KUDELSKI GROUP
FINANCIAL STATEMENTS 2017

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CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	restated 2016
Revenues	5	1 049 656	984 380
Other operating income	6	19 051	13 772
Total revenues and other operating income		**1 068 707**	**998 151**
Cost of material, licenses and services		-362 093	-286 445
Employee benefits expense	7	-462 851	-404 117
Other operating expenses	8	-179 559	-153 761
Operating income before depreciation, amortization and impairment		**64 204**	**153 829**
Depreciation, amortization and impairment	9	-38 566	-43 321
Operating income		**25 637**	**110 507**
Interest expense	10	-8 500	-9 925
Other finance income, net	11	-2 759	5 242
Share of result of associates	16	888	854
Income before tax		**15 266**	**106 678**
Income tax expense	12	-12 595	-18 143
Net income for the period from continuing operations		**2 672**	**88 535**
Net result from discontinued operations	35	-9 412	-20 132
Net income for the period		**-6 741**	**68 403**
Attributable to:			
- Equity holders of the company		*-11 378*	*63 620*
- Non-controlling interests		*4 637*	*4 783*

Earnings per share (in USD)

	Notes	2017	restated 2016
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	13	-0.2092	1.1728
- Continuing operations		*-0.0756*	*1.4918*
- Discontinued operations		*-0.1336*	*-0.3190*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	13	-0.0209	0.1173
- Continuing operations		*-0.0075*	*0.1491*
- Discontinued operations		*-0.0134*	*-0.0319*

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	restated 2016
Net income		**-6 741**	**68 403**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:			
Currency translation differences		23 766	-1 229
Cash flow hedges, net of income tax		105	790
Net gain on available-for-sale financial assets, net of income tax		-196	196
		23 675	**-243**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:			
Remeasurements on post employment benefit obligations, net of income tax		12 834	-3 358
		12 834	**-3 358**
Total other comprehensive income, net of tax		**36 509**	**-3 601**
Total comprehensive income		**29 768**	**64 803**
Attributable to:			
Shareholders of Kudelski SA		24 385	60 167
- Continuing operations		*29 893*	*77 883*
- Discontinued operations		*-5 508*	*-17 716*
Non-controlling interests		5 383	4 636

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

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Tangible fixed assets	14	136 668	145 770
Intangible assets	15	451 136	427 722
Investments in associates	16	5 858	4 939
Deferred income tax assets	17	55 212	61 186
Financial assets and other non-current assets	18	56 405	32 708
Total non-current assets		**705 279**	**672 326**
Current assets			
Inventories	19	58 997	53 221
Trade accounts receivable	20	340 357	279 289
Other current assets	21	53 469	65 701
Derivative financial instruments	33	475	350
Cash and cash equivalents	22	71 911	174 440
Total current assets		**525 209**	**573 001**
Assets classified as held for sale	**35**	**62 650**	**–**
Total assets		**1 293 137**	**1 245 327**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	332 222	331 091
Reserves		144 455	138 688
Equity attributable to equity holders of the parent		**476 676**	**469 779**
Non-controlling interests	24	21 653	21 839
Total equity		**498 329**	**491 618**
Non-current liabilities			
Long-term financial debt	25	357 528	343 595
Deferred income tax liabilities	17	9 014	10 847
Employee benefits liabilities	27	52 311	66 379
Provisions for other liabilities and charges	34	10	–
Other long-term liabilities and derivative financial instruments	28	9 998	23 987
Total non-current liabilities		**428 861**	**444 807**
Current liabilities			
Short-term financial debt	29	66 902	31 471
Trade accounts payable	30	88 696	66 797
Other current liabilities	31	137 794	153 990
Current income taxes		7 502	14 608
Advances received from clients	32	21 895	31 989
Derivative financial instruments	33	202	97
Provisions for other liabilities and charges	34	10 420	9 948
Total current liabilities		**333 412**	**308 901**
Liabilities classified as held for sale	**35**	**32 535**	**–**
Total liabilities		**794 808**	**753 709**
Total equity and liabilities		**1 293 137**	**1 245 327**

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

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	2016
Net income for the year		**-6 741**	**68 403**
Adjustments for net income non-cash items:			
- Current and deferred income tax		12 989	19 318
- Interests, allocation of transaction costs and foreign exchange differences		9 510	5 394
- Depreciation, amortization and impairment		42 529	44 737
- Share of result of associates	16	-888	-854
- Non-cash employee benefits (income) / expense		1 752	-14 300
- Deferred cost allocated to income statement		8 993	10 146
- Additional provisions net of unused amounts reversed		14 186	9 303
- Non-cash government grant income		-14 921	-12 279
- Other non cash (income) / expenses		2 922	2 296
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		133	–
- Other non-operating cash items		-45	-1 461
Adjustments for change in working capital:			
- Change in inventories		-10 779	5 154
- Change in trade accounts receivable		-75 056	-13 503
- Change in trade accounts payable		23 403	2 091
- Change in deferred costs and other net current working capital headings		-55 584	7 211
Government grant from previous periods received		10 215	5 316
Dividends received from associated companies	16	175	1 271
Interest paid		-7 238	-8 400
Interest received		888	1 081
Income tax paid		-10 626	-6 729
Cash flow from operating activities		**-54 184**	**124 195**
Purchases of intangible fixed assets		-17 343	-19 023
Purchases of tangible fixed assets		-20 112	-28 069
Proceeds from sales of tangible and intangible fixed assets		-1 640	1 145
Proceeds from sale of investment property		–	2 395
Investment in financial assets and loans granted		-3 328	-3 643
Divestment of financial assets and loan reimbursement		2 226	2 006
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Cash consideration arising from current year business combinations	4	-13 457	-72 261
- Cash acquired from business combinations	4	2 809	10 926
- Payment arising from prior years business combinations		-8 208	-3 064
Disposal of subsidiaries and operations, cash outflow		-266	–
Acquisition of associated companies	16	–	-1 025
Cash flow from investing activities		**-59 318**	**-110 613**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-4 757	-116 888
Increase in bank overdrafts, long term loans and other non-current liabilities		31 225	170 615
Proceeds from employee share purchase program	38	114	85
Acquisition of non-controlling interests		-281	-2 778
Capital contribution from non-controlling interests		–	180
Dividends paid to non-controlling interests		-5 286	-5 208
Dividends paid to shareholders	37	-19 329	–
Reimbursment of share capital to Shareholders of Kudelski SA		–	-19 271
Cash flow from financing activities		**1 685**	**26 735**
Effect of foreign exchange rate changes on cash and cash equivalents		9 287	-4 099
Net movement in cash and cash equivalents		**-102 529**	**36 218**
Cash and cash equivalents at the beginning of the year	22	174 440	138 222
Cash and cash equivalents at the end of the year	22	71 911	174 440
Net movement in cash and cash equivalents		**-102 529**	**36 218**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2016		**439 615**	**7 483**	**-20 414**	**-3 522**	**4 265**	**24 095**	**451 522**
Net income		–	–	63 620	–	–	4 783	68 403
Other comprehensive income		–	–	-3 343	986	-1 096	-147	-3 601
Total comprehensive income		**–**	**–**	**60 277**	**986**	**-1 096**	**4 636**	**64 803**
Employee share purchase program	38	64	59	–	–	–	–	122
Shares issued to employees	38	1 535	72	–	–	–	–	1 607
Par value reduction of share capital		-110 122	90 851	–	–	–	–	-19 271
Dividends paid to non-controlling interests		–	–	–	–	–	-5 208	-5 208
Impairment of contingent consideration		–	–	1 483	–	–	–	1 483
Transactions with non-controlling interests		–	–	-1 756	–	–	-1 863	-3 619
Equity contribution from non-controlling interest		–	–	–	–	–	179	179
December 31, 2016		**331 091**	**98 464**	**39 591**	**-2 535**	**3 169**	**21 839**	**491 618**
Net income		–	–	-11 378	–	–	4 637	-6 741
Other comprehensive income		–	–	12 835	-91	23 018	747	36 509
Total comprehensive income		**–**	**–**	**1 457**	**-91**	**23 018**	**5 384**	**29 768**
Employee share purchase program	38	111	53	–	–	–	–	164
Shares issued to employees	38	1 020	635	–	–	–	–	1 655
Dividends paid to shareholders		–	-13 807	-5 523	–	–	–	-19 330
Dividends paid to non-controlling interests		–	–	–	–	–	-5 286	-5 286
Transactions with non-controlling interests	4	–	–	24	–	–	-305	-281
Sale of non-controlling interest							-21	-21
Non controlling interests arising on business combinations		–	–	–	–	–	42	42
December 31, 2017		**332 222**	**85 345**	**35 549**	**-2 626**	**26 187**	**21 653**	**498 329**

Fair value and other reserves as of December 31, 2017 include kUSD -2 845 (2016: kUSD -2 649) of unrealized loss on available-for-sale financial assets and an unrealized gain of kUSD 219 (2016: kUSD 114) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

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

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all years presented. Prior year figures have been reclassified where necessary to better enable comparison. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

(B) Change in Presentation Currency

As the majority of revenues are denominated in U.S. Dollars, the Group announced June 1, 2016, that it will change the currency in which it presents its financial results from the Swiss Franc (CHF) to U.S. Dollar (USD) beginning January 1, 2017. To assist shareholders with this change, comparative financial information as of and for the year ended December 31, 2016 have been re-presented in USD.

In order to satisfy the requirements of IAS 21 with respect to a change in presentation currency, the consolidated financial information as of and for the year ended December 31, 2016 has been restated from CHF to USD using the procedures described below:

Assets and liabilities of foreign operations where the functional currency is other than USD were translated to USD at the relevant rates of exchange.

Non-USD income/expense results were translated to USD at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the period have been taken to the foreign currency translation reserve (CTA).

The cumulative foreign currency translation reserve was set to nil at January 1, 2004, the date of transition to IFRS. All subsequent movements comprising differences on the retranslation of the opening net assets of non-USD subsidiaries have been taken to the foreign currency translation reserve. Share capital, share premium and other reserves were translated at the historic rates prevailing at the dates of the transactions.

All exchange rates used were extracted from the Group's underlying accounting records, as previously reported in the annual reports.

(C) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises significant power to govern their financial and operating policies and bears an over-proportional responsibility for the main risks. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities assumed by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible assets. When determining the purchase price allocation, the Group primarily considers development technologies, customer lists, trademarks and brands as intangibles.

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

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

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

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

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

(D) Foreign currencies
Beginning January 1, 2017, the consolidated financial statements of the Group are expressed in U.S. Dollars ("USD"), which is the presentation currency.

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

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

(E) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale, and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on such contingencies on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods
Sales of goods are recognized when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sales of goods may include

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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, which may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements, is recognized when contractually earned and is usually dependent on the client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms to be multiple element arrangements. When the fair value of a particular element cannot be determined, the revenue is fully allocated to any undelivered elements.

When the title to the delivered assets is not transferred, these assets made available to clients are initially recognized on the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract or the useful lives of those assets, and is shown under depreciation in the income statement. When title is transferred, the cost is deferred and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract or the useful lives of those assets.

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

(e) Payment to customers

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

(f) Interest income

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

(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) Cost of material, licenses and services

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

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

(H) Derivative financial instruments

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

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

(a) Derivatives that do not qualify for hedge accounting

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

(b) Fair value hedge

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

(c) Cash flow hedge

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

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

(I) Taxes

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

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

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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.

(J) Tangible fixed assets

(a) General

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

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

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

Technical equipment and machinery

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

Other equipment

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

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

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

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

(d) Borrowing costs

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

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

(K) 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 ac-

cumulated 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

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

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

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

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

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified in another category.
Listed redeemable notes held by the Group that are traded in an active market are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period.

The Group also has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period because management considers fair value can be reliably

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measured. Fair value is determined in the manner described in note 43. Interest income, dividends and exchange differences arising on monetary available-for-sale financial assets is recognized in the income statement, while all other changes in the carrying amount of available-for-sale financial assets are recognized in comprehensive income and accumulated under the heading of 'Fair value and other reserves'. When the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in 'Fair value and other reserves' is reclassified to the income statement.

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

(M) Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.
The cost of work in progress and manufactured finished goods is comprised of direct production costs and an appropriate proportion of production overhead and factory depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories which are no longer part of production and sales plans are charged to profit and loss.

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

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

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

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

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

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

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

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

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

benefits payable to their employees on retirement by charging current service costs to income.

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

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

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

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

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

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

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

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

(W) Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. The Group considers this condition to be met when management is committed to a sale and a sale is highly probable of being completed within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell.

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(X) 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, 2016, except for the adoption of new standards and interpretations as of January 1, 2017 described below.
The Group has applied the following standards and amendments effective from January 1, 2017:
- IFRS 12 – 'Recognition of Deferred Tax Assets for Unrealised Losses' (amendment)
- IFRS 7 – 'Disclosure initiative'

The adoption of these amendments had only limited impact on the Group's accounting policies, financial position and performance. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standard and Interpretations in issue not yet adopted
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2018 or later periods, and which the Group has not early adopted:
- On the 1 January, 2018, IFRS 15 'Revenue from Contracts with a Customer' will come in to effect. The new standard replaces the current IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognizing, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognized based on a five-step model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognized upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on the treatment of any costs to obtain and/or fulfil a contract that may be recognized as assets.

The Group will adopt IFRS 15 with an effective date as of 1 January, 2018. We are currently in the process of reviewing our various revenue streams to determine whether there will be a material impact on initial application of the standard. The following areas highlight the major IFRS 15 considerations that we are currently assessing which might potentially result in a difference between the current accounting standard and IFRS 15:

• We sell multiple goods and services to the same customer simultaneously which typically includes hardware, software, maintenance and services. For most of our contracts, these are already accounted for as separate performance obligations but for selected contracts, these goods and services are integrated and combined into one service offering and were recognized together as a bundle over time under IAS 18. We are currently reviewing whether the goods and services in those arrangements need to be accounted for as separate performance obligations or not.

• Many of our arrangements include licensing of our intellectual property, mainly in the form of technology and software. Whilst we expect that the majority of our license revenue would continue to be recognized at a point in time and upon delivery, we are currently reviewing the IFRS 15 license specific guidance to determine whether certain licensing arrangements that take the form of "rental" or "subscription" should be recognized over time or at a point in time.

• We are in the process of determining the stand-alone selling price for the various performance obligations identified and consequently we might revisit the allocation of the transaction price to the various performance obligations.

• As a result of the clarified guidance for agent vs principal in IFRS 15, the Group might be deemed an agent for some goods and services that were previously accounted for as principal.

• In certain circumstances IFRS 15 requires that the cost of acquiring a contract be capitalized. On certain contracts and commission plans this could lead to additional cost capitalization.

• Based on our analysis so far, we do not anticipate an impact in relation to the timing of revenue recognition for maintenance, technical support, implementation or consultancy services type contracts that are identified as separate performance obligations as we expect that it will continue to be recognized over time. Similarly, we do not anticipate an impact with respect to the timing of recognizing revenue from delivering hardware (i.e. set-top boxes or equipment) as we expect that it will continue to be recognized upon delivery as this is the point at which control is transferred. In addition, contracts selling multiple products and services that comprise one overall solution that have been deemed as one performance obligation under IFRS 15 would continue to be

recognized over time using a measure of progress that is similar to the current accounting treatment.

The Group continues to assess any other impact the new standard might have on Group's consolidated financial statements which includes impact on its systems, processes and controls. We are also finalizing our future IFRS 15 revenue recognition policies that will be applied for the financial year ended 31 December 2018.

- IFRS 16 – 'Leases' – (effective from 1 January of 2019) – IFRS 16 will substantially change the financial statements as it requires the majority of leases to be recognized on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases.
The standard will affect primarily the accounting for the Group's operating leases. As of the reporting date, the group has non-cancelable operating lease commitments of kUSD 56 700.

However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

- IFRS 9 - 'Financial instruments' – (effective from 1 January of 2018) – IFRS 9 introduces new requirements for the classification and measurement, impairment and hedge accounting of financial assets and liabilities. This new standard comprises two measurement categories for financial assets and liabilities: amortized cost and fair value. It also introduces a new impairment model based on expected credit loss.

The Group has reviewed its financial assets and liabilities and expects the following impact from the adoption of the new standard on January 1, 2018. The majority of the Group's debt instruments that are currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income and hence there will be no change to the accounting for these assets. Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no change to the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group financial statements in the current or future reporting periods and on foreseeable future transactions.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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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 17). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore significantly modify the deferred tax asset and the income taxes. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods which occur after the accounts have been approved might affect the tax asset capitalized.
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 27) 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, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.
The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

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

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

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in U.S. Dollars. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swiss franc and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts 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 simlar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management

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

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

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4. BUSINESS COMBINATIONS

Integrated Digital Television

On January 11, 2017, the Group signed a share purchase agreement whereby it acquired 100% of M&S Technologies, Inc. for total consideration of kUSD 10 400. Total consideration includes deferred consideration of kUSD 1 000. Founded in 2004, M&S Technologies, Inc. is headquartered in Dallas, USA and is a specialist provider of cyber and network security solutions. The acquisition is expected to broaden the customer and partnership base of Kudelski Security, the Group's growing cyber-security division.

In addition, on May 2, 2017, through its subsidiary Conax, the Group signed a share purchase agreement whereby it acquired 100% of Digital Video Norge Holdings AS, including its subsidiaries Digital Video Norge Drift, Digital Video Health and Sweet Chili Entertainment (together DVNor) for total consideration of kUSD 4 300. Total consideration includes an earn-out estimate of kUSD 1 359 and deferred consideration of kUSD 58. The actual earn-out payment will be based on gross profits and customer retention targets over the next three years. Management has based its earn-out estimate on the business plan used to establish the purchase price allocation and support the transaction. Founded in 2005, DVNor is a Norwegian company that develops and delivers media asset management services and provides transcoding, storage, distribution and post-production services to customers around the world.

The goodwill arising from these acquisition amounts to kUSD 9 187 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors, including technology and competence highly complimentary to the Conax and Kudelski Security portfolios, as well as expected synergies resulting from acquiring an experienced workforce and valuable sales knowledge and expertise in the relevant markets.

Public Access

On July 26, 2017, SKIDATA signed a share purchase agreement to acquire 100% of Advanced Parking Solutions for total consideration of kUSD 1 350. Advanced Parking Solutions is headquartered in Bangor, Northern Ireland and is an international solution provider specializing in the development and distribution of guest management systems, access technologies and ticketing solutions for people (people access) and cars (vehicle access). The acquisition continues the Public Access expansion across Europe and provides access to new markets in Ireland.

In addition, on November 6, 2017, SKIDATA completed an asset deal to take over the business of Tecnopass SpA for total consideration of kUSD 2 996. Tecnopass is headquartered in Santiago, Chile and is a leader in providing technological solutions for parking management and access control throughout Chile. The acquisition is expected to broaden the customer base and increase the servicing capabilities of the existing Chilean entity. Total consideration includes an earn-out estimate of kUSD 1498 and deferred consideration of kUSD 1 498. The fair value of the earn-out and deferred consideration was estimated by calculating the present value of the expected future cash flows at a discount rate of 10%.

The Goodwill arising from these acquisition is kUSD 3 051 and is attributed to the Public Access cash generating unit. Goodwill is mainly attributed to the acquisition of the skilled workforce and sales expertise in the relevant markets.

Acquisition related costs of kUSD 68 are included in other operating expenses.

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

In USD'000	Public Access acquisitions	Integrated Digital Television acquisitions	Fair value of net assets acquired 31.12.2017
Tangible fixed assets	37	198	235
Intangible fixed assets (Goodwill excl.)	798	6 171	6 969
Other non-current assets	–	3	3
Trade accounts receivable	198	11 977	12 175
Other current assets	512	403	915
Cash and cash equivalents	415	2 394	2 809
Short-term financial liabilities	–	-2 900	-2 900
Trade accounts payable	-107	-7 752	-7 859
Other current liabilities	-241	-2 784	-3 025
Non-current liabilities	-253	-472	-725
Deferred income tax liabilities	-64	-1 683	-1 747
Total identified net assets	**1 295**	**5 555**	**6 850**
Non-controlling interest resulting from a business combination	–	-42	-42
Goodwill	3 051	9 187	12 238
Total consideration	**4 346**	**14 700**	**19 046**
Total consideration, of which:			
- cash	1 174	12 283	13 457
- deferred	1 674	1 058	2 732
- contingent	1 498	1 359	2 857
Total consideration	**4 346**	**14 700**	**19 046**

Goodwill is expected to be deductible for tax purposes for M&S Technolgies, Inc. as a tax election has been made in order to treat the transaction as an asset deal. The goodwill arising from the acquisitions of DVNor, Advanced Parking Solutions and Tecnopass SpA are not expected to be deductible from a tax perspective.

Proforma information

From the date of acqjuisition, the acquired companies have contributed mUSD 68.7 of revenues and kUSD 1 343 to the net income from continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately mUSD 1 052.5 and the net income from continuing operations for the period would have been approximately kUSD 2 877.

Transaction with non-controlling interests

On April 13, 2017, the Group acquired an additional 19.5% of Hantory Co., Ltd. for total consideration of kUSD 281. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kUSD -23 and non-controlling interests for kUSD 304.

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5. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker. Group operating segments represent strategic business units that offer products and services for which such internal reporting is maintained. The chief operating decision maker reviews the internal segment reporting in order to allocate resources to the segments and assess their performance.
The Group is organized operationally on a worldwide basis in two operating segments which are reflected in internal management reporting:
- Integrated Digital Television
- Public Access
The Integrated Digital Television division provides end-to-end integrated solutions, including open conditional access solutions, which allow TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform, and middleware software solutions for set-top-boxes and other consumer devices, enabling an advanced end-user experience. The Integrated Digital Television operating segment also includes the Group's Cybersecurity and Intellectual Property activities.
The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.
The measure of income presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that intersegment sales are eliminated at the consolidation level. Income and expenses relating to Corporate include the costs of Group headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions". Reportable segment assets include total assets allocated by segment with the exclusion of intersegment balances, which are eliminated. Unallocated assets include assets managed on a centralized basis, included in the reconciliation to balance sheet assets.

	Integrated Digital Television		Public Access		Total	
In USD'000	**2017**	**restated 2016**	**2017**	**2 016**	**2017**	**restated 2016**
Total segment Revenues	**688 800**	**661 305**	**361 293**	**323 510**	**1 050 093**	**984 815**
Inter-segment revenues	-436	-428	-2	-7	-438	-435
Revenues from external customers	**688 364**	**660 877**	**361 291**	**323 503**	**1 049 656**	**984 380**
Depreciation and amortisation	-27 925	-25 999	-10 337	-9 320	-38 262	-35 319
Impairment	-283	-8 002	-21	–	-304	-8 002
Operating income - excluding corporate common functions	**21 711**	**112 114**	**21 357**	**17 350**	**43 068**	**129 464**
Corporate common functions					-17 431	-18 957
Interest expense and other Finance income/(expense), net					-11 259	-4 683
Share of result of associates	6	-327	882	1 181	888	854
Income before tax					**15 266**	**106 678**
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total segment Assets	**876 888**	**945 332**	**348 217**	**278 566**	**1 225 105**	**1 223 898**

In USD'000	**31.12.2017**	**31.12.2016**
Total Segment Assets	1 225 105	1 223 898
Cash & Cash equivalents	2 580	18 488
Other current assets	85	128
Financial assets and other non-current assets	2 717	2 813
Asset of disposal group classified as held for sale	62 650	–
Total Assets as per Balance Sheet	**1 293 137**	**1 245 327**

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 USD'000	**2017**	**restated 2016**	**31.12.2017**	**31.12.2016**
Switzerland	47 415	44 062	82 558	82 650
United States of America	393 560	310 035	251 828	243 077
France	49 053	49 084	12 176	24 760
Norway	9 993	10 899	156 686	152 192
Rest of the world	549 636	570 299	91 302	77 406
	1 049 656	**984 380**	**594 551**	**580 085**

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 USD'000	**2017**	**restated 2016**
Sale of goods	487 898	433 583
Services rendered	360 516	333 786
Royalties and licenses	201 242	217 010
	1 049 656	**984 380**

2017 total revenues and other operating income including revenues from discontinued operations amount to kUSD 1 138 128 (2016: kUSD 1 083 627).

6. OTHER OPERATING INCOME

In USD'000	**2017**	**restated 2016**
Government grants (research, development and training)	13 498	9 948
Income from rental of property	2 770	2 848
Others	2 783	976
	19 051	**13 772**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

7. EMPLOYEE BENEFITS EXPENSE

In USD'000	Note	2017	restated 2016
Wages and salaries		374 888	336 674
Social security costs		52 816	46 935
Defined benefit plans expenses	27	7 781	-8 290
Defined contribution plans expenses		10 169	9 841
Other personnel expenses		17 197	18 957
		462 851	**404 117**

8. OTHER OPERATING EXPENSES

In USD'000	2017	restated 2016
Development and engineering expenses	12 267	11 649
Travel, entertainment and lodging expenses	37 496	32 649
Legal, experts and consultancy expenses	45 176	36 372
Administration expenses	28 870	24 706
Building and infrastructure expenses	28 880	25 848
Marketing and sales expenses	10 572	10 825
Taxes other than income tax	3 767	3 914
Change in provisions	1 060	-1 824
Insurance, vehicles and others	11 472	9 622
	179 559	**153 761**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In USD'000	Note	2017	restated 2016
Land and buildings	14	4 288	3 559
Equipment and machines	14	13 606	13 838
Total depreciation and impairment of tangible fixed assets		**17 894**	**17 396**
Intangible assets	15	20 672	25 925
Total amortization and impairment on intangible fixed assets		**20 672**	**25 925**
Depreciation, amortization and impairment		**38 566**	**43 321**

10. INTEREST EXPENSE

In USD'000	Note	2017	restated 2016
Interest expense:			
- Bond 2011-2016	26	–	3 298
- Bond 2015-2022	26	3 952	3 948
- Bond 2016-2024	26	2 383	615
- Net interest expense recognized on defined benefit plans	27	689	907
- Other and bank charges		1 476	1 158
		8 500	**9 925**

11. OTHER FINANCE INCOME, NET

In USD'000	Note	2017	restated 2016
Interest income		1 549	1 332
Net gains/(losses) on foreign exchange related derivative financial instruments		-594	-884
Net foreign exchange transaction gains/(losses)		-3 271	4 981
Others		-443	-187
		-2 759	**5 242**

Changes in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kUSD -196 (2016: kUSD 196). The change in fair value of held for trading financial assets amounting to kUSD -195 (2016: kUSD -884) is disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments.

12. INCOME TAX EXPENSE

In USD'000	Note	2017	restated 2016
Current income tax		-11 920	-19 342
Deferred income tax	17	540	2 254
Non refundable withholding tax		-1 215	-1 055
		-12 595	**-18 143**

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

In USD'000	2017	restated 2016
Income before taxes	**15 266**	**106 678**
Expected tax calculated at domestic tax rates in the respective countries	-3 593	-21 926
Effect of income not subject to income tax or taxed at reduced rates	4 809	990
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	9 986	9 381
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-400	-6 757
Effect of changes in tax rates	-20 859	273
Efffect of associates' result reported net of tax	66	318
Effect of disallowed expenditures	-3 564	-1 784
Effect of prior year income taxes	-303	253
Effect of non-refundable withholding tax	-1 215	-802
Other	2 478	1 910
Tax expense	**-12 595**	**-18 143**

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 kUSD 2 574 (2016: kUSD 2 617) and is disclosed under 'Other' in the above table.

The weighted average applicable tax rate increased from 20.55% in 2016 to 23.54% in 2017. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

13. EARNINGS PER SHARE (EPS)

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

In USD'000	2017	restated 2016
Net income attributable to bearer shareholders	-10 409	58 190
- Continuing operations	*-3 765*	*65 101*
- Discontinued operations	*-6 645*	*-6 911*
Net income attributable to registered shareholders	-969	5 430
- Continuing operations	*-350*	*6 075*
- Discontinued operations	*-618*	*-645*
Total net income attributable to equity holders	**-11 378**	**63 620**
Weighted average number of bearer shares outstanding	49 751 978	49 616 010
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in USD)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.2092	1.1728
- Continuing operations	*-0.0756*	*1.4918*
- Discontinued operations	*-0.1336*	*-0.3190*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0209	0.1173
- Continuing operations	*-0.0075*	*0.1491*
- Discontinued operations	*-0.0134*	*-0.0319*

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 USD'000	31.12.2017	31.12.2016
Land and buildings	97 941	106 728
Equipment and machines	38 728	39 042
	136 668	**145 770**

LAND AND BUILDINGS

In USD'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2016	**24 536**	**114 100**	**13 603**	**152 239**
Additions	–	2 723	3 657	6 380
Impact of business combinations	–	–	131	131
Disposals and retirements	–	-202	-1 138	-1 340
Currency translation effects	-644	-2 847	-304	-3 796
Reclassification & others	–	–	328	328
As of January 1, 2017	**23 892**	**113 773**	**16 276**	**153 942**
Additions	–	5 536	2 823	8 359
Impact of business combinations	–	–	94	94
Disposals and retirements	–	–	-456	-456
Classified as held for sale	-2 816	-13 392	-4	-16 212
Currency translation effects	567	4 171	676	5 414
Reclassification & others	–	–	-273	-273
As of December 31, 2017	**21 643**	**110 088**	**19 137**	**150 869**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2016	**–**	**-34 495**	**-11 252**	**-45 747**
Systematic depreciation - continuing operations	–	-2 679	-870	-3 549
Systematic depreciation - discontinued operations	–	-268	–	-268
Impairment	–	-10	–	-10
Disposals and retirements	–	99	1 018	1 117
Currency translation effects	–	1 001	254	1 255
Reclassification & others	–	–	-13	-13
As of January 1, 2017	**–**	**-36 351**	**-10 862**	**-47 214**
Systematic depreciation	–	-2 635	-1 653	-4 288
Disposals and retirements	–	-79	424	345
Classified as held for sale	–	786	4	789
Currency translation effects	–	-2 106	-481	-2 587
Reclassification & others	–	–	26	26
As of December 31, 2017	**–**	**-40 385**	**-12 543**	**-52 928**
Net book values as of December 31, 2016	**23 892**	**77 422**	**5 414**	**106 728**
Net book values as of December 31, 2017	**21 643**	**69 703**	**6 595**	**97 941**
Useful life in years	Indefinite	10 – 50	4 – 8	

In USD'000	31.12.2017	31.12.2016
Corporate buildings on land whose owner has granted a permanent and specific right of use	12 318	7 682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

EQUIPMENT AND MACHINES

In USD'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2016	**154 904**	**11 816**	**166 720**
Additions	18 445	3 252	21 697
Impact of business combinations	377	62	439
Disposals and retirements	-5 618	-1 119	-6 737
Currency translation effects	-4 223	-146	-4 369
Reclassification & others	7	-336	-328
As of January 1, 2017	**163 893**	**13 529**	**177 423**
Additions	9 390	1 748	11 138
Impact of business combinations	34	107	142
Disposals and retirements	-9 127	-416	-9 543
Classified as held for sale	-5 347	-601	-5 948
Currency translation effects	9 451	567	10 018
Reclassification & others	290	-17	273
As of December 31, 2017	**168 584**	**14 917**	**183 501**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2016	**-124 587**	**-8 100**	**-132 687**
Systematic depreciation - continuing operations	-11 308	-1 363	-12 672
Systematic depreciation & impairment - discontinued operations	-700	-22	-722
Impairment	-1 161	-5	-1 166
Disposals and retirements	5 227	260	5 486
Currency translation effects	3 224	142	3 367
Reclassification & others	-15	27	13
As of January 1, 2017	**-129 319**	**-9 061**	**-138 381**
Systematic depreciation	-11 655	-1 775	-13 430
Impairment	-156	-20	-176
Disposals and retirements	10 034	288	10 322
Classified as held for sale	3 685	600	4 285
Currency translation effects	-6 979	-389	-7 368
Reclassification & others	-77	51	-26
As of December 31, 2017	**-134 466**	**-10 307**	**-144 774**
Net book values as of December 31, 2016	**34 574**	**4 468**	**39 042**
Net book values as of December 31, 2017	**34 118**	**4 610**	**38 728**
Useful life in years	4 – 10	4 – 7	

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

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

15. INTANGIBLE ASSETS

In USD'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2016	**129 603**	**49 345**	**71 429**	**271 641**	**626**	**522 643**
Additions	10 804	31	9 363	–	–	20 198
Impact of business combinations	1 730	13 460	67	65 008	72	80 336
Disposals and retirements	-2 167	–	-768	–	–	-2 935
Reclassification & others	–	–	–	0	–	0
Currency translation effects	-2 514	596	-1 850	1 150	-15	-2 633
As of January 1, 2017	**137 456**	**63 432**	**78 241**	**337 798**	**683**	**617 610**
Additions	4 322	1	11 554	–	–	15 877
Impact of business combinations	–	6 944	25	12 239	–	19 207
Disposals and retirements	–	–	-3 002	–	-238	-3 239
Classified as held for sale	-17 713	-767	-882	-1 515	–	-20 877
Currency translation effects	6 922	2 773	3 581	10 477	58	23 811
As of December 31, 2017	**130 985**	**72 383**	**89 517**	**358 999**	**503**	**652 388**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2016	**-95 206**	**-11 124**	**-63 034**	**–**	**-625**	**-169 989**
Systematic amortization - continuing operations	-10 066	-6 481	-2 495	–	-58	-19 099
Systematic amortization - discontinued operations	-335	-39	-49	–	–	-423
Impairment	-6 826	–	–	–	–	-6 826
Recovery of amortization on disposal and retirements	2 167	–	585	–	–	2 752
Currency translation effects	2 191	39	1 453	–	14	3 697
As of January 1, 2017	**-108 074**	**-17 605**	**-63 539**	**–**	**-669**	**-189 888**
Systematic amortization	-8 732	-8 756	-3 051	–	-5	-20 544
Impairment	-127	–	–	–	–	-127
Recovery of amortization on disposal and retirements	1 020	–	3 015	–	238	4 273
Classified as held for sale	11 911	767	837	–	–	13 515
Currency translation effects	-4 923	-826	-2 674	–	-56	-8 479
As of December 31, 2017	**-108 926**	**-26 420**	**-65 412**	**–**	**-492**	**-201 250**
Net book values as of December 31, 2016	**29 381**	**45 827**	**14 702**	**337 798**	**14**	**427 722**
Net book values as of December 31, 2017	**22 059**	**45 963**	**24 105**	**358 999**	**10**	**451 137**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

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

Intangibles with indefinite useful lives are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units, which are defined within the framework of the Group as its operating segments.
In 2017, kUSD 325 665 of goodwill has been allocated to Integrated Digital Television (2016: kUSD 308 223) and kUSD 33 334 (2016: kUSD 29 575) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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% (2016: 8.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% per annum (2016: 1.5%) for Digital Television. Revenue assumptions for the five-year plan were generated from existing products and existing customers, and newly launched activities. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2017 and 2016, 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. Based on such analyses, 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. INVESTMENTS IN ASSOCIATES

In USD'000	2017	2016
At January 1	**4 939**	**4 544**
Share of profit	888	854
Dividends received	-175	-1 271
Acquisition of associated companies	–	1 025
Currency translation effects	206	-213
At December 31	**5 858**	**4 939**

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

Name of associate	Principal activity	Interest held 2017	Interest held 2016
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SKIDATA Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SJack GmbH, Austria	Sales of Public Access products	26%	26%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45%	45%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%
Kryptus Segurança da Informaçao Ltda.	Cyber Security activities	* 16%	* 16%

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

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In USD'000	31.12.2017	31.12.2016
Total assets	33 867	27 122
Total liabilities	18 843	14 808
Net assets	15 024	12 314
Group's share of associates' net assets	4 471	3 650

	2017	2016
Revenue	43 496	47 035
Result of the period	3 286	3 596
Group's share of associates' result for the period	888	854

17. DEFERRED INCOME TAXES

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

In USD'000	31.12.2017	31.12.2016
Deferred tax assets	55 212	61 186
Deferred tax liabilities	-9 014	-10 847
	46 198	**50 339**

Movement on the deferred income tax account is as follows:

In USD'000	Note	2017	2016
At January 1		**50 339**	**50 402**
Exchange differences		1 993	-1 521
Recognized against other comprehensive income		-5 177	1 040
Impact of business combinations		-1 747	-1 857
Reclassification as held for sale		250	–
Income statement (expense)/income	12	540	2 275
At December 31		**46 198**	**50 339**

The movement in deferred tax assets and liabilities during 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In USD'000	At January 1, 2017	Income statement effect	Change in scope	Other Compre-hensive income	Currency translation effects	At December 31, 2017
Deferred tax assets associated with						
- intangibles	28 732	-22 220	–	–	930	7 442
- employee benefits	14 284	-1 916	-245	-5 181	665	7 607
- tax losses	14 627	19 671	–	–	866	35 164
- provisions and other elements tax deductible when paid	2 292	-515	-8	3	84	1 856
- inter-company profit elimination	2 576	481	–	–	-10	3 047
- others	261	-359	-47	–	-5	-150
Total deferred tax assets (gross)	**62 772**	**-4 858**	**-300**	**-5 177**	**2 530**	**54 967**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	–	–	–	–	6
- intangibles	-9 722	1 900	–	–	-365	-8 187
- provisions & accelerated tax depreciation	-1 939	2 227	-1 197	–	-145	-1 054
- others	-778	1 271	–	–	-27	466
Total deferred tax liabilities (gross)	**-12 433**	**5 398**	**-1 197**	**–**	**-537**	**-8 769**
Net deferred tax asset/(liability)	**50 339**	**540**	**-1 497**	**-5 177**	**1 993**	**46 198**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

Included in change in scope are the impacts of business combinations and assets and liabilities reclassified as held for sale at December 31, 2017.

And for 2016:

In USD'000	At January 1, 2016	Income statement effect	Change in scope of consolidation	Other Comprehensive income	Currency translation effects	At December 31, 2016
Deferred tax assets associated with						
- intangibles	31 729	-2 284	–	–	-713	28 732
- employee benefits	16 888	-3 273	–	1 040	-371	14 284
- tax losses	9 890	4 950	–	–	-213	14 627
- provisions and other elements tax deductible when paid	1 727	577	–	–	-12	2 292
- inter-company profit elimination	1 791	864	–	–	-79	2 576
- others	51	191	–	–	19	261
Total deferred tax assets (gross)	**62 076**	**1 025**	**–**	**1 040**	**-1 369**	**62 772**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	–	–	–	–	6
- intangibles	-11 359	1 890	–	–	-253	-9 722
- provisions & accelerated tax depreciation	-581	441	-1 857	–	58	-1 939
- others	260	-1 081	–	–	43	-778
Total deferred tax liabilities (gross)	**-11 674**	**1 250**	**-1 857**	**–**	**-152**	**-12 433**
Net deferred tax asset/(liability)	**50 402**	**2 275**	**-1 857**	**1 040**	**-1 521**	**50 339**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of mUSD 1 077.6 (2016: mUSD 883.6) available for offset against future profits. A deferred tax asset has been recognized in respect of mUSD 423.2 (2016: mUSD 285.1) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining mUSD 654.3 (2016: mUSD 598.7) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In USD million	2017	2016
Expiration within:		
One year	52.9	1.3
Two years	12.4	31.7
Three years	40.5	29.8
Four years	38.7	37.2
Five years	72.8	19.7
More than five years	437.0	479.0
Total	**654.3**	**598.7**

18. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In USD'000	31.12.2017	31.12.2016
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	512	493
- equity instruments with no quoted market price (level 3)	410	394
- marketable securities (level 1)	422	612
Loan – third party	11 672	9 223
State and government institutions	11 376	15 049
Deferred contract cost (long-term portion)	889	1 654
Trade accounts receivable (long-term portion)	26 993	1 746
Guarantee deposits	3 061	2 628
Prepaid expenses and accrued income (long-term portion)	1 070	911
	56 405	**32 708**

Available-for-sale financial assets include equity instruments that do not have a quoted market price in an active market or whose fair values cannot be reliably measured. Such assets are measured at cost net of impairment of kUSD 512 (2016: kUSD 493). Also included is one equity instrument listed in an active market and classified as marketable securities for kUSD 422 (2016: kUSD 612).

Third party loans are measured at amortized cost. The effective interest rate on third party loans is 2.38% (2016: 2.51%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months. The long term portion of trade accounts receivable includes, among others, discounted revenues related to the licensing of the Group intellectual property portfolio.

19. INVENTORIES

In USD'000	31.12.2017	31.12.2016
Raw materials	1 352	5 100
Work in progress	5 893	6 241
Finished goods	51 752	41 880
	58 997	**53 221**

The cost of inventories recognised as an expense includes kUSD 175 (2016: kUSD 178) in respect of write-downs, and has been reduced by kUSD 226 (2016: kUSD 87) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kUSD 8 384 (2016: kUSD -6 070).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

20. TRADE ACCOUNTS RECEIVABLE

In USD'000	31.12.2017	31.12.2016
Trade accounts receivable	310 187	259 466
Less: provision for impairment	-26 453	-24 754
Trade accounts receivable related parties	2 012	1 577
Trade receivables – net	**285 746**	**236 290**
Amounts due from customers for contract work	54 611	43 000
Total	**340 357**	**279 289**

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 USD'000	2017	2016
January 1,	**-24 754**	**-21 021**
Reclassified as held for sale	2 324	–
Provision for impairment charged to income statement	-7 285	-7 514
Utilization	423	616
Reversal	4 061	3 120
Change in scope	-9	-530
Translation effects	-1 213	575
December 31,	**-26 453**	**-24 754**

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kUSD -7 285 (2016: kUSD -7 514). 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 USD'000	31.12.2017	31.12.2016
Not overdue	176 893	131 741
Past due and not impaired:		
- not more than one month	45 021	48 257
- more than one month and not more than three months	24 985	24 913
- more than three months and not more than six months	20 099	18 202
- more than six months and not more than one year	15 317	9 841
- more than one year	3 430	3 335
Total trade accounts receivable, net	**285 746**	**236 290**

As at 31 December 2017, trade receivables of mUSD 109 (2016 : mUSD 105) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

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

21. OTHER CURRENT ASSETS

In USD'000	31.12.2017	31.12.2016
Loans third parties – short term portion	117	16
Prepaid expenses	11 873	13 580
Accrued income	9 960	2 001
State and government institutions	18 084	27 813
Advances to suppliers and employees	7 578	7 788
Deferred contract cost (short term portion)	1 034	9 743
Other receivables - third parties	3 503	3 379
Other receivables - related parties	1 320	1 380
	53 469	**65 701**

Loans are measured at amortized cost. The effective interest rate on short term loans was 3.02% (2016: 1.53%).

22. CASH AND CASH EQUIVALENTS

In USD'000	31.12.2017	31.12.2016
Cash at bank and in hand	67 954	170 896
Short term deposits	3 957	3 544
	71 911	**174 440**

The effective interest rate on short term deposits was 0.62% (2016: 0.32%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

23. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

The share capital consists of 49 759 755 (2016: 49 620 619) bearer shares at CHF 8.00 par value each and 46 300 000 (2016: 46 300’000) registered shares at CHF 0.80 par value each. Each share confers the right to vote and is fully paid up. The counter-value for the share capital is kUSD 332 222 (2016: kUSD 331 091).

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

AUTHORIZED SHARE CAPITAL

The Board of Directors is authorized to increase the share capital in one or more stages until 22 March 2018 by a maximum amount of CHF 32 705 312 through the issuance of 3 768 164 bearer shares with a nominal value of CHF 8.00 per share and 3 200 000 registered shares with a nominal value of CHF 0.80 per share to be fully paid up. The issuance price, the nature of the contributions, the date from which new shares shall give entitlement to dividends and other modalities of any share issuance shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance the whole or partial acquisition of other companies in Switzerland or abroad. All statutory restrictions on the transfer of shares are applicable to new registered shares.

CONDITIONAL SHARE CAPITAL

Conditional share capital consists in 10 000 000 (2016: 10 000 000) bearer shares at CHF 8.00 each to satisfy convertible bond exercise right and 554 001 (2016: 693 137) bearer shares at CHF 8.00 each to satisfy option exercise or share subscriptions to employees.

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24. 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, 2017 (in USD'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	1 567	36 928
Current Assets	36 365	410
Non-current liabilities	–	9 100
Current liabilities	14 004	199
Total Equity	**23 928**	**28 039**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	11 964	14 048
Carrying amount of non-controlling interests	**11 964**	**14 048**
Revenue	24 761	4 157
Net result	10 241	2 227
Other comprehensive income	–	–
Total comprehensive income	10 241	2 227
Total comprehensive income allocated to non-controlling interests	5 120	1 116
Dividend paid to non controlling interests	-5 000	–
Net increase /(decrease) in cash and cash equivalents	-1 155	-31

As at December 31, 2016 (in USD'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	2 641	37 074
Current Assets	40 014	429
Non-current liabilities	–	11 500
Current liabilities	18 968	191
Total Equity	**23 687**	**25 812**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	11 843	12 932
Carrying amount of non-controlling interests	**11 843**	**12 932**
Revenue	25 797	4 108
Net result	12 210	2 184
Other comprehensive income	–	–
Total comprehensive income	12 210	2 184
Total comprehensive income allocated to non-controlling interests	6 105	1 094
Dividend paid to non controlling interests	-5 000	–
Net increase /(decrease) in cash and cash equivalents	3 978	-150

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

25. LONG TERM FINANCIAL DEBT

In USD'000	Note	31.12.2017	31.12.2016
CHF 200 million 1.875% bond 2015/2022	26	204 332	196 362
CHF 150 million 1.5% bond 2016/2024	26	153 111	147 148
Other long term financial liabilities		85	85
		357 528	**343 595**

26. 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 outstanding amount was fully repaid by December 2016.

On May 12, 2015 Kudelski SA issued a CHF 200 million bond with a subscription price of 100%, bearing an annual interest rate of 1.875% and maturing on August 12, 2022 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 200 000 (kUSD 214 891) less issuance costs of kCHF 870 (kUSD 939) totaling an initial net proceed of kCHF 199 130 (kUSD 213 952) and resulting in an effective interest rate of 1.97%.

On September 27, 2016 Kudelski SA issued an additional CHF 150 million bond with a subscription price of 100%, bearing an annual interest rate of 1.5% and maturing on September 27, 2024 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 150'000 (kUSD 154 384) less issuance costs of kCHF 665 (kUSD 684) totaling an initial net proceed of kCHF 149'335 (kUSD 153 700) and resulting in an effective interest rate of 1.58%.

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

In USD'000	2017	2016
Initial balance	**343 510**	**304 999**
Net proceeds from bond issuance	–	153 700
Amortization of transaction costs less premium	205	142
Reimbursement and repurchase	–	-101 124
Exchange differences	13 728	-14 207
Liability component as of December 31	**357 443**	**343 510**
of which:		
- long term portion (bond 2015/2022)	204 332	196 362
- long term portion (bond 2016/2024)	153 111	147 148
	357 443	**343 510**

27. EMPLOYEE BENEFITS LIABILITIES

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

SWITZERLAND

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2017 and 2016 are as follows:

	31.12.2017	31.12.2016
Switzerland		
Discount rate	0.90%	0.85%
Rate of future increase in compensations	1.50%	1.50%
Rate of future increase in current pensions	0.75%	0.75%
Interest rate credited on savings accounts	0.90%	0.85%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	1.86%	1.95%
Rate of future increase in compensations	2.83%	2.66%
Turnover *(on average)*	8.1%	5.7%

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

	31.12.2017	31.12.2016
Weighted average duration of the defined benefit obligation in years		
Switzerland	23.7	23.8
Abroad	12.9	15.9

The changes in defined benefit obligation and fair value of plan assets during the years 2017 and 2016 are as follows:

A. Change in defined benefit obligation

In USD'000	2017	2016
Defined benefit obligation as of 1.1.	**-230 817**	**-236 812**
Service cost	-19 095	-20 856
Interest cost	-2 215	-2 593
Change in demographic assumptions	–	-11 200
Change in financial assumptions	1 899	-2 152
Other actuarial gains / (losses)	4 566	6 388
Benefits payments	10 588	7 794
Exchange rate difference	-10 215	5 686
Curtailment	13 860	251
Settlement	4 555	–
Acquisition of subsidiaries	-262	-124
Plan amendment	-73	22 800
Classified as held for sale	692	–
Defined benefit obligation as of December 31,	**-226 517**	**-230 817**

B. Change in fair value of plan assets

In USD'000	2017	2016
Fair value of plan assets as of 1.1.	**164 438**	**158 203**
Interest income	1 525	1 675
Employees' contributions	5 855	5 907
Employer's contribution	7 810	7 718
Plan assets gains/(losses)	11 437	2 688
Benefit payments	-10 588	-7 794
Curtailment	-8 361	–
Settlement	-4 555	–
Exchange rate difference	6 645	-3 960
Fair value of plan assets as of December 31,	**174 206**	**164 438**

The actual return on plan assets amounts to kUSD 12 962 in 2017 (kUSD 4 364 for the year 2016). The estimated employer's contribution to the pension plans for the year 2018 is kUSD 6 530.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2017 and 2016 as follows:

In USD'000	31.12.2017	Proportion in % 31.12.2017	31.12.2016	Proportion in % 31.12.2016
Cash	354	0.2%	2 917	1.8%
Swiss bonds	14 477	8.3%	33 822	20.6%
Foreign bonds	46 091	26.5%	15 763	9.6%
Swiss shares	37 422	21.5%	34 395	20.9%
Foreign shares	39 375	22.6%	33 804	20.6%
Real estate	33 533	19.2%	28 715	17.5%
Alternative investments	2 954	1.7%	9 921	6.0%
Assets held by insurance company	–	0.0%	5 101	3.1%
Total	**174 206**	**100.0%**	**164 438**	**100.0%**

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

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

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

In USD'000	Switzerland	Abroad
2018	8 148	86
2019	7 723	48
2020	7 164	80
2021	6 671	125
2022	6 214	638
2023-2027	27 456	3 192

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 2017 year-end defined benefit obligation		Change in 2016 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In USD'000	In USD'000	In USD'000	In USD'000
50 basis point increase in discount rate	-22 962	-865	-23 184	-1 269
50 basis point decrease in discount rate	27 216	948	27 556	1 467
50 basis point increase in rate of salary increase	249	n/a	202	n/a
50 basis point decrease in rate of salary increase	-274	n/a	-224	n/a
50 basis point increase in rate of pension increase	15 408	n/a	15 380	n/a
50 basis point decrease in rate of pension increase	-13 880	n/a	-13 835	n/a
50 basis point increase of interest in saving accounts	8 001	n/a	8 174	n/a
50 basis point decrease of interest in saving accounts	-7 533	n/a	-7 677	n/a
50 basis point increase of turnover	-2 192	n/a	-2 302	n/a
50 basis point decrease of turnover	2 052	n/a	2 175	n/a

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

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

28. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In USD'000	31.12.2017	31.12.2016
Long-term loans - third parties	233	6 709
Deferred consideration	3 995	4 043
Contingent consideration	4 568	3 601
Advance from customer (long-term portion)	–	8 465
Other long-term liabilities	1 202	1 169
	9 998	**23 987**

2016 Long-term loans – third parties related to loans granted by sellers in connection with business combinations which has been reclassified as held for sale in 2017. The effective interest rate is 2.00% (2016 : 2.80%.)

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with business acquisitions. Assumptions for contingent consideration include discount rates varying from 4.0% to 10.0% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

29. SHORT TERM FINANCIAL DEBT

In USD'000	Note	31.12.2017	31.12.2016
Short term bank borrowings		66 875	31 440
Other short term financial liabilities		27	32
		66 902	**31 471**

The average effective interest rate paid in 2017 for short term bank borrowings was 1.24% (2016: 1.26%).

30. TRADE ACCOUNTS PAYABLE

In USD'000	31.12.2017	31.12.2016
Trade accounts payable – third parties	88 694	66 609
Trade accounts payable – related parties	1	188
	88 696	**66 797**

31. OTHER CURRENT LIABILITIES

In USD'000	31.12.2017	31.12.2016
Accrued expenses	94 617	95 620
Deferred income	19 384	24 715
Deferred consideration	2 783	3 307
Contingent consideration (level 3)	3 212	5 429
Payable to pension fund	558	642
Other payables	17 240	24 277
	137 794	**153 990**

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

32. ADVANCES RECEIVED FROM CLIENTS

In USD'000	31.12.2017	31.12.2016
Amounts due to customers for contract work	4 312	2 578
Advances from clients	17 583	29 411
	21 895	**31 989**

33. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In USD'000	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Currency related instruments (level 2)						
- Over the counter currency options	36 000	30 000	297	322	-202	-97
- Forward contracts	10 000	10 000	175	27	–	–
- FX Swaps	17 742	–	3	–	–	–
Total of derivatives financial instruments	**63 742**	**40 000**	**475**	**350**	**-202**	**-97**

There were non long-term derivative instruments at 31 December 2017 and 2016.

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34. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In USD'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2017	Total 2016
As of January 1	**7 540**	**197**	**2 211**	**9 948**	**2 795**
Reclassified as held for sale	-4 311	–	–	-4 311	–
Additional provisions	13 707	231	783	14 721	9 597
Change in scope of consolidation	–	–	2	2	–
Unused amounts reversed	-122	-171	-412	-705	-170
Used during the year	-9 632	-22	-113	-9 767	-1 721
Exchange differences	317	28	197	542	-554
As of December 31	**7 498**	**264**	**2 668**	**10 430**	**9 948**
Thereof:					
- Short term	7 498	264	2 658	10 420	9 948
- Long term	–	–	10	10	–
	7 498	**264**	**2 668**	**10 430**	**9 948**

Restructuring provisions

2017 restructuring provisions mainly relates to headcount reduction measures impacting group digital TV operations. 2016 restructuring provision related to commitments for lay-offs and outplacement fees amounting to kUSD 7 540 following internal reorganization and the closure of selected sites.

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.

35. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In connection with the ongoing efforts to streamline its core digital TV operations, the Group is seeking to establish strategic partnerships with best-of-breed set-top box and conditional access module suppliers. Such partnerships are likely to encompass a transfer of relevant assets and resources to the selected partners. As such assets and resources, and the related business, represent the bulk of the SmarDTV subsidiary's profit and loss and balance sheet, SmarDTV has been reported as a discontinued operation in the current and in the comparative previous period and the assets and liabilities of the entity have been reclassified as held for sale at the end of the reporting period. Financial information relating to the discontinued operation is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued.

In 2014, the Group disposed of NagraID Security SA (NIDS). At the time of disposal, total consideration included a contingent asset (earn-out payment) based on future NIDS revenues. During 2016, the Group determined the earn-out payment was not likely and impaired, in totality, this contingent asset for kUSD 7 555.

In USD'000	2017	2016
Revenue	75 464	93 254
Expenses	-78 936	-104 464
Operating result	**-3 472**	**-11 210**
Impairment to measure at fair value	-4 614	-7 555
Finance costs	-932	-191
Result before tax from discontinued operations	**-9 018**	**-18 957**
Income tax	-394	-1 175
Net result from discontinued operations	**-9 412**	**-20 132**

In USD'000	2017	2016
Cash flow used in operating activities	2 454	-695
Cash flow used in investing activities	-1 908	-2 354
Cash flow from financing activities	-662	161

Assets and liabilities of the disposal group reclassified as held for sale are as follows:

In USD'000	31.12.2017
Assets classified as held for sale:	
- Tangