9 989	9 231
- more than one year	3 385	5 989
Total trade accounts receivable, net	**239 834**	**228 302**

As at 31 December 2016, trade receivables of mCHF 106 (2015 : mCHF 95) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The other classes within trade receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

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22. OTHER CURRENT ASSETS

In CHF'000	31.12.2016	31.12.2015
Loans third parties – short term portion	16	15
Prepaid expenses	13 784	12 483
Accrued income	2 031	1 216
State and government institutions	28 231	18 366
Advances to suppliers and employees	7 905	2 569
Deferred contract cost (short term portion)	9 889	9 941
Other receivables - third parties	3 429	1 968
Other receivables - related parties	1 401	1 333
	66 687	**47 892**

Loans are measured at amortized cost. The effective interest rate on short term loans was 1.53% (2015: 2.32%).

23. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2016	31.12.2015
Cash at bank and in hand	173 459	130 964
Short term deposits	3 598	5 876
	177 057	**136 840**

The effective interest rate on short term deposits was 0.32% (2015: 0.70%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

24. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2016	31.12.2015
49'620'619 / 49'461'147 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	396 965	494 611
46'300'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	37 040	46 300
	434 005	**540 911**

Following the resolution of the General Assembly on March 22, 2016, the nominal values of the bearer and registered shares was reduced from CHF 10 to CHF 8 and from CHF 1 to CHF 0.80 respectively.

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	2016	2015
3'768'164 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	30 145	37 682
3'200'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	2 560	3 200
Authorized share capital as of December 31	**32 705**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until March 22, 2018, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2016	2015
Conditional share capital as of January 1	108 526	110 390
Reduction of nominal value of share capital	-21 408	–
Employee share purchase plan	-85	-81
Shares allotted to employees	-1 488	-1 783
Conditional share capital as of December 31	**85 545**	**108 526**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each (31.12.2015: CHF 10 each)	80 000	100 000
- Options or share subscriptions to employees:		
693'137 / 852'609 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	5 545	8 526
	85 545	**108 526**

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25. NON-CONTROLLING INTERESTS

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

As at December 31, 2016 (in CHF'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	2 681	37 630
Current Assets	40 614	436
Non-current liabilities	–	11 673
Current liabilities	19 253	194
Total Equity	**24 042**	**26 199**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	12 021	13 126
Carrying amount of non-controlling interests	**12 021**	**13 126**
Revenue	25 412	4 047
Net result	12 028	2 151
Other comprehensive income	603	656
Total comprehensive income	12 631	2 807
Total comprehensive income allocated to non-controlling interests	6 315	1 406
Dividend paid to non controlling interests	-4 926	–
Net increase /(decrease) in cash and cash equivalents	4 220	-143

As at December 31, 2015 (in CHF'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	3 998	36 834
Current Assets	38 584	633
Non-current liabilities	–	13 761
Current liabilities	21 320	314
Total Equity	**21 263**	**23 392**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	10 631	11 719
Carrying amount of non-controlling interests	**10 631**	**11 719**
Revenue	25 851	4 043
Net result	11 439	1 688
Other comprehensive income	51	507
Total comprehensive income	11 490	2 195
Total comprehensive income allocated to non-controlling interests	5 745	1 100
Dividend paid to non controlling interests	-4 814	-482
Net increase /(decrease) in cash and cash equivalents	3 026	-401

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

26. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2016	31.12.2015
CHF 200 million 1.875% bond 2015/2022	27	199 307	199 188
CHF 150 million 1.5% bond 2016/2024	27	149 356	–
Other long term financial liabilities		86	472
		348 749	**199 660**

27. BONDS

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 Group repurchased kCHF 6 980 of this bond in 2015 and the remaining outstanding amount was fully repaid by December 2016.

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

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

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

In CHF'000	2016	2015
Initial balance	**301 949**	**109 444**
Net proceeds from bond issuance	149 335	199 130
Amortization of transaction costs less premium	140	355
Reimbursement and repurchase	-102 761	-6 980
Liability component as of December 31	**348 663**	**301 949**
of which:		
- short term portion (bond 2011/2016)	–	102 761
- long term portion (bond 2015/2022)	199 307	199 188
- long term portion (bond 2016/2024)	149 356	–
	348 663	**301 949**

28. EMPLOYEE BENEFITS LIABILITIES

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

SWITZERLAND

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

ABROAD

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

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

In CHF'000	31.12.2016	31.12.2015
Fair value of plan assets	166 905	156 621
Defined benefit obligation	-234 280	-234 444
Funded status	**-67 375**	**-77 823**
Other comprehensive income	-32 514	-28 262
Prepaid/(accrued) pension cost	-34 860	-49 562
Funded status	**-67 375**	**-77 823**

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2016 and 2015:

