KUDELSKI GROUP
FINANCIAL STATEMENTS 2015

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	2015	restated 2014[1]
Revenues	6	939 594	871 370
Other operating income	7	11 236	15 304
Total revenues and other operating income		**950 830**	**886 673**
Cost of material, licenses and services		-286 724	-237 925
Employee benefits expense		-392 984	-380 612
Other operating expenses	8	-148 569	-163 762
Operating income before depreciation, amortization and impairment		**122 553**	**104 374**
Depreciation, amortization and impairment	9	-41 330	-43 183
Operating income		**81 223**	**61 191**
Interest expense	10	-14 515	-11 443
Other finance income/(expense), net	11	-9 242	12 526
Share of result of associates	17	1 671	1 554
Income before tax		**59 137**	**63 828**
Income tax expense	12	-9 827	-13 062
Net income for the period from continuing operations		**49 311**	**50 765**
Net result from discontinued operations	38	–	-17 376
Net income for the period		**49 311**	**33 389**
Attributable to:			
- Equity holders of the company		*44 421*	*26 028*
- Non-controlling interests		*4 890*	*7 361*

Earnings per share (in CHF)			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	13	0.8191	0.4800
- Continuing operations		*0.8191*	*0.8198*
- Discontinued operations		*-*	*-0.3398*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	13	0.0819	0.0480
- Continuing operations		*0.0819*	*0.0820*
- Discontinued operations		*-*	*-0.0340*

1) see note 37

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	2015	restated 2014[1]
Net income	**49 311**	**33 389**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-34 030	-7 839
Cash flow hedges, net of income tax	380	-234
Net (loss)/gain on available-for-sale financial assets, net of income tax	-638	-793
	-34 288	**-8 866**
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	-10 432	-12 602
	-10 432	**-12 602**
Total other comprehensive income, net of tax	**-44 720**	**-21 468**
Total comprehensive income	**4 591**	**11 921**
Attributable to:		
Shareholders of Kudelski SA	-486	2 356
- Continuing operations	*-886*	*20 795*
- Discontinued operations	*-*	*-18 439*
Non-controlling interests	5 077	9 565

1) see note 37
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CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	31.12.2015	restated 31.12.2014[1]	restated 01.01.2014[1]
ASSETS				
Non-current assets				
Tangible fixed assets	14	139 120	133 145	147 487
Intangible assets	15	349 127	368 549	169 250
Investment property	16	1 096	1 347	1 459
Investments in associates	17	4 499	6 217	4 768
Deferred income tax assets	18	61 407	56 310	51 707
Financial assets and other non-current assets	19	44 051	52 233	60 198
Total non-current assets		**599 300**	**617 801**	**434 869**
Current assets				
Inventories	20	48 087	47 083	64 383
Trade accounts receivable	21	256 977	219 998	197 233
Other current assets	22	47 892	70 553	49 959
Derivative financial instruments	36	365	–	–
Cash and cash equivalents	23	136 840	92 382	100 273
Total current assets		**490 161**	**430 016**	**411 848**
Total assets		**1 089 461**	**1 047 817**	**846 718**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	540 911	539 047	537 882
Reserves		-117 777	-108 334	-81 195
Equity attributable to equity holders of the parent		**423 135**	**430 713**	**456 687**
Non-controlling interests	25	23 872	22 731	5 618
Total equity		**447 006**	**453 444**	**462 305**
Non-current liabilities				
Long-term financial debt	26	199 660	255 223	123 444
Deferred income tax liabilities	18	11 509	13 430	506
Employee benefits liabilities	29	77 823	58 873	41 181
Provisions for other liabilities and charges	30	–	65	288
Other long-term liabilities and derivative financial instruments	31	20 952	3 337	2 288
Total non-current liabilities		**309 944**	**330 928**	**167 707**
Current liabilities				
Short-term financial debt	32	123 459	75 796	59 257
Trade accounts payable	33	50 662	52 134	37 729
Other current liabilities	34	123 409	108 531	97 904
Current income taxes		9 739	7 846	2 137
Advances received from clients	35	22 040	13 055	13 620
Derivative financial instruments	36	434	1 086	–
Provisions for other liabilities and charges	30	2 768	4 996	6 057
Total current liabilities		**332 511**	**263 444**	**216 705**
Total liabilities		**642 455**	**594 372**	**384 412**
Total equity and liabilities		**1 089 461**	**1 047 817**	**846 718**

1) see note 37
The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	2015	restated 2014[1]
Net income for the year		**49 311**	**33 389**
Adjustments for net income non-cash items:			
- Current and deferred income tax		9 827	13 063
- Interests, allocation of transaction costs and foreign exchange differences		23 383	6 028
- Depreciation, amortization and impairment	9	41 330	45 206
- Share of result of associates	17	-1 671	-1 554
- Non-cash employee benefits expense		7 410	5 066
- Deferred cost allocated to income statement		9 084	9 690
- Additional provisions net of unused amounts reversed		558	2 946
- Non-cash government grant income		-902	-7 658
- Other non cash income/expenses		-17 357	7 576
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		–	5 315
- Other non operating cash items		19	91
Adjustements for change in working capital:			
- Change in inventories		5 789	12 866
- Change in trade accounts receivable		-31 616	-17 976
- Change in trade accounts payable		-3 386	10 981
- Change in deferred costs and other net current working capital headings		23 080	1 235
Government grant from previous periods received		11 520	916
Dividends received from associated companies	17	1 191	1 905
Interest paid		-9 527	-8 412
Interest received		1 131	1 417
Income tax paid		-12 787	-12 827
Cash flow from operating activities		**106 387**	**109 263**
Purchases of intangible fixed assets		-13 358	-13 184
Purchases of tangible fixed assets		-19 280	-16 217
Proceeds from sales of tangible and intangible fixed assets		144	339
Investment in financial assets and loans granted		-2 808	-4 140
Divestment of financial assets and loan reimbursement		1 985	2 527
Acquisition of subsidiaries, cash outflow (net of cash acquired)	4	-12 148	-211 286
Disposal of subsidiaries and operations, cash inflow	5	–	3 461
Acquisition of associated companies	17	–	-2 193
Cash flow used in investing activities		**-45 465**	**-240 693**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-205 103	-75 437
Increase in bank overdrafts, long term loans and other non-current liabilities		201 862	219 235
Proceeds from employee share purchase program		61	63
Acquisition of non controlling-interests		-187	–
Proceed from a partial sale of subsidiary and loan not resulting in a loss of control		12 741	–
Dividends paid to non-controlling interests		-5 399	-4 711
Dividends paid to shareholders	40	-16 225	-16 170
Cash flow from/(used in) financing activities		**-12 250**	**122 980**
Effect of foreign exchange rate changes on cash and cash equivalents		-4 214	559
Net increase / (decrease) in cash and cash equivalents		**44 458**	**-7 891**
Cash and cash equivalents at the beginning of the year	23	92 382	100 273
Cash and cash equivalents at the end of the year	23	136 840	92 382
Net increase / (decrease) in cash and cash equivalents		**44 458**	**-7 891**

1) see note 37

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

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, 2014 published		**537 882**	**43 758**	**-61 460**	**-1 577**	**-77 720**	**5 618**	**446 501**
Restatement due to an amendment on IAS 19R	37			15 808		-4		15 804
January 1, 2014 (restated)		**537 882**	**43 758**	**-45 652**	**-1 577**	**-77 724**	**5 618**	**462 305**
Net income				26 028			7 361	33 389
Other comprehensive income				-12 602	-1 190	-9 880	2 204	-21 468
Total comprehensive income		**–**	**–**	**13 426**	**-1 190**	**-9 880**	**9 565**	**11 921**
Employee share purchase program	41	81	14					95
Exercise of stock options by employees		1						1
Shares issued for employees		1 083	-164					919
Dividends paid to shareholders	40		-10 780	-5 390				-16 170
Dividends paid to non-controlling interests							-4 711	-4 711
Non-controlling interests arising on business combinations	4						465	465
Transactions with non-controlling interests	4			-13 175			11 794	-1 381
December 31, 2014		**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	41	81	6					87
Shares issued for employees		1 783	-522					1 261
Dividends paid to shareholders	40		-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**

Fair value and other reserves as of December 31, 2015 include kCHF -2 640 (2014: kCHF -2 002) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF -622 (2014: kCHF -765) relating to cash flow hedges.

1) see note 37
The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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.

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

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

The loss of control or total disposal of a subsidiary results in the reclassification of any translation difference to the income statement.

(D) Revenue recognition

Revenue is comprised of the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale, and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.
The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on 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 determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Multiple element arrangements – service mode

The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services ac-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

cording 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) 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.

(g) Interest income

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

(E) Cost of material, licenses and services

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

(F) Derivative financial instruments

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

The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction (cash flow hedge). At the inception of the transaction the Group documents 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.

(G) Taxes

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

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

(H) Tangible fixed assets

(a) General

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

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

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

Technical equipment and machinery

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

Other equipment

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

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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 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.

(I) 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

(J) 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. If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in with cost being equal to carrying value.

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

(K) Financial assets

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for 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 47. Interest income, dividends and exchange differences arising on monetary available-for-sale financial assets is recognized in the income statement, while all other changes in the carrying amount of available-for-sale financial assets are recognized in comprehensive income and accumulated under the heading of 'Fair value and other reserves'. When the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in 'Fair value and other reserves' is reclassified to the income statement.

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

(L) Inventories

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

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

(M) Deferred costs

Deferred costs are measured at cost

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

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

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

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

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

(R) Borrowings
Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the 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 a prohibition 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, 2014, except for the adoption of new standards and interpretations as of January 1, 2015 and change in treatment for foreign exchange differences, described below.

In the current year, the Group changed its accounting treatment of foreign exchange differences to consider all exchange differences in connection with the settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences in connection with debtors and supplier settlements as part of revenue and cost of material. This change in accounting treatment only impacts the classification of these foreign exchange differences in the income statement. Comparative information has been restated for comparison purposes.

In the current financial year, the Group has retrospectively adopted an amendment to IAS 19R – 'Defined Benefit Plans: Employee Contributions'. This amendment to IAS 19R (2011) issued in November 2013 clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to period of service.

Note 37 describes the financial effects of the above changes in accounting policies.

The Group for the first time applied the amendments included in the annual improvement to IFRSs 2010-2012 and 2011-2013 cycles, effective from July 1, 2014. These amendments had only limited impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'.
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement.
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9.
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts.

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- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owneroccupied property and determining whether the acquisition of an investment property is a business combination.

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 2016 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.
- IFRS 16 - Leases substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 Leases and is effective January 1, 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Group is currently assessing the impact of adopting IFRS 16.
- IFRS 9 - 'Financial instruments' – (effective from 1 January of 2018) – IFRS 9 intoduces 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.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:

- 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

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 29) 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.

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 gener-

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ally 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

In exchange for 22.5% of SmarDTV SA and a cash payment (see Transaction with Non-Controlling Interests), SmarDTV SA acquired 100% of the share capital of Eldon Technology Limited (UK), Echostar Technologies Limited (UK), DCS Copy Protection Limited (UK) and EIC Spain II S.L. (Spain), resulting in the Group owning a 77.5% interest in those companies through SmarDTV SA. The acquired companies are active in the set-top-box industry. Through this acquisition, SmarDTV benefits from extended engineering capabilities. The Group determined a fair value of nil for this acquisition and only considered as purchase price the working capital adjustment, amounting to kCHF 530.
The acquisition of these companies qualifies as a 'bargain purchase' as the amounts of the identifiable net assets acquired exceed the sum of the value of consideration transferred and the non-controlling interest in the acquired companies. The bargain purchase results from the acquisition of loss-making operations for which material restructuring costs will be incurred. As a result, we recognized a gain amounting to kCHF 4 135 in the income statement which is disclosed under 'other operating income'.
This transaction did not give rise to material external acquisition costs. The gross contractual amount of trade receivables is kCHF 1 304 which are considered to be fully collectable, leading to a fair value of kCHF 1 304.

On January 7, 2015, SKIDATA Inc., USA, signed a share purchase agreement whereby it acquired 60% of the shares of Sentry Control Systems LLC, USA, for consideration of kCHF 13 999. Sentry Control Systems provides premium parking solutions and is SKIDATA's largest distributor in the US. Hence, this acquisition allows SKIDATA to strengthen its position in the US market. The agreement includes option mechanisms for the seller to sell and for the purchaser to buy the remaining shares. If the options are not exercised, the agreement stipulates that SKIDATA will subsequenty acquire the remaining 40% for a fixed amount and a contingent consideration based on the target's revenue, gross margin and free cash flow. The fixed amount to be paid for the acquisition of the remaining 40% interest is structured as four payments of USD 2 million each, payable yearly on March 31, 2016 to 2019, resulting in a transfer to SKIDATA of a 10% interest each year. The Group considered a 100% interest and recognized a deferred/contingent consideration for the 40% share resulting in a total acquisition cost of kCHF 23 906. The goodwill arising from this acquisition amounts to kCHF 18 449 and is allocated to the Public Access operating segment. The goodwill arises from a number of factors including expected synergies resulting from acquiring a workforce experienced in service support as well as a valuable sales knowledge and expertise in the relevant market. None of the goodwill is expected to be deductible for tax purposes. Acquisition related costs of kCHF 300 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 7046 is expected to be fully collectable leading to a fair value of kCHF 7046.

Starting January 1, 2015, the Group gained control over SKIDATA Australasia Pty Ltd without any additional consideration paid and as of that date the company is accounted for as a subsidiary. The Group initially acquired 50% interest in its Australian distributor and partner WTS (renamed SKIDATA Australasia Pty Ltd following the acquisition) in 2014 and treated it as an associate for accounting purposes. The purchase agreement included a call option whereby the Group had the ability to purchase the remaining 50% interest in the company as of January 1, 2015. A non-controlling interest of kCHF 2 095 and no goodwill arose from this business combination. The gross contractual amount of trade receivables due is kCHF 5 862, which are considered to be fully collectable, leading to a fair value of kCHF 5 862.

In 2015, SKIDATA also completed a non-significant asset deal in the United States, acquiring assets of a smaller distributor for an aggregate amount of CHF 0.5 m which qualified as a business combination according to IFRS 3.

From the date of acquisition, the acquired companies have contributed kCHF 49 216 of revenues and kCHF 1 875 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 945 713 and the net income from continuing operations for the period for the Group would have been approximately kCHF 48 774.

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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	Fair value of assets acquired 31.12.2015
Tangible fixed assets	7 262
Intangible fixed assets (Goodwill excl.)	4 812
Other non current assets	39
Trade accounts receivable	15 165
Other current assets	11 199
Cash and cash equivalents	2 307
Trade accounts payable	-9 946
Other current liabilities	-10 041
Non current liabilities	-2 453
Deferred income tax liabilities	-2 222
Total identified net assets	**16 122**
Non controlling interests resulting from a business combination	-3 449
Group's net asset portion prior to gain in control	-2 095
Goodwill	18 449
Bargain purchase	-4 135
Total consideration	**24 892**
Total consideration, of which:	
- cash	14 455
- deferred	7 190
- contingent	3 247
Total consideration	**24 892**

Transaction with non-controlling interests

On May 13, 2015, the Group closed a transaction whereby it sold to EchoStar 22.5% of SmarDTV SA and 22.5% of SmarDTV's CHF 30 million long-term Group loan for a cash and a share consideration. The cash consideration consisted of a payment equivalent to kCHF 12 741 of which kCHF 6 750 is attributable to the sale of the long-term loan and kCHF 5 991 to the equity sale. The consideration in shares consists of the entire share capital of Eldon Technology Limited (UK), Echostar Technologies Limited (UK), DCS Copy Protection Limited (UK) and EIC Spain II S.L. (Spain). The transaction includes a working capital adjustment mechanism in connection with consideration received in shares. As a result, the Group recognized a debt against Echostar of kCHF 530.

The acquisition of a controlling interest in an unrelated entity in exchange for a non-controlling interest in a wholly owned subsidiary is treated as a business combination. The sale of ownership interest that does not result in a loss of control is accounted for as an equity transaction (transaction with non-controlling interest). The Group determined the fair value of the acquired unrelated entities as being nil before the working capital adjustment, as the acquired companies had no viable operations on a stand-alone basis and a material restructuring was required (see Business Combinations). Thus, the full cash consideration received is attributed to the sale of the non-controlling interest, resulting in a gain of kCHF 7 858, recognized in retained earnings.

On July 8, 2015, the Group acquired an additional interest of 10.5% of Hantory Co Ltd, for a total consideration of kCHF 14 bringing its total stake to 80.5%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF 124 and non controlling interests for kCHF -152.

On November 27, 2015, the Group purchased the remaining 28% of SKIDATA South Afrika (pty) Ltd, for a total consideration of kCHF 171 bringing its total stake to 100%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF -198 and non controlling interests for kCHF 33.

ARISING IN 2014:

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

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

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

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

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

In CHF'000	Conax AS	Others	Total
Tangible fixed assets	2 719	5	2 724
Intangible fixed assets :			
- Customer lists, Trademarks & Brands	53 216	337	53 553
- Technology	21 499	–	21 499
- Software	218	279	497
- Other intangibles	–	229	229
Trade accounts receivable	19 559	248	19 807
Other current assets	6 182	532	6 714
Cash and cash equivalents	381	1 179	1 560
Trade accounts payable	-5 148	-728	-5 876
Other current liabilities	-14 421	-46	-14 467
Employee benefits liabilities	-2 018	–	-2 018
Deferred income tax liabilities	-15 263	–	-15 263
Total identified net assets	**66 924**	**2 035**	**68 959**
Non controlling interests resulting from a business combination	–	-451	-451
Group's net asset portion prior to gain in control	–	-642	-642
Goodwill	144 980	–	144 980
Total consideration	**211 904**	**942**	**212 846**
Total consideration, of which:			
- cash	211 904	942	212 846
Total consideration	**211 904**	**942**	**212 846**

Transaction with non-controlling interests

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

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

5. DIVESTMENTS

No divestment took place in 2015.

On May 2, 2014 the Group disposed of its 100%-owned smart card manufacturer NagraID SA, based in La Chaux-de-Fonds, to a group of investors including NagraID's management team. NagraID's intellectual property was transferred to the Group prior to disposal. No cash consideration was involved. Total consideration includes contingent assets (earn-out payments and profit sharing on disposal of some underlying assets of the company). On August 31, 2014, the Group disposed of its 100% equity stake in NagraID Security SA (NIDS), based in La Chaux-de-Fonds. Total consideration includes a payment in kind and contingent assets (earn-out payments on future NIDS revenues). NIDS develops and markets powered display cards providing secure two-factor authentication for electronic transactions, including e-banking and e-commerce, based on one-time password (OTP) and dynamic card verification value (DCVV) technologies. Prior to the sale, the Group had completed the acquisition of the 50% equity stake held by management (see note 4. transactions with non-controlling interests). Prior to the sale of the Group's 100% equity stake, NIDS full intellectual property portfolio was transferred to the Group, while selected tangible fixed assets were transferred to NIDS and financial stabilization of the company was completed. Both NagraID SA and NagraID Security SA were treated as discontinued operations (see note 38).

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

6. OPERATING SEGMENTS

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

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

	Integrated Digital Television		Public Access		Total	
In CHF'000	**2015**	**restated 2014**	**2015**	**restated 2014**	**2015**	**restated 2014**
Total segment Revenues	**661 448**	**641 302**	**278 512**	**231 014**	**939 960**	**872 316**
Inter-segment revenues	-366	-944	–	-2	-366	-946
Revenues from external customers	**661 082**	**640 358**	**278 512**	**231 012**	**939 594**	**871 370**
Depreciation and amortisation	-31 455	-35 735	-8 211	-7 372	-39 666	-43 107
Impairment	-1 664	-76	–	–	-1 664	-76
Operating income - excluding corporate common functions	**83 305**	**64 641**	**15 684**	**15 020**	**98 989**	**79 661**
Corporate common functions					-17 766	-18 469
Interest expense and other Finance income/(expense), net					-23 757	1 083
Share of result of associates					1 671	1 554
Income before tax					**59 137**	**63 829**
	31.12.2015	restated 31.12.2014	31.12.2015	restated 31.12.2014	31.12.2015	restated 31.12.2014
Total segment Assets	**806 671**	**855 353**	**243 624**	**163 703**	**1 050 295**	**1 019 056**

In CHF'000	31.12.2015	restated 31.12.2014
Total Segment Assets	1 050 295	1 019 056
Cash & Cash equivalents	28 603	14 981
Other current assets	87	3 198
Financial assets and other non-current assets	10 476	10 582
Total Assets as per Balance Sheet	**1 089 461**	**1 047 817**

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	2015	restated 2014	31.12.2015	restated 31.12.2014
Switzerland	36 923	33 946	108 436	121 875
United States of America	219 470	188 571	141 013	124 235
France	67 415	71 110	22 355	22 861
Italy	49 410	37 359	515	389
Germany	46 315	49 231	4 316	4 468
Netherlands	43 706	46 629	384	339
India	43 009	29 236	1 865	2 051
Norway	9 647	10 145	154 861	192 492
Rest of the world	423 699	405 143	70 611	58 762
	939 594	871 370	504 356	527 472

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	2015	restated 2014
Sale of goods	501 463	410 242
Services rendered	296 791	300 312
Royalties and licenses	141 340	160 816
	939 594	871 370

7. OTHER OPERATING INCOME

In CHF'000	2015	2014
Government grants (research, development and training)	3 383	8 655
Gain on bargain purchase resulting from business combination	4 135	–
Income from rental of property	2 856	2 174
Gain on sale of subsidiares	–	3 214
Others	862	1 261
	11 236	15 304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

8. OTHER OPERATING EXPENSES

In CHF'000	2015	2014
Development and engineering expenses	16 815	21 084
Travel, entertainment and lodging expenses	29 136	29 080
Legal, experts and consultancy expenses	34 444	33 115
Administration expenses	22 687	23 848
Building and infrastructure expenses	25 526	24 223
Marketing and sales expenses	10 807	10 178
Taxes other than income tax	4 055	4 678
Change in provisions	-4 035	9 277
Insurance, vehicles and others	9 135	8 279
	148 569	**163 762**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2015	2014
Land and buildings	14	3 869	3 694
Equipment and machines	14	13 277	15 398
Investment property	16	115	113
Total depreciation and impairment of tangible fixed assets		**17 260**	**19 205**
Intangible assets	15	24 070	23 978
Total amortization and impairment on intangible fixed assets		**24 070**	**23 978**
Depreciation, amortization and impairment		**41 330**	**43 183**

10. INTEREST EXPENSE

In CHF'000	Note	2015	restated 2014
Interest expense:			
- Bond 2011-2016	28	3 791	3 581
- Bond 2015-2022	28	2 462	–
- Credit facility	27	5 560	5 440
- Net interest expense on pension plan	29	954	981
- Other and bank charges		1 749	1 441
		14 515	**11 443**

Total interest expense related to the credit facility amount to kCHF 5 560 (2014: 5 440) and include amortization of transaction costs for kCHF 2 874 (2014: 1 483). This include extraordinary amortization due to the full reimbursement in 2015 and the reduction of the amount drawn down in 2014.

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2015	restated 2014
Interest income		1 403	2 132
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-2 051	-1 702
Net foreign exchange transaction gains/(losses)		-9 053	13 052
Others		459	-956
		-9 242	**12 526**

Changes in the fair value of available-for- sale financial assets were recognized directly in comprehensive income for kCHF -638 (2014: kCHF -793). The change in fair value of held for trading financial assets amounting to kCHF -2 051 (2014: kCHF -1 702) 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	2015	restated 2014
Current income tax		-13 738	-12 904
Deferred income tax	18	5 331	1 630
Non refundable witholding tax		-1 420	-1 788
		-9 827	**-13 062**

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	2015	restated 2014
Income before taxes	**59 137**	**63 828**
Expected tax calculated at domestic tax rates in the respective countries	-13 338	-11 983
Effect of income not subject to income tax or taxed at reduced rates	1 381	2 359
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	15 636	6 580
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-16 721	-8 966
Effect of changes in tax rates	949	-7
Efffect of associates' result reported net of tax	415	322
Effect of disallowed expenditures	-667	-1 814
Effect of prior year income taxes	1 144	-157
Effect of non-refundable withholding tax	-1 420	-1 788
Other	2 792	2 393
Tax expense	**-9 827**	**-13 062**

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 2 640 (2014: kCHF 2 289) and is disclosed under Other in the above table.

The weighted average applicable tax rate increased from 18.77% in 2014 to 22.55% in 2015. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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. The weighted average number of shares outstanding for all period presented are adjusted for events that have changed the number of ordinary shares without a corresponding change in resources.

In CHF'000	2015	restated 2014
Net income attributable to bearer shareholders	40 629	23 806
- Continuing operations	*40 629*	*40 661*
- Discontinued operations	*-*	*-16 855*
Net income attributable to registered shareholders	3 792	2 222
- Continuing operations	*3 792*	*3 795*
- Discontinued operations	*-*	*-1 573*
Total net income attributable to equity holders	**44 421**	**26 028**
Weighted average number of bearer shares outstanding	49 604 697	49 597 154
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)	0.8191	0.4800
- Continuing operations	*0.8191*	*0.8198*
- Discontinued operations	*-*	*-0.3398*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	0.0819	0.0480
- Continuing operations	*0.0819*	*0.0820*
- Discontinued operations	*-*	*-0.0340*

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	31.12.2015	31.12.2014
Land and buildings	105 427	102 740
Equipment and machines	33 693	30 405
	139 120	**133 145**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2014	**22 444**	**118 890**	**12 122**	**153 456**
Additions	–	985	840	1 825
Impact of business combinations	–	1	18	19
Impact of discontinued operations	–	-12 427	–	-12 427
Disposals and retirements	–	-243	-129	-372
Currency translation effects	653	2 671	357	3 681
Reclassification & others	–	–	-11	-11
As of 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 December 31, 2015	**24 291**	**112 961**	**13 282**	**150 535**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2014	**–**	**-39 328**	**-10 298**	**-49 626**
Systematic depreciation	–	-2 817	-877	-3 694
Impact of discontinued operations	–	9 821	–	9 821
Disposals and retirements	–	147	100	247
Currency translation effects	–	87	-266	-179
As of 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 December 31, 2015	**–**	**-34 153**	**-10 956**	**-45 108**
Net book values as of December 31, 2014	**23 097**	**77 787**	**1 856**	**102 740**
Net book values as of December 31, 2015	**24 291**	**78 809**	**2 327**	**105 427**
Useful life in years	Indefinite	10 – 50	4 – 8	

In CHF'000	31.12.2015	31.12.2014
Corporate buildings on land whose owner has granted a permanent and specific right of use	6 708	6 912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2014	**193 428**	**13 122**	**206 549**
Additions	12 377	1 322	13 699
Impact of business combinations	2 691	33	2 724
Impact of disposal of operations	-2 841	–	-2 841
Impact of discontinued operations	-49 844	-3 061	-52 905
Disposals and retirements	-4 420	-601	-5 021
Currency translation effects	-2 315	-69	-2 384
Reclassification & others	-57	68	11
As of 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 December 31, 2015	**149 867**	**11 730**	**161 598**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2014	**-152 980**	**-9 913**	**-162 893**
Systematic depreciation	-14 278	-1 104	-15 382
Impairment	–	-16	-16
Impact of disposal of operations	2 517	–	2 517
Impact of discontinued operations	36 720	2 413	39 133
Disposals and retirements	4 231	601	4 832
Currency translation effects	2 324	79	2 403
Reclassification & others	-7	-15	-22
As of 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 December 31, 2015	**-119 854**	**-8 051**	**-127 905**
Net book values as of December 31, 2014	**27 546**	**2 859**	**30 405**
Net book values as of December 31, 2015	**30 014**	**3 679**	**33 693**
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.

15. INTANGIBLE ASSETS

In CHF'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2014	**102 616**	**3 381**	**66 098**	**129 419**	**395**	**301 909**
Additions	7 936	240	4 941	–	67	13 184
Impact of business combinations	21 779	53 553	218	144 980	228	220 758
Impact of disposal of operations	-959	–	-218	–	–	-1 177
Impact of discontinued operations	-3 366	–	-2 381	–	–	-5 747
Disposals and retirements	-1 702	–	-1 100	–	–	-2 802
Currency translation effects	-1 076	-5 288	551	-2 300	41	-8 072
As of 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 December 31, 2015	**128 307**	**48 851**	**70 616**	**268 925**	**669**	**517 368**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2014	**-70 403**	**-2 731**	**-59 130**	**–**	**-395**	**-132 659**
Systematic amortization	-15 698	-4 243	-3 874	–	-102	-23 917
Impairment	-61	–	–	–	–	-61
Impact of disposal of operations	–	–	210	–	–	210
Impact of discontinued operations	3 366	–	2 272	–	–	5 638
Recovery of amortization on disposal and retirements	1 596	–	1 103	–	–	2 699
Impact of discontinued operations	–	201	–	–	–	201
Currency translation effects	-1 041	–	-541	–	-33	-1 615
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 December 31, 2015	**-94 253**	**-11 013**	**-62 305**	**–**	**-669**	**-168 240**
Net book values as of December 31, 2014	**42 987**	**45 113**	**8 149**	**272 099**	**201**	**368 549**
Net book values as of December 31, 2015	**34 054**	**37 839**	**8 311**	**268 925**	**–**	**349 127**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2015 technology Impairment for kCHF 541 relates to the development of a product initiated with a third-party company which has currently severe financial difficulties, and uncertainties exist on the re-usage of such product development. The remaining technology impairments relate to development projects that have been stopped. 2015 software impairment relates to software that have been decommissioned.

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 2015, kCHF 246 520 of goodwill has been allocated to Integrated Digital Television (2014: kCHF 267 701) and kCHF 22 405 (2014: kCHF 4 398) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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 9.0% (2014: 8.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% (2014: 1.5%) for core digital TV activities and 1.5% for initiatives (2014: 1.5%) per annum. Revenue assumptions for the five-year plan were generated from existing products and existing customers, and newly launched activities. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2015 and 2014, 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 2015, rental income and direct operating expenses for the investment property were kCHF 219 (2014: kCHF 251) and kCHF 7 (2014 : kCHF 5) respectively. The 2014 fair value of the investment property was estimated at CHF 2.8 million, corresponding to planned rental income capitalized at 9%. In January 2016, 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, 2014	**2 742**
Additions	5
Currency translation effects	-50
As of December 31, 2014	**2 697**
Currency translation effects	-270
As of December 31, 2015	**2 427**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2014	**-1 283**
Systematic depreciation	-113
Reclassification & others	22
Currency translation effects	24
As of December 31, 2014	**-1 350**
Systematic depreciation	-115
Currency translation effects	134
As of December 31, 2015	**-1 331**
Net book values as of December 31, 2014	**1 347**
Net book values as of December 31, 2015	**1 096**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

17. INVESTMENTS IN ASSOCIATES

In CHF'000	2015	2014
At January 1	**6 217**	**4 768**
Share of profit	1 671	1 554
Dividends received	-1 190	-1 905
Acquisition of an associated company	–	2 193
Associated company fully consolidated	-2 095	-642
Currency translation effects	-104	249
At December 31	**4 499**	**6 217**

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

Name of associate	Principal activity	Interest held 2 015	Interest held 2 014
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SKIDATA Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SKIDATA Australasia Pty Ltd, Australia	Sales of Public Access products	Subsidiary	50%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2015	31.12.2014
Total assets	31 217	37 071
Total liabilities	18 803	21 688
Net assets	12 414	15 383
Group's share of associates' net assets	3 981	5 667

	2015	2014
Revenue	40 228	67 125
Result of the period	5 994	5 619
Group's share of associates' result for the period	1 671	1 554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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	31.12.2015	restated 31.12.2014
Deferred tax assets	61 407	56 310
Deferred tax liabilities	-11 509	-13 430
	49 898	**42 880**

Movement on the deferred income tax account is as follows:

In CHF'000	Note	2015	restated 2014
At January 1		**42 880**	**51 201**
Exchange differences		1 098	1 511
Recognized against other comprehensive income		2 811	3 650
Impact of business combinations		-2 222	-15 112
Income statement (expense)/income	12	5 331	1 630
At December 31		**49 898**	**42 880**

The movement in deferred tax assets and liabilities during 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

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	0			-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**

And for 2014:

In CHF'000	restated At January 1, 2014	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	restated At December 31, 2014
Deferred tax assets associated with						
- intangibles	31 838	-911	–	–	7	30 934
- employee benefits	8 712	448	–	3 650	-89	12 721
- tax losses	7 269	843	118	–	74	8 304
- provisions and other elements tax deductible when paid	2 175	656	29	–	-32	2 828
- inter-company profit elimination	1 627	220	–	–	56	1 903
- others	145	-144	–	–	-30	-29
Total deferred tax assets (gross)	**51 766**	**1 112**	**147**	**3 650**	**-14**	**56 661**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	-14	-25	–	–	–	-39
- intangibles	–	246	-15 259	–	1 531	-13 482
- provisions & accelerated tax depreciation	-500	384	–	–	-9	-125
- others	-51	-87	–	–	3	-135
Total deferred tax liabilities (gross)	**-565**	**518**	**-15 259**	**–**	**1 525**	**-13 781**
Net deferred tax asset/(liability)	**51 201**	**1 630**	**-15 112**	**3 650**	**1 511**	**42 880**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 926.6 million (2014: CHF 909.4 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 283.5 million (2014: CHF 282.5 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 643.2 million (2014: CHF 626.9 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	2015	2014
Expiration within:		
One year	3.6	8.7
Two years	1.3	3.6
Three years	61.1	1.3
Four years	32.6	112.3
Five years	36.4	33.8
More than five years	508.2	467.2
Total	**643.2**	**626.9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

19. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2015	31.12.2014
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	500	834
- equity instruments with no quoted market price (level 3)	400	400
- marketable securities (level 1)	417	1 237
Loan – third party	7 191	5 481
Loan – related party	–	576
State and government institutions	11 646	13 442
Deferred contract cost (long term portion)	10 513	18 963
Contingent consideration	7 383	7 031
Trade accounts receivable - long-term portion	1 938	–
Guarantee deposits	3 320	3 844
Prepaid expenses and accrued income (long-term portion)	743	425
	44 051	**52 233**

Available-for-sale financial assets is comprised of equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Such assets are measured at cost net of impairment for kCHF 500 (2014: kCHF 834). Also included is one equity instrument listed in an active market and classified as marketable securities for kCHF 417 (2014: kCHF 1 237). A temporary value adjustment of kCHF 0 (2014: kCHF -1 000) has been booked against other comprehensive income on equity instruments with no quoted market price (level 3).

Third party and related party loans are measured at amortized cost. The 2014 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity in 2011 that has been discounted using a 9.3% rate. It has been reclassified as short term in 2015. The effective interest rate on third party loans is 2.49% (2014:2.30%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months.
A contingent asset consisting of an earn-out has been calculated using projections of revenue of a disposed company as estimated by management at the date of disposal. The fair value estimate is based on a discount rate of 5%.

20. INVENTORIES

In CHF'000	31.12.2015	31.12.2014
Raw materials	1 727	7 232
Work in progress	4 360	2 634
Finished goods	42 000	37 217
	48 087	**47 083**

The cost of inventories recognised as an expense includes kCHF 4 311 (2014: kCHF 906) in respect of write-downs, and has been reduced by kCHF 787 (2014: kCHF 1 191) 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 6 833 (2014: kCHF 1 334).

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2015	31.12.2014
Trade accounts receivable	245 517	229 511
Less: provision for impairment	-20 811	-22 512
Trade accounts receivable related parties	3 596	8 072
Trade receivables – net	**228 302**	**215 071**
Amounts due from customers for contract work	28 675	4 927
Total	**256 977**	**219 998**

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	2015	2014
January 1,	**-22 512**	**-19 312**
Provision for impairment charged to income statement	-2 753	-7 811
Utilization	944	951
Reversal	3 152	3 120
Change in scope	–	456
Translation effects	358	84
December 31,	**-20 811**	**-22 512**

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 -2 753 (2014: kCHF -7 811). 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	31.12.2015	31.12.2014
Not overdue	133 788	143 383
Past due and not impaired:		
- not more than one month	49 234	34 072
- more than one month and not more than three months	22 609	21 210
- more than three months and not more than six months	7 451	3 247
- more than six months and not more than one year	9 231	9 164
- more than one year	5 989	3 995
Total trade accounts receivable, net	**228 302**	**215 071**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

22. OTHER CURRENT ASSETS

In CHF'000	31.12.2015	31.12.2014
Loans third parties – short term portion	15	37
Prepaid expenses	12 483	16 951
Accrued income	1 216	796
State and government institutions	18 366	33 510
Advances to suppliers and employees	2 569	4 263
Deferred contract cost (short term portion)	9 941	10 433
Other receivables - third parties	1 968	1 748
Other receivables - related parties	1 333	2 815
	47 892	**70 553**

Loans are measured at amortized cost. The effective interest rate on short term loans was 2.32% (2014: 4.94%).

23. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2015	31.12.2014
Cash at bank and in hand	130 964	88 995
Short term deposits	5 876	3 387
	136 840	**92 382**

The effective interest rate on short term deposits was 0.70% (2014: 0.54%). 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	31.12.2015	31.12.2014
49'461'147 / 49'274'709 bearer shares, at CHF 10 each	494 611	492 747
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	540 911	**539 047**

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	2015	2014
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

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

CONDITIONAL SHARE CAPITAL

In CHF'000	2015	2014
Conditional share capital as of January 1	110 390	103 555
Increase of conditional share capital	–	8 000
Employee share purchase plan	-81	-82
Shares allotted to employees	-1 783	-1 083
Conditional share capital as of December 31	**108 526**	**110 390**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
852'609 / 1'039'047 bearer shares, at CHF 10 each	8 526	10 390
	108 526	**110 390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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, 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

As at December 31, 2014 (in CHF'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	4 587	36 385
Current Assets	38 663	1 467
Non-current liabilities	–	14 247
Current liabilities	23 851	1 445
Total Equity	**19 399**	**22 160**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	9 700	11 102
Carrying amount of non-controlling interests	**9 700**	**11 102**
Revenue	24 246	3 703
Net result	10 984	1 460
Other comprehensive income	1 909	2 514
Total comprehensive income	12 893	3 974
Total comprehensive income allocated to non-controlling interests	6 446	1 991
Dividend paid to non controlling interests	-4 578	–
Net increase /(decrease) in cash and cash equivalents	2 094	164

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	31.12.2015	31.12.2014
Bank loans - long term	27	–	145 761
CHF 200 million 1.875% bond 2015/2022	28	199 188	–
CHF 110 million 3% bond 2011/2016	28	–	109 444
Other long term financial liabilities		472	18
		199 660	**255 223**

27. LONG TERM BANK LOANS

In CHF'000	31.12.2015	31.12.2014
Credit facility agreement	–	132 000
Mortgage - long term portion	–	13 761
Total long term bank loans	**–**	**145 761**

The average effective interest rate on total long term bank loans was 2.49% (2014: 2.28%).

In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019 in connection with the acquisition of Conax AS. As of December 31, 2014, the Group had drawn CHF 165 million of which CHF 132 million were classified as long term and CHF 33 million as short term in the balance sheet.
In early 2015, the Group decided to replace this long term credit facility with a new bond (see note 28). The outstanding amount was fully repaid in May 2015 and the credit facility consequently cancelled.

28. 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.

On May 12, 2015 Kudelski SA issued an additional 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%.

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

In CHF'000	2015	2014
Initial balance	**109 444**	**109 174**
Net proceed from bond issuance	199 130	–
Amortization of transaction costs less premium	355	270
Repurchase	-6 980	–
Liability component as of December 31	**301 949**	**109 444**
of which:		
- short term portion (bond 2011/2016)	102 761	–
- long term portion (bond 2015/2022)	199 188	109 444
	301 949	**109 444**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

29. EMPLOYEE BENEFITS LIABILITIES

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

SWITZERLAND

In addition to the legally required social security schemes, the Group has an independent pension plan. Swiss legislation prescribes that the employer has to contribute a fixed percentage of an associate's pay 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 associate also contributes to the plan. 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 associates. The Board of Trustees is responsible for the plan design and the asset investment strategy. This plan covers all employees in Switzerland and is treated as a defined benefit plan with associated risks exposure being:

- Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plan's liabilities. In order to minimize the risk, mortality assumptions are reviewed on a regular basis.
- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular-basis.

ABROAD

Outside Switzerland, the Group sponsors ten other post-employment benefit plans and, following Conax acquisition, 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	31.12.2015	restated 31.12.2014
Fair value of plan assets	156 621	147 554
Defined benefit obligation	-234 444	-206 427
Funded status	**-77 823**	**-58 873**
Other comprehensive income	-28 262	-15 246
Prepaid/(accrued) pension cost	-49 562	-43 627
Funded status	**-77 823**	**-58 873**

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2015 and 2014:

In CHF'000	2015	restated 2014
Service cost	-19 528	-17 432
Interest cost	-3 206	-3 893
Interest income	2 253	2 912
Employees contributions	5 638	5 753
Amortization of gains/(losses)	-14	-175
Curtailment gain / (loss)	–	68
Net pension (cost)/income	**-14 857**	**-12 767**

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2015 and 2014 are as follows:

	31.12.2015	31.12.2014
Switzerland		
Discount rate	1.00%	1.50%
Rate of future increase in compensations	1.50%	2.00%
Rate of future increase in current pensions	0.75%	1.00%
Interest rate credited on savings accounts	1.00%	1.50%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	2.23%	2.25%
Rate of future increase in compensations	2.63%	2.83%
Turnover *(on average)*	5.8%	8.0%

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

	31.12.2015	31.12.2014
Weighted average duration of the defined benefit obligation in years		
Switzerland	24.4	22.9
Abroad	15.6	16.9

The changes in defined benefit obligation and fair value of plan assets during the years 2015 and 2014 are as follows:

A. Change in defined benefit obligation

In CHF'000	2015	restated 2014
Defined benefit obligation as of 1.1.	**-206 427**	**-175 581**
Service cost	-19 528	-17 432
Interest cost	-3 206	-3 893
Change in demographic assumptions	-8	30
Change in financial assumptions	-10 089	-19 926
Other actuarial gains / (losses)	-1 509	-690
Benefits (paid)/received	4 115	-1 069
Exchange rate difference	2 209	915
Curtailment	–	68
Acquisition of subsidiaries	–	-6 647
Disposal of subsidiaires	–	17 797
Defined benefit obligation as of December 31,	**-234 444**	**-206 427**

B. Change in fair value of plan assets

In CHF'000	2 015	2 014
Fair value of plan assets as of 1.1.	**147 554**	**134 400**
Interest income	2 253	2 912
Employees' contributions	5 638	5 753
Employer's contribution	7 782	7 578
Plan assets gains/(losses)	-1 651	4 200
Benefits (paid)/received	-4 115	1 069
Exchange rate difference	-841	-546
Acquisition of subsidiaries	–	4 675
Disposal of subsidiaires	–	-12 486
Fair value of plan assets as of December 31,	**156 621**	**147 554**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

The actual return on plan assets amounts to kCHF 602 in 2015 (kCHF 7 112 for the year 2014). The estimated employer's contribution to the pension plans for the year 2016 is kCHF 7 039.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2015 and 2014 as follows:

In CHF'000	31.12.2015	Proportion in % 31.12.2015	31.12.2014	Proportion in % 31.12.2014
Cash	1 205	0.8%	2 293	1.6%
Swiss bonds	39 492	25.2%	41 083	27.9%
Foreign bonds	9 986	6.4%	15 828	10.7%
Swiss shares	55 001	35.1%	43 304	29.4%
Foreign shares	33 525	21.4%	28 973	19.6%
Real estates	6 792	4.3%	7 437	5.0%
Alternative investments	5 622	3.6%	3 431	2.3%
Assets held by insurance company	4 998	3.2%	5 205	3.5%
Total	**156 621**	**100.0%**	**147 554**	**100.0%**

There is no complete information available about quoted/not quoted assets.The assets are mainly held by the Swiss pension fund which has no asset-liabilities matching strategy.

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

In CHF'000	Switzerland	Abroad
2015	6 929	145
2016	6 701	59
2017	6 460	88
2018	6 289	96
2019	6 055	108
2020-2024	27 322	1 940

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 2015 year-end defined benefit obligation		Change in 2014 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	restated In CHF'000	restated In CHF'000
50 basis point increase in discount rate	-24 295	-1 217	-20 656	-1 650
50 basis point decrease in discount rate	28 797	1 241	24 508	1 521
50 basis point increase in rate of salary increase	273	n/a	187	n/a
50 basis point decrease in rate of salary increase	-297	n/a	-187	n/a
50 basis point increase in rate of pension increase	15 480	n/a	12 009	n/a
50 basis point decrease in rate of pension increase	-13 995	n/a	-10 960	n/a
50 basis point increase of interest in saving accounts	9 192	n/a	8 009	n/a
50 basis point decrease of interest in saving accounts	-8 606	n/a	-7 492	n/a

30. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2015	Total 2014
As of January 1	**3 307**	**75**	**1 679**	**5 061**	**6 346**
Additional provisions	–	–	718	718	2 936
Change in scope of consolidation	–	–	794	794	–
Unused amounts reversed	-140	-9	-11	-160	-460
Used during the year	-2 023	–	-1 070	-3 093	-3 720
Exchange differences	-319	-7	-226	-552	-41
As of December 31	**825**	**59**	**1 884**	**2 768**	**5 061**
Thereof:					
- Short term	825	59	1 884	2 768	4 996
- Long term	–	–	–	–	65
	825	**59**	**1 884**	**2 768**	**6 346**

Restructuring provisions

2015 and 2014 restructuring provision balances relate to commitments for lay-offs amounting to kCHF 760 (2014: kCHF 2 987) and termination of leases agreements considered as onerous contracts for kCHF 65 (2014: kCHF 320) following the reorganization and the closure of selected offices.

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.

31. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2015	31.12.2014
Long-term loans - third parties		11 015	–
Deferred and contingent consideration		8 783	1 381
Derivative financial instruments	36	–	486
Other long-term liabilities		1 154	1 470
		20 952	**3 337**

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

Deferred and contingent consideration balances include the long-term portion of deferred fix and earn-out payments in connection with the acquisition of Sentry in 2015 as well as earn-out payment for the acquisition of 50% of NagraID Security. Assumptions for earn-out payments are dependent on the achievement of financial performance targets of the acquired companies and are reviewed by management on a periodic basis. Discount rates used for this heading vary from 5.0% to 7.6%. Contingent consideration (level 3) amounts to kCHF 4 012 (2014: kCHF 1 381) and deferred consideration amounts to kCHF 4 771 (2014: kCHF 0).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

32. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2015	31.12.2014
Short term bank borrowings		20 503	75 794
CHF 110 million 3% bond 2011/2016	28	102 761	–
Other short term financial liabilities		195	2
		123 459	**75 796**

The average effective interest rate paid in 2015 for short term bank borrowings was 1.53% (2014: 1.30%). In 2014, short term bank borrowings included the short-term portion of a credit facility agreement (see note 27) for kCHF 33 000.

33. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2015	31.12.2014
Trade accounts payable – third parties	50 640	52 014
Trade accounts payable – related parties	22	120
	50 662	**52 134**

34. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2015	restated 31.12.2014
Accrued expenses	76 293	75 154
Deferred income	26 391	15 551
Deferred consideration	1 889	–
Contingent consideration (level 3)	686	–
Payable to pension fund	488	542
Other payables	17 662	17 284
	123 409	**108 531**

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

35. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2015	31.12.2014
Amounts due to customers for contract work	3 590	2 265
Advances from clients	18 450	10 790
	22 040	**13 055**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

36. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Currency related instruments (level 2)						
- Over the counter currency options	42 132	23 760	39	–	434	280
- Forward contracts	19 800	19 800	326	–	–	245
Interest related instrument (level 2)						
- Interest rate swap	–	88 860	–	–		1 047
Total of derivatives financial instruments	**61 932**	**132 420**	**365**	**–**	**434**	**1 572**
Of which:						
- Short-term	61 932	118 560	–	–	434	1 086
- Long-term	–	13 860	–	–	–	486

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

37. IMPACT OF CHANGES IN ACCOUNTING POLICIES

The impact of changes in accounting policies relates to the following elements:
- Adoption of an amendment to IAS 19R (2011)
- Change in treatment for foreign exchange differences

ADOPTION OF AN AMENDMENT TO IAS 19R (2011)

In the current financial year, the Group has retrospectively adopted an amendment to IAS 19R – 'Defined Benefit Plans: Employee Contributions'. This amendment to IAS 19R (2011) issued in November 2013 clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to period of service. The amendment, issued in November 2013, clarifies the application of IAS 19R to post-employment benefit plans that require employees or third parties to contribute towards the cost of benefits. The amendment allows contributions that are linked to service, and do not vary with length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided (e.g. contributions dependent on the employee's age or contributions that are a fixed percentage of the employee's salary). The Group elected to apply this amendment as it better approximates the Swiss pension commitment.

The impact of the adoption of the IAS 19R amendment on the balance sheet is as follows:

In CHF'000	**31.12.2015**	**31.12.2014**	**01.01.2014**
Decrease in the employee benefits liabilities (non-current)	17 616	20 378	20 101
Decrease in deferred tax assets (non-current)	-3 852	-4 487	-4 410
Increase in deferred tax liabilities (non-current)	–	-13	-16
Decrease in other current liabilities (current)	–	194	130
Net impact on equity	**13 764**	**16 072**	**15 804**
Equity attributable to equity holders of the parent	13 764	16 072	15 804
Non controlling interests	–	–	–

The impact of the adoption of the IAS 19R amendment on the income statement and the other comprehensive income is as follows:

In CHF'000	2015	2014
Decrease in employees benefits expense	–	-9
Decrease in interest expense	308	424
Increase in current tax expense	-67	-89
Impact on net profit for the year (continuing operations)	**241**	**326**
Attributable to equity holders of the parent	241	326
Non controlling interests	–	–
Increase / decrease in remeasurements on post-employment benefit obligations, net of income tax	-2 549	-61
Effect of currency translation adjustments	–	3
Impact in other comprehensive income, net of tax	**-2 549**	**-58**
Attributable to equity holders of the parent	-2 549	-58
Non controlling interests	–	–

There was no material impact on the Group's consolidated statement of cash flows or basic and diluted EPS.

CHANGE IN TREATMENT FOR FOREIGN EXCHANGE DIFFERENCES

In the current year, the Group changed its accounting treatment of foreign exchange differences to consider all exchange differences in connection with subsequent measurements and settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences in connection with debtors and suppliers' subsequent measurements and settlements as part of revenue and cost of material. This change in accounting treatment only impacts the classification of these foreign exchange differences in the income statement and had no impact on the balance sheet, other comprehensive income and the cash flow statement. Comparative information has been restated for comparison purposes.

The impact of this accounting treatment change on the income statement is as follows:

In CHF'000	2015	2014
Increase/(decrease) in Revenues	1 852	-8 445
Decrease/(increase) in Cost of material, licences and services	1 415	1 567
Increase/(decrease) in Other finance income/(expense), net	-3 267	6 878
Impact on net income for the period	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

38. DISCONTINUED OPERATIONS

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

In CHF'000	2014
Revenue	14 015
Expenses	-21 573
Operating result	**-7 558**
Finance costs	-1 267
Result before tax from discontinued operations	**-8 825**
Income tax	-23
Result after tax from discontinued operations	**-8 848**
Pre-tax loss recognised on disposal of discontinued operations	-8 528
Income tax	–
Post-tax loss recognised on disposal of discontinued operations	-8 528
Net result from discontinued operations	**-17 376**

In CHF'000	2014
Cash flow used in operating activities	-3 850
Cash flow used in investing activities	-1 160
Cash flow from financing activities	3 029

39. RESEARCH AND DEVELOPMENT

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

In CHF'000	2015	2014
Research and development	192 578	195 363

40. DIVIDEND

The ordinary dividend paid in 2015 was kCHF 16 225 (2014: kCHF 16 170) which corresponds to a dividend of CHF 0.30 (2014: CHF 0.30) per bearer share and CHF 0.03 (2014: CHF 0.03) per registered share. For the current year, the Board of Directors proposes to carry forward the available retained earnings.

41. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

	Shares 2015	Shares 2014
Shares underwritten by employees	6 790	6 815
Bonus shares and options from ESPP	1 358	1 363
Total employee share program	**8 148**	**8 178**
Amount paid by employee (In CHF'000)	61	62
Booked corporate charges (excluding social charges) (In CHF'000)	26	33
	87	**95**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2015	Options 2014
In circulation on January 1	15	–	584
Total in circulation on January 1		**–**	**584**
Rights exercised	15	–	-50
Rights forfeited	15	–	-534
In circulation on December 31		**–**	**–**
- of which exercisable as of January 1	15	–	584
- of which exercisable as of December 31	15	–	–

SHARES ISSUED TO EMPLOYEES

In 2015, 178 290 (2014: 108 251) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 138 705 (2014: 65 980) include a seven-year blocking period and 39 585 (2014: 42 271) include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 1 261 (2014: kCHF 919)

42. 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 2015	Sale of goods and services 2014	Purchase of goods and services 2015	Purchase of goods and services 2014	Amounts owed to related parties 31.12.2015	Amounts owed to related parties 31.12.2014	Amounts owed by related parties 31.12.2015	Amounts owed by related parties 31.12.2014
Hantory Co., Ltd	subsidiary	2 032	subsidiary	–	subsidiary	–	subsidiary	–
APT-Skidata Ltd	9 377	7 449	–	–	–	–	2 062	1 499
SKIDATA Parking System	3 163	2 854	–	–	–	–	922	1 559
SKIDATA India Private Limited	309	674	–	–	10	87	205	297
SKIDATA Australasia Private Limited	subsidiary	8 205	subsidiary	–	subsidiary	–	subsidiary	6 496
iWedia SA	155	138	403	618	88	421	34	42
Total associated companies	**13 004**	**21 352**	**403**	**618**	**98**	**508**	**3 223**	**9 893**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 619
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 619**

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

Key management compensation

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

In CHF'000	2015	2014
Salaries and other short-term employees benefits	9 162	8 182
Post-employments benefits	105	101
Share-based payments	1 064	981
	10 331	**9 264**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

43. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
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, 2015 and 2014, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2015 and 2014 variable compensation - issued in 2016 and 2015 respectively):

	31.12.2015	31.12.2014
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 394 423	14 294 423
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	–	–
Total board members	**14 402 063**	**14 302 063**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	173 272	200 820
Roy Pierre, COO	61 236	62 900
Total Management (excluding CEO)	**234 508**	**263 720**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2015 and 2014.

No loans were granted in 2015 and 2014 to the members of the Board of Directors and Group management.

44. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 015	2 014
Within one year	11 792	11 870
In the second to fifth year inclusive	23 932	23 744
	35 724	**35 614**

45. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 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 and long term)	36	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	31		8 783	11 487	20 270
Short term financial debt	32			123 459	123 459
Trade accounts payable	33			50 662	50 662
Other current liabilities	34		2 574	1 956	4 530
Derivative financial instruments (short and long term)	36	377	57		434
		377	**11 414**	**386 753**	**398 544**

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And for 2014:

Assets as per balance sheet date December 31, 2014 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2014
Financial assets and non current assets:					
- equity instruments with no quoted market price	19	–	1 234	–	1 234
- marketable securities	19	–	1 237	–	1 237
- long term loans - third party	19	–	–	5 481	5 481
- long term loans - related party	19	–	–	576	576
- guarantee deposits	19	–	–	3 844	3 844
- contingent consideration	19	7 031	–	–	7 031
Trade accounts receivable	21	–	–	215 071	215 071
Other current assets:					
- Loans	22	–	–	37	37
Cash and cash equivalents	23	–	–	92 382	92 382
		7 031	**2 471**	**317 391**	**326 893**

Liabilities as per balance sheet date December 31, 2014 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2014
Long term financial debt	26	–	–	255 223	255 223
Other long term liabilities	31	–	–	1 381	1 381
Short term financial debt	32	–	–	75 796	75 796
Trade accounts payable	33	–	–	52 134	52 134
Other current liabilities	34	–	–	17 285	17 285
Derivative financial instruments (short and long term)	36	486	1 086	–	1 572
		486	**1 086**	**401 819**	**403 391**

46. 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, 2015 and 2014:

In CHF'000		Note	31.12.2015	31.12.2014
Financial assets:				
- marketable securities	Level 1	19	417	1 237
- derivative financial instruments	Level 2	36	365	–
- equity instuments with no quoted market price	Level 3	19	400	400
- contingent assets	Level 3	19	7 383	7 031
Total financial assets			**8 565**	**8 668**
Financial liabilities:				
- derivative financial instruments	Level 2	36	434	1 572
- contingent consideration (short-term portion)	Level 3	34	686	–
- contingent consideration (long-term portion)	Level 3	31	4 012	1 381
Total financial liabilities			**5 132**	**2 953**

Level 3 equity instruments with no quoted market price are based on discounted cash flow calculation provided by the company. A Level 3 contingent asset consisting of an earn-out has been calculated using projections of revenues of a disposed company, as estimated by management. The fair value measurement uses a 5% discount rate.
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 5.0 and 7.6%.

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, 2014	1 400	–	–
Assumed in a transaction with non-controlling interest	–	–	-1 381
Resulting from a divestment	–	7 031	–
Value adjustment	-1 000	–	–
Balance at December 31, 2014 and January 1, 2015	**400**	**7 031**	**-1 381**
Assumed in a business combination	–	–	-3 247
Discount effect	–	352	-70
Balance at December 31, 2015	**400**	**7 383**	**-4 698**

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 2015	Fair value 2015	Carrying amount 2014	Fair value 2014
Financial liabilities				
- CHF 110 million bond	102 761	105 905	109 444	114 730
- CHF 200 million bond	199 188	202 600	–	–

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

47. 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.

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In CHF'000	Due within 1 year 2015	Due within 1 year 2014	Due > 1 year < 5 years 2015	Due > 1 year < 5 years 2014	Due > 5 years 2015	Due > 5 years 2014	Adjustment 2015	Adjustment 2014	Total book value 2015	Total book value 2014
Bonds	109 881	3 300	15 080	113 300	207 560	–	-30 572	-7 156	301 949	109 444
Long term bank loans	–	3 006	–	151 723	–	–	–	-8 968	–	145 761
Short term financial debt	20 698	75 796	–	–	–	–	–	–	20 698	75 796
Trade accounts payable	50 662	52 134	–	–	–	–	–	–	50 662	52 134
Other payables	17 662	17 285	–	–	–	–	–	–	17 662	17 285
Total	**198 903**	**151 521**	**15 080**	**265 023**	**207 560**	**–**	**-30 572**	**-16 124**	**390 971**	**400 420**

48. 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% (2014: 10%) increase and decrease in the USD and a 20% (2014: 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.

In CHF'000	USD 2015	USD 2014	EUR 2015	EUR 2014
Post-tax net income				
- Increase	3 505	13 615	15 145	6 555
- Decrease	-6 945	-13 615	-16 210	-6 555
Comprehensive income (post-tax effect)				
- Increase	11 622	5 407	3 385	4 176
- Decrease	-10 354	-4 807	-3 472	-4 176

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 150 basis points and decrease of 50 basis points (2014: 150 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2014: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2014: 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, 2015 would increase by kCHF 969 and decrease by kCHF 833 (2014: decrease by kCHF 377 /decrease by kCHF 690). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2015 (2014: increase by kCHF 259 / decrease by 86) . The other comprehensive income impact is 0 as an interest rate swap qualifying for cash-flow hedge accounting has been unwound during 2015.

Equity prices

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

49. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2015	31.12.2014
Guarantees in favor of third parties	33 324	29 936

50. RISK CONCENTRATION

At December 31, 2015 and 2014, no financial asset exposure was more than 10% of the financial assets.

51. 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 2015 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

52. 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 2015 was 57.2% (2014: 45.8%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

53. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2015	2014	2015	2014
1 USD	0.9900	0.9900	0.9627	0.9155
1 EUR	1.0820	1.2025	1.0684	1.2145
100 CNY	15.2450	15.9700	15.3168	14.8610
100 NOK	11.2650	13.3250	11.9412	14.5380
1 GBP	1.4680	1.5400	1.4712	1.5070
100 BRL	25.2000	37.3000	29.2800	38.9300
100 INR	1.5000	1.5700	1.5011	1.5004
1 SGD	0.7000	0.7480	0.7003	0.7222
100 ZAR	6.4000	8.5400	7.5700	8.4400
100 RUB	1.3360	1.7910	1.5864	2.4140
1 AUD	0.7230	0.8100	0.7236	0.8250

54. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 17, 2016.

55. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2015	2014
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	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	100	100
Conax Group	NO - Oslo	Conditional access modules and set-top-boxes	100	100
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.

56. 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.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Kudelski S.A., which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 4 to 60), for the year ended 31 December 2015.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers SA

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

Lausanne, February 17, 2016

BALANCE SHEETS AT DECEMBER 31, 2015 AND 2014

ASSETS

In CHF'000	Notes	31.12.2015	31.12.2014
Current assets			
Cash and cash equivalents		31 872	14 981
Accounts receivable from Group companies		33 750	39 729
Other current receivables and prepaid expenses	3.1	1 158	3 754
Total current assets		**66 779**	**58 464**
Fixed assets			
Financial assets:			
- Loans to Group companies		699 578	765 064
- Other long term assets		1 081	1 081
Investments	3.2	370 053	337 514
Total fixed assets		**1 070 712**	**1 103 659**
Total assets		**1 137 491**	**1 162 123**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2015	31.12.2014
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		3 268	–
- Bank, short term borrowings	3.3	–	33 000
- Bonds	3.4	103 020	–
Other short-term liabilities :			
- due to third parties		403	424
- due to Group companies		12 761	25 528
Accrued expenses		2 507	1 790
Total short-term liabilities		**121 959**	**60 741**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bank, long term borrowings	3.3	–	132 000
- Bonds	3.4	200 000	110 000
Total long-term liabilities		**200 000**	**242 000**
Total liabilities		**321 959**	**302 741**
Shareholders' equity			
Share capital		540 911	539 047
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		8 300	19 111
Retained earnings		185 815	221 129
Net income		-29 495	-29 905
Total shareholders' equity	**3.5**	**815 532**	**859 382**
Total liabilities and shareholders' equity		**1 137 491**	**1 162 123**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2015

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

In CHF'000	Notes	2015	2014
Financial income	4.1	17 510	55 587
Gain/(Loss) on sale of investments	4.2	5 883	-35 499
Administrative and other expenses	4.3	-3 266	-6 370
Financial expenses and exchange result	4.4	-44 453	-13 782
Impairment of financial fixed assets	4.5	-3 832	-28 352
(loss)/Income before tax		**-28 156**	**-28 416**
Direct taxes (other than income tax)		-1 338	-1 489
Net (loss)/income		**-29 495**	**-29 905**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2015

In CHF'000	Legal reserves from capital contribu-tion	Retained earnings
Balance brought forward from previous year	8 300	185 815
Net result	–	-29 495
Total available earnings	**8 300**	**156 320**
Balance to be carried forward	**8 300**	**156 320**

The Board of Directors proposes to carry forward the available retained earnings.

NOTES TO THE FINANCIAL STATEMENTS 2015

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). In accordance with the SCO, Kudelski SA elected to restate the 2014 financial statements to be comparable with the 2015 presentation. This resulted in changes to the presentation of the income statement, balance sheet and notes.

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 2015

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2015	31.12.2014
Withholding tax	66	310
Other accounts receivable	11	4
Prepaid expenses	1 080	3 440
	1 158	3 754

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. In 2014, prepaid expenses also included transaction costs relating to the CHF 235 million credit facility agreement (note 3.3) for kCHF kCHF 2874, which have been impaired and expensed in full in the income statement in 2015 following the reimbursment of the borrowing.

3.2 NVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2015	2014
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	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
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	T
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR	163	100	T
OpenTV Europe SAS	FR - Issy les Moulineaux	Research & development	kEUR	38	100	T
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD	50	100	T
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD	1	100	T

T : transfer from another group company

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2015	2014
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
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	0
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	50	0

3.3 BANK BORROWINGS

In 2014, the Group obtained a committed long term credit facility of CHF 235 million until June 30, 2019. As of December 31, 2014 the Group had drawn CHF 165 million of which CHF 132 million were classified as long term and CHF 33 million as short term in the balance sheet. This borrowing has been fully reimbursed as of December 31, 2015.

3.4 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 repurchased kCHF 6 980 of this bond in 2015.

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.

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.

3.5 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, 2013	**537 882**	**110 000**	**29 877**	**226 519**	**904 278**
Dividend	–	–	-10 780	-5 390	-16 170
Share capital increase	1 165	–	14	–	1 179
Net Income	–	–	–	-29 905	-29 905
As of December 31, 2014	**539 047**	**110 000**	**19 111**	**191 224**	**859 382**
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**

NOTES TO THE FINANCIAL STATEMENTS 2015

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2015	31.12.2014
49'461'147 / 49'274'709 bearer shares, at CHF 10 each	494 611	492 747
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	540 911	**539 047**

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	2015	2014
Conditional share capital as of January 1	110 390	103 555
Increase of conditional share capital	–	8 000
Employee share purchase plan	-81	-82
Shares allotted to employees	-1 783	-1 083
Conditional share capital at December 31	**108 526**	**110 390**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
852'609 / 1'039'047 bearer shares, at CHF 10 each	8 526	10 390
	108 526	**110 390**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2015	31.12.2014
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

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

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Kudelski family pool	63%	63%	35%	35%

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2015	2014
Dividends received from Group subsidiaries	–	39 043
Interest income third parties	177	119
Interest on loans to Group subsidiaries	17 333	16 425
	17 510	**55 587**

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

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2015	2014
Administrative expenses	-3 266	-6 370
	-3 266	**-6 370**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2015	2014
Net currency exchange result	-32 311	-4 494
Interest on loans from Group subsidiaries	-18	-39
Interest expenses and bank charges	-12 124	-9 249
	-44 453	**-13 782**

NOTES TO THE FINANCIAL STATEMENTS 2015

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2015	2014
Change in provision on Group investments and loans	-3 000	-26 143
Value adjustment on investments	-832	-2 209
	-3 832	**-28 352**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2015	31.12.2014
Guarantee commitments		
Commitment in favor of third parties	1 699	1 328
	1 699	**1 328**
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 2015 and 2014 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.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the accompanying financial statements of Kudelski S.A., which comprise the balance sheet, income statement and notes (pages 62 to 69), for the year ended 31 December 2015.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

pwc

PricewaterhouseCoopers SA

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

Lausanne, February 17, 2016

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