In CHF'000	Note	2016	2015
Service cost		-20 545	-19 528
Employees contributions		5 819	5 638
Amortization of gains/(losses)		121	-14
Curtailment gain / (loss)		247	–
Impact of plan amendment		22 460	–
Total recognized in employee benefits expense	**7**	**8 103**	**-13 904**
Interest cost		-2 555	-3 206
Interest income		1 650	2 253
Total recognized in interest expense	**10**	**-904**	**-954**
Net pension (cost)/income		**7 199**	**-14 857**

The impact of plan amendment relates to a 2016 Board of Trustees of the Swiss pension plan decision to reduce the conversion rate (factor used to determine monthly benefits at the date of retirement) of the plan effective 1 January 2017.

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Switzerland		
Discount rate	0.85%	1.00%
Rate of future increase in compensations	1.50%	1.50%
Rate of future increase in current pensions	0.75%	0.75%
Interest rate credited on savings accounts	0.85%	1.00%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	1.95%	2.23%
Rate of future increase in compensations	2.66%	2.63%
Turnover *(on average)*	5.7%	5.8%

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

	31.12.2016	31.12.2015
Weighted average duration of the defined benefit obligation in years		
Switzerland	23.8	24.4
Abroad	15.9	15.6

The changes in defined benefit obligation and fair value of plan assets during the years 2016 and 2015 are as follows:

A. Change in defined benefit obligation

In CHF'000	2016	2015
Defined benefit obligation as of 1.1.	**-234 444**	**-206 427**
Service cost	-20 545	-19 528
Interest cost	-2 555	-3 206
Change in demographic assumptions	-11 033	-8
Change in financial assumptions	-2 120	-10 089
Other actuarial gains / (losses)	6 293	-1 509
Benefits payments	7 678	4 115
Exchange rate difference	-141	2 209
Curtailment	247	–
Acquisition of subsidiaries	-121	–
Plan amendment	22 460	–
Defined benefit obligation as of December 31,	**-234 280**	**-234 444**

B. Change in fair value of plan assets

In CHF'000	2 016	2 015
Fair value of plan assets as of 1.1.	**156 621**	**147 554**
Interest income	1 650	2 253
Employees' contributions	5 819	5 638
Employer's contribution	7 603	7 782
Plan assets gains/(losses)	2 648	-1 651
Benefit payments	-7 678	-4 115
Exchange rate difference	241	-841
Fair value of plan assets as of December 31,	**166 905**	**156 621**

The actual return on plan assets amounts to kCHF 4 299 in 2016 (kCHF 602 for the year 2015). The estimated employer's contribution to the pension plans for the year 2017 is kCHF 7 238.

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The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2016 and 2015 as follows:

In CHF'000	31.12.2016	Proportion in % 31.12.2016	31.12.2015	Proportion in % 31.12.2015
Cash	2 961	1.8%	1 205	0.8%
Swiss bonds	34 329	20.6%	39 492	25.2%
Foreign bonds	15 999	9.6%	9 986	6.4%
Swiss shares	34 911	20.9%	55 001	35.1%
Foreign shares	34 311	20.6%	33 525	21.4%
Real estate	29 146	17.5%	6 792	4.3%
Alternative investments	10 070	6.0%	5 622	3.6%
Assets held by insurance company	5 178	3.1%	4 998	3.2%
Total	**166 905**	**100.0%**	**156 621**	**100.0%**

With the exception of assets held by insurance company, plan assets are quoted on liquid markets.

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

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

In CHF'000	Switzerland	Abroad
2017	8 157	102
2018	7 690	83
2019	7 291	96
2020	6 804	106
2021	6 338	145
2022-2026	26 623	2 657

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 2016 year-end defined benefit obligation		Change in 2015 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	In CHF'000	In CHF'000
50 basis point increase in discount rate	-23 532	-1 288	-24 295	-1 217
50 basis point decrease in discount rate	27 969	1 489	28 797	1 241
50 basis point increase in rate of salary increase	205	n/a	273	n/a
50 basis point decrease in rate of salary increase	-227	n/a	-297	n/a
50 basis point increase in rate of pension increase	15 611	n/a	15 480	n/a
50 basis point decrease in rate of pension increase	-14 042	n/a	-13 995	n/a
50 basis point increase of interest in saving accounts	8 296	n/a	9 192	n/a
50 basis point decrease of interest in saving accounts	-7 792	n/a	-8 606	n/a
50 basis point increase of turnover	-2 337	n/a	-2 400	n/a
50 basis point decrease of turnover	2 208	n/a	2 182	n/a

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

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

29. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	31.12.2016	31.12.2015
Long-term loans - third parties	6 809	11 015
Deferred consideration	4 104	4 771
Contingent consideration	3 655	4 012
Advance from customer (long-term portion)	8 592	–
Other long-term liabilities	1 186	1 154
	24 346	**20 952**

Long-term loans – third parties relate to loans granted by sellers in connection with 2015 business combinations. The effective interest rate is 2.80% (2015 : 3.28%.)

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with the acquisitions of Sentry Control Systems LLC in 2015, as well as Protection Technology, Inc. and Mexico Grupo Signal S.A. de C.V. in 2016. Assumptions for contingent consideration include discount rates varying from 4.0% to 7.6% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

30. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2016	31.12.2015
Short term bank borrowings		31 911	20 503
CHF 110 million 3% bond 2011/2016	27	–	102 761
Other short term financial liabilities		32	195
		31 943	**123 459**

The average effective interest rate paid in 2016 for short term bank borrowings was 1.26% (2015: 1.53%).

31. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2016	31.12.2015
Trade accounts payable – third parties	67 608	50 640
Trade accounts payable – related parties	191	22
	67 799	**50 662**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

32. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2016	31.12.2015
Accrued expenses	97 055	76 293
Deferred income	25 086	26 391
Deferred consideration	3 357	1 889
Contingent consideration (level 3)	5 510	686
Payable to pension fund	652	488
Other payables	24 641	17 662
	156 300	**123 409**

Deferred and contingent consideration balances include the short-term portion of deferred fix and earn-out payments in connection with the acquisitions of Sentry, Kudelski Security, Inc. (formerly Milestone Systems, Inc.) and other SKIDATA newly acquired subsidiaries.

33. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2016	31.12.2015
Amounts due to customers for contract work	2 617	3 590
Advances from clients	29 852	18 450
	32 469	**22 040**

34. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Currency related instruments (level 2)						
- Over the counter currency options	30 450	42 132	327	39	-98	-434
- Forward contracts	10 150	19 800	28	326	–	–
Total of derivatives financial instruments	**40 600**	**61 932**	**355**	**365**	**-98**	**-434**

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

There were non long-term derivative instruments at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

35. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restruc-turing provisions	Legal fee and litigations	Provision for warranty	Total 2016	Total 2015
As of January 1	**825**	**59**	**1 884**	**2 768**	**5 061**
Additional provisions	8 789	144	522	9 455	718
Change in scope of consolidation	–	–	–	–	794
Unused amounts reversed	–	–	-168	-168	-160
Used during the year	-1 679	–	-17	-1 696	-3 093
Exchange differences	-281	-3	22	-262	-552
As of December 31	**7 654**	**200**	**2 243**	**10 097**	**2 768**

Restructuring provisions

2016 and 2015 restructuring provision relates to commitments for lay-offs and outplacement fees amounting to kCHF 7 654 (2015: kCHF 760) following internal reorganziatiton and the closure of selected sites. The 2015 provision also includes kCHF 65 for a lease termination that was considered an 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 lawsuits are valued according to management's best estimate.

Provision for warranty

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

36. DISCONTINUED OPERATIONS

In 2014, the Group disposed of NagraID Security SA (NIDS). At the time of disposal, total consideration included a contingent asset (earn-out payment) based on future NIDS revenues. During 2016, the Group determined the earn-out payment was not likely and impaired, in totality, this contingent asset for kCHF 7 443.
Prior to this disposal, the Group acquired the remaining 50% of outstanding shares of NIDS from its former management. The total consideration also included a contingent liabililty based on similar patterns noted above. As a result of the impairment above, the Group has also written off the contingent liability for kCHF 1 461 and has treated this operation as a transaction with minority interest.

37. RESEARCH AND DEVELOPMENT

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

In CHF'000	2016	2015
Research and development	196 842	192 578

38. DIVIDEND

No dividend was paid during the year ended 31 December 2016. Since year end, the Board of Directors have proposed a distribution of kCHF 18 988, representing CHF 0.35 per bearer share and CHF 0.035 per registered share respectively. The final distribution may fluctuate upon the issuance of additional share capital for employees by utilization of conditional share capital or utilization of authorized share capital for acquisitions. The proposal calls for the distribution of CHF 0.25 per bearer share (CHF 0.025 per registered share) from capital contribution reserves and CHF 0.10 per bearer share (CHF 0.01 per registered share) from retained earnings at 31 December 2016 and is subject to shareholder approval at the Annual General Meeting. This proposed distribution has not been recorded as a liability in these financial statements.

39. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

	Shares 2016	Shares 2015
Shares underwritten by employees	6 400	6 790
Bonus shares from ESPP	1 280	1 358
Total employee share program	**7 680**	**8 148**
Amount paid by employee (In CHF'000)	84	61
Booked corporate charges (excluding social charges) (In CHF'000)	37	26
	121	**87**

SHARES ISSUED TO EMPLOYEES

In 2016, 151 792 (2015: 178 290) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 110 497 (2015: 138 705) include a seven-year blocking period and 41 295 (2015: 39 585) include a three-year blocking period. The fair value recognized for this equity based compensation is kCHF 1 583 (2015: kCHF 1 261)

40. RELATED PARTIES

Trading transactions

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

In CHF'000	Sale of goods and services 2016	2015	Purchase of goods and services 2016	2015	Amounts owed to related parties 31.12.2016	31.12.2015	Amounts owed by related parties 31.12.2016	31.12.2015
APT-Skidata Ltd	8 386	9 377	–	–	–	–	310	2 062
SKIDATA Parking System	2 919	3 163	–	–	–	–	781	922
SKIDATA India Private Limited	948	309	–	–	–	10	74	205
iWedia SA	163	155	1 753	403	484	88	59	34
Total associated companies	**12 415**	**13 004**	**1 753**	**403**	**484**	**98**	**1 224**	**3 223**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 619
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 619**

APT SKIDATA and SKIDATA Parking 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.

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

Key management compensation

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

In CHF'000	2016	2015
Salaries and other short-term employees benefits	9 555	9 162
Post-employments benefits	89	105
Share-based payments	1 034	1 064
	10 678	**10 331**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

41. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Kudelski family pool	**63%**	**63%**	**35%**	**35%**

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

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2016 and 2015, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2016 and 2015 variable compensation - issued in 2017 and 2016 respectively):

	31.12.2016	31.12.2015
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 474 423	14 394 423
Smadja Claude, vice chairman	1 300	1 300
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	1 250	–
Total board members	**14 483 313**	**14 402 063**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	108 214	173 272
Roy Pierre, COO	47 956	61 236
Total Management (excluding CEO)	**156 170**	**234 508**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2016 and 2015.

No loans were granted in 2016 and 2015 to the members of the Board of Directors and Group management.

42. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 016	2 015
Within one year	13 517	11 792
In the second to fifth year inclusive	36 859	23 932
More than five years	5 356	8 119
	55 732	43 843

43. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2016:

Assets as per balance sheet date December 31, 2016 (in CHF'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2016
Financial assets and non current assets:						
- equity instruments with no quoted market price	19	–	–	900	–	900
- marketable securities	19	–	–	621	–	621
- long term loans	19	–	–	–	9 361	9 361
- Trade accounts receivable - long-term portion	19	–	–	–	1 772	1 772
- guarantee deposits	19	–	–	–	2 667	2 667
Trade accounts receivable	21	–	–	–	239 834	239 834
Other current assets:						
- Loans	22	–	–	–	16	16
Derivative financial instruments (short term)	34	355	–	–	–	355
Cash and cash equivalents	23	–	–	–	177 057	177 057
		355	–	1 521	430 707	432 583

Liabilities as per balance sheet date December 31, 2016 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2016
Long term financial debt	26	–	–	348 749	348 749
Other long term liabilities	29	–	3 655	11 188	14 843
Short term financial debt	30	–	–	31 943	31 943
Trade accounts payable	31	–	–	67 799	67 799
Other current liabilities	32	–	5 510	7 434	12 944
Derivative financial instruments (short term)	34	–	98	–	98
		–	9 263	467 113	476 376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

And for 2015:

Assets as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2015
Financial assets and non current assets:						
- equity instruments with no quoted market price	19	–	–	900	–	900
- marketable securities	19	–	–	417	–	417
- long term loans	19	–	–	–	7 191	7 191
- Trade accounts receivable - long-term portion	19	–	–	–	1 938	1 938
- guarantee deposits	19	–	–	–	3 320	3 320
- contingent consideration	19	–	7 383	–	–	7 383
Trade accounts receivable	21	–	–	–	228 302	228 302
Other current assets:		–	–	–	–	–
- Loans	22	–	–	–	15	15
Derivative financial instruments (short term)	34	326	39	–	–	365
Cash and cash equivalents	23	–	–	–	136 840	136 840
		326	**7 422**	**1 317**	**377 606**	**386 671**

Liabilities as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2015
Long term financial debt	26	–	–	199 189	199 189
Other long term liabilities	29	–	8 783	11 487	20 270
Short term financial debt	30	–	–	123 459	123 459
Trade accounts payable	31	–	–	50 662	50 662
Other current liabilities	32	–	2 574	1 956	4 530
Derivative financial instruments (short term)	34	377	57	–	434
		377	**11 414**	**386 753**	**398 544**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2016 and 2015:

In CHF'000		Note	31.12.2016	31.12.2015
Financial assets:				
- marketable securities	Level 1	19	621	417
- derivative financial instruments	Level 2	36	355	365
- equity instuments with no quoted market price	Level 3	19	400	400
- contingent assets	Level 3	19	–	7 383
Total financial assets			**1 376**	**8 565**
Financial liabilities:				
- derivative financial instruments	Level 2	36	98	434
- contingent consideration (short-term portion)	Level 3	34	5 510	686
- contingent consideration (long-term portion)	Level 3	31	3 655	4 012
Total financial liabilities			**9 263**	**5 132**

The fair value of Level 3 equity instruments with no quoted market price is determined using a discounted cash flow method provided by the company. A Level 3 contingent asset consisting of an earn-out relating to a disposed company was impaired totally as the realization of this contingent asset was not likely.
Level 3 contingent liabilities consists of earn-out payments calculated on companies that have been acquired. The fair value is measured using projections reviewed by management, and discount rate comprised between 4.0 and 7.6%.
It also includes a contingent liabililty the Group has written off for kCHF 1 461 in connection with the impairment of the above contingent asset.

RECONCILIATION OF LEVEL 3 FAIR VALUES:

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

In CHF'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2015	400	7 031	-1 381
Assumed in a business combination	–	–	-3 247
Discount effect (recognized in interest expense)	–	352	-70
Balance at December 31, 2015 and January 1, 2016	**400**	**7 383**	**-4 698**
Assumed in a business combination	–	–	-5 505
Assumed in a transaction with non-controlling interest	–	–	-805
Settlements	–	–	467
Impairment	–	-7 443	1 461
Remeasurement (recognized in other operating income)	–	–	267
Discount effect (recognized in interest expense)	–	179	-87
Exchange difference	–	-119	24
Currency translation adjustment	–	–	-289
Balance at December 31, 2016	**400**	**–**	**-9 165**

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 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Financial liabilities				
- CHF 110 million bond	–	–	102 761	105 905
- CHF 200 million bond	199 307	208 800	199 188	202 600
- CHF 150 million bond	149 356	155 400	–	–

The fair values of the bonds are based on their market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

45. 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	Adjustment	Adjustment	Total book value	Total book value
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bonds	6 035	109 881	24 140	15 080	360 600	207 560	-42 112	-30 572	348 663	301 949
Short term financial debt	31 943	20 698	–	–	–	–	–	–	31 943	20 698
Trade accounts payable	67 799	50 662	–	–	–	–	–	–	67 799	50 662
Other payables	24 641	17 662	–	–	–	–	–	–	24 641	17 662
Total	**130 418**	**198 903**	**24 140**	**15 080**	**360 600**	**207 560**	**-42 112**	**-30 572**	**473 046**	**390 971**

46. 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% (2015: 10%) increase and decrease in the USD and a 10% (2015: 20%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

	USD		EUR	
In CHF'000	**2 016**	**2 015**	**2 016**	**2 015**
Post-tax net income				
- Increase	12 976	3 505	8 588	15 145
- Decrease	-17 537	-6 945	-8 588	-16 210
Comprehensive income (post-tax effect)				
- Increase	11 757	11 622	1 700	3 385
- Decrease	-12 005	-10 354	-1 700	-3 472

Interest rates

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

- USD: increase of 200 basis points and decrease of 50 basis points (2015: 150 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2015: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2015: 100 basis points increase or 100 decrease)

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

- post-tax profit for the year ended December 31, 2016 would increase by kCHF 1 462 and decrease by kCHF 934 (2015: increase by kCHF 969 and decrease by kCHF 833). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2016 and 2015.

Equity prices

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

47. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2016	31.12.2015
Guarantees in favor of third parties	45 520	33 324

48. RISK CONCENTRATION

At December 31, 2016 and 2015, no financial asset exposure was more than 10% of the financial assets.

49. 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 2016 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

50. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow to net financial debt ratio as at 31 December 2016 was 60.2% (2015: 57.2%).

51. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Acquisition of M&S Technologies, Inc.
On January 11, 2017, the Kudelski Group acquired 100% of M&S Technologies, Inc., a specialist provider of cyber and network security solutions. The acquisition is expected to broaden the customer and partnership portfolio of Kudelski Security, the Group's growing cybersecurity division. At the time the financial statements were authorized for issue, the Group had not yet completed the accounting for this acquisition, and accordingly, the financial effects of this transaction have not been recognized in these financial statements. The operating results, assets and liabilities of the acquired company will be consolidated from January 11, 2017.

At the time the financial statements were authorized for issue, the group had not yet completed the accounting for the acquisition of M&S Technologies, Inc.

52. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 016	2015	2 016	2015
1 USD	1.0150	0.9900	0.9851	0.9627
1 EUR	1.0740	1.0820	1.0901	1.0684
100 CNY	14.6200	15.2450	14.8300	15.3168
100 NOK	11.8100	11.2650	11.7400	11.9412
1 GBP	1.2560	1.4680	1.3352	1.4712
100 BRL	31.2000	25.2000	28.4400	29.2800
100 INR	1.5000	1.5000	1.4662	1.5011
1 SGD	0.7030	0.7000	0.7136	0.7003
100 ZAR	7.4100	6.4000	6.7300	7.5700
100 RUB	1.6600	1.3360	1.4800	1.5864
1 AUD	0.7340	0.7230	0.7329	0.7236

53. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 15, 2017.

54. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2016	2015
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	77.5	77.5
NagraStar LLC	US – Englewood	Smartcards and digital TV support	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	100
Kudelski Security, Inc.	US - Minneapolis	Cyber Security Solutions	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.

55. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

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

Global risk management

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

Financial Risk Management

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

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

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting

on the consolidated financial statements 2016

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Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kudelski SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 4 to 55) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview

Overall Group materiality: CHF 4'690'000

We concluded full scope audit work at 6 reporting units in 4 countries. Our audit scope addressed over 68% of the Group's revenue and 78% of the Group's assets. In addition, specified procedures were performed on 2 reporting units representing a further 13% of the Group's revenue

As key audit matter the following area of focus has been identified:

Goodwill impairment assessment

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

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Following our assessment of the risk of material misstatement to the Group financial statements and considering the significance of the location's business operations relative to the Group, we selected 8 components which represent the principal business units within the Group's reportable segments. 6 of these components were subject to a full audit and 2 were subject to a specified procedures. The work done at specified procedures components primarily include testing over revenues, receivables and cash.

The components subject to full audit or specified procedures accounted for 81% of Group revenue and 78% of the Group's assets.

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

The group audit team, in addition to the audit of the consolidation, were responsible for auditing 6 components directly, including 4 full scope audit and 2 specified procedures locations. For the other components, the group audit team directed and supervised the audit work performed the component teams at all stages of the audit.

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

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

Overall Group materiality	CHF 4'690'000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 469'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group's goodwill is recognised in two Cash Generating Units (CGUs): "Integrated Digital Television" (CHF 313 million) and "Public Access Solutions" (CHF 30 million). The goodwill arising from the Acquisition of Milestone Systems (CHF 33 million) has been allocated to the "Integrated Digital Television" CGU. We focused on this area due to the size of goodwill balance (CHF 343 million as at 31 December 2016) and because the directors' assessment of the 'value in use' of the group's Cash Generating Units involves judgements about the future results of the business and the discount rates applied to future cash flow forecast. The most significant element of the goodwill balance is that recognised on the "Integrated Digital Television" CGU. Although, based on historical performance, the Directors believe there is significant headroom between the value in use of the CGUs and their carrying value, this remained an area of focus for us as a result of the size of the related goodwill balance. For the year ended 31 December 2016 management have performed an impairment assessment over the goodwill balance and performed a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rate, terminal growth rate and WACC) to assess the impact on the valuations. Refer to page 18 (note 2 – Critical accounting estimates and judgements), and pages 29-30 (note 15– Intangible assets) for details of management's impairment test and assumptions.	We evaluated management's cashflow forecasts and the process by which they were developed, including verifying the mathematical accuracy of the underlying calculations. We also compared them to the latest Board approved budgets. We found that the budgets used in the value in use calculations were consistent with the Board approved budgets, and that the key assumptions were subject to oversight by the Directors. We noted that the Board approved budgets cover a period of 3 years, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 4-5 a particular focus area for the procedures below. We compared current year (2016) actual results with the figures included in the prior year (2015) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was materially consistent with forecast performance. We also challenged: • management's key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • the discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research. We found that the growth rate assumptions of 1.5% for Integrated Digital Television were acceptable. We found that the discount rate used by management of 8.5% pre-tax was consistent with market data and industry research. We then stress-tested the assumptions used by analysing the impact on results from using other growth rates and discount rates, which were within a reasonably foreseeable range. We found that significant headroom remained between the stress-tested value in use calculations and the carrying value of the CGUs in the financial statements. Our procedures performed and the evidence provided identified no significant issues with respect

	to the valuation of goodwill impairment assessment.

Other information in the annual report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA

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

Lausanne, 15 February 2017

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015

ASSETS

In CHF'000	Notes	31.12.2016	31.12.2015
Current assets			
Cash and cash equivalents		18 662	31 872
Accounts receivable from Group companies		63 471	33 750
Other current receivables and prepaid expenses	3.1	1 375	1 158
Total current assets		**83 508**	**66 779**
Fixed assets			
Financial assets:			
- Loans to Group companies		731 913	699 578
- Other long term assets		–	1 081
Investments	3.2	399 741	370 053
Total fixed assets		**1 131 654**	**1 070 712**
Total assets		**1 215 162**	**1 137 491**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2016	31.12.2015
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		–	3 268
- Bonds	3.3	–	103 020
Other short-term liabilities :			
- due to third parties		433	403
- due to Group companies		19 248	12 761
Accrued expenses		3 128	2 507
Total short-term liabilities		**22 809**	**121 959**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	200 000
Total long-term liabilities		**350 000**	**200 000**
Total liabilities		**372 809**	**321 959**
Shareholders' equity			
Share capital		434 005	540 911
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		97 925	8 300
Retained earnings		156 321	185 815
Net income		44 102	-29 495
Total shareholders' equity	**3.4**	**842 353**	**815 532**
Total liabilities and shareholders' equity		**1 215 162**	**1 137 491**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2016

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

In CHF'000	Notes	2016	2015
Other non operating income		90	–
Financial income	4.1	44 626	17 510
Gain on sale of investments	4.2	–	5 883
Administrative and other expenses		-3 175	-3 266
Financial expenses and exchange result	4.3	4 036	-44 453
Impairment of financial fixed assets	4.4	–	-3 832
Income/(loss) before tax		**45 577**	**-28 156**
Direct taxes (other than income tax)		-1 475	-1 338
Net income/(loss)		**44 102**	**-29 495**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2016

In CHF'000	Legal reserves from capital contribution	Retained earnings
Balance brought forward from previous year	8 300	156 321
Share capital increase	128	–
Share capital reduction	89 497	–
Net result	–	44 102
Total available earnings	**97 925**	**200 423**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.35 on 49'620'619* bearer shares (of which CHF 0.25 out of capital contribution reserve and CHF 0.10 out of retained earnings)	-12 405	-4 962
- CHF 0.035 on 46'300'000 registered shares (of which CHF 0.025 out of capital contribution reserve and CHF 0.01 out of retained earnings)	-1 158	-463
Balance to be carried forward	**84 362**	**194 998**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2016 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 2016

1. INTRODUCTION

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the new Swiss accounting legislation, which became effective since January 1, 2013 and required implementation in 2015, of the Swiss Code of Obligations (SCO).

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

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

FINANCIAL ASSETS

Investments and loans 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 2016

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2016	31.12.2015
Withholding tax	7	66
Other accounts receivable	13	11
Prepaid expenses	1 355	1 080
	1 375	**1 158**

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bonds (note 3.4). These amounts are allocated against income statement over the contractual periods of their underlying borrowings.

3.2 INVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2016	2015
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	10	100	100
SKIDATA AG	AT - Salzburg	Public access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	77.5	77.5
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	M	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Beijing Co. Ltd	CN - Beijing	R & D, Sales and services	KCNY	15 890	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	M	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	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	40
Kryptus Segurança da Informaçao Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL	298	16	0
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR	163	100	100
OpenTV Europe SAS	FR - Issy les Moulineaux	Research & development	kEUR	38	100	100
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD	50	100	100
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD	1	100	100
NexGuard Labs B.V.	NL - Eindhoven	Watermarking Solutions	kEUR	25	100	0

M : Merged companies

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2016	2015
Conax AS	NO - Oslo	Conditional access modules and set-top-boxes	kNOK	1 111	100	100
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	kUSD	112 887	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	kUSD	2 043	50	50
Kudelski Security Inc.	US - Minneapolis	Cyber Security Solutions	kUSD	0	100	0
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	60
SKIDATA Benelux BV	NL – Barenbrecht	Public access	kEUR	90.6	100	100
SKIDATA (Schweiz) AG	CH - Adliswil	Public access	kCHF	150	100	100
SKIDATA Inc	US – Hillsborough	Public access	kUSD	5 510	100	100
SKIDATA Australasia Pty Ltd	AU – Melbourne	Public access	kAUD	5 472	100	50

3.3 BONDS

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 Company redeemed the bond at nominal value on December 16, 2016.

On May 12, 2015 the company also issued a CHF 200 million bond with a subscription price of 100%, bearing an interest rate of 1.875% and maturing on August 12, 2022 with denominations of CHF 5 000 and multiples thereof.

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

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

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	Legal reserves from retained earnings	Legal reserves from capital contribution	Retained earnings	Total Shareholders' equity
As of December 31, 2014	**539 047**	**110 000**	**19 111**	**191 224**	**859 382**
Dividend	–	–	-10 817	-5 408	-16 225
Share capital increase	1 864	–	6	–	1 870
Net Income	–	–	–	-29 495	-29 495
As of December 31, 2015	**540 911**	**110 000**	**8 300**	**156 321**	**815 532**
Share capital increase	1 575	–	128	–	1 703
Share capital reduction	-108 481	–	89 497	–	-18 984
Net Income	–	–	–	44 102	44 102
As of December 31, 2016	**434 005**	**110 000**	**97 925**	**200 423**	**842 353**

NOTES TO THE FINANCIAL STATEMENTS 2016

SHARE CAPITAL

In CHF'000	31.12.2016	31.12.2015
49'620'619 / 49'461'147 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	396 965	494 611
46'300'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	37 040	46 300
	434 005	**540 911**

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	2016	2015
Conditional share capital as of January 1	108 526	110 390
Reduction of nominal share value	-21 408	–
Employee share purchase plan	-85	-81
Shares allotted to employees	-1 488	-1 783
Conditional share capital at December 31	**85 545**	**108 526**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each (31.12.2015: CHF 10 each)	80 000	100 000
- Options or share subscriptions to employees:		
693'137 / 852'609 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	5 545	8 526
	85 545	**108 526**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2016	31.12.2015
3'768'164 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	30 145	37 682
3'200'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	2 560	3 200
Authorized share capital as of December 31	**32 705**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until March 22, 2018, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Kudelski family pool	63%	63%	35%	35%

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2016	2015
Dividends received from Group subsidiaries	20 887	–
Interest income third parties	170	177
Interest on loans to Group subsidiaries	23 366	17 333
Value adjustment on investments	203	–
	44 626	**17 510**

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2015 gain on sale of investments is mainly due to the sale of 22.5% of SmarDTV SA to EchoStar for kCHF 5 766.

4.3 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2016	2015
Net currency exchange result	12 186	-32 311
Interest on loans from Group subsidiaries	-77	-18
Interest expenses and bank charges	-8 074	-12 124
	4 036	**-44 453**

4.4 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2016	2015
Change in provision on Group investments and loans	–	-3 000
Value adjustment on investments	–	-832
	–	**-3 832**

NOTES TO THE FINANCIAL STATEMENTS 2016

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2016	31.12.2015
Guarantee commitments		
Commitment in favor of third parties	5 610	1 699
	5 610	**1 699**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for 2016 and 2015 did not exceed ten people.

7. BOARD AND EXECUTIVE INTEREST DISCLOSURES

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

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting

on the financial statements 2016

Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kudelski SA, which comprise the balance sheet as at 31 December 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 62 to 69) as at 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

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

Our audit approach

Overview

Overall materiality: CHF 500'000

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

As key audit matter the following area of focus has been identified:

Judgement in valuation of investments and loans to Group companies

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

pwc

Audit scope

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

Materiality

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

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

Overall materiality	CHF 500'000
How we determined it	Assigned by group auditor
Rationale for the materiality benchmark applied	We initially chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore total assets is a generally accepted benchmark for determining the materiality according to auditing standards. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards. This calculation results in an overall materiality of CHF 12'150'000. However, because the materiality allocated by the group auditor (CHF 500'000) was lower, the audit was performed using this lower materiality threshold.

We agreed with the Audit Committee that we would report to them misstatements above CHF 50'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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

Judgement in valuation of investments and loans to Group companies

Key audit matter	*How our audit addressed the key audit matter*
Kudelski SA's investments and loans to Group companies are valued at CHF 400 million and CHF 732 million respectively. We focused on this area due to the size these balances and because the directors' assessment of the Enterprise Value involves judgements about the future results of the business and the discount rates applied to future cash flow forecast. For the year ended 31 December 2016, management have performed an impairment assessment over financial fixed assets balances. To determine the Enterprise Value management relies on a discounted cash flow method. Refer to page 65 (note 3.2– Investments) for details of the investments.	We evaluated management's cashflow forecasts and the process by which they were developed, including verifying the mathematical accuracy of the underlying calculations. We compared the consistency of management's profitability forecasts with those included in the annual goodwill impairment test (consolidated accounts). We found that the budgets used in the Enterprise Value calculations were consistent with the Board approved budgets, and that the key assumptions were subject to oversight by the Directors. We noted that the Board approved budgets cover a period of 3 years, but that forecasts for the purposes of the enterprise value calculation extend out to 5 years. We therefore made years 4-5 a particular focus area for the procedures below. We compared current year (2016) actual results with the figures included in the prior year (2015) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was materially consistent with forecast performance. We also challenged: • management's key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • the discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research. We found that the growth rate assumptions of 1.5% for Integrated Digital Television were acceptable. We found that the discount rate used by management of 8.5% pre-tax was consistent with market data and industry research. We then stress-tested the assumptions used by analysing the impact on results from using other growth rates and discount rates, which were with-

	in a reasonably foreseeable range. A small variation of the assumptions results in a value (recoverable amount) lower than the carrying statutory values. We have not identified any significant issues with the valuation of the financial fixed assets at the balance sheet date.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA

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

Lausanne, 15 February 2017

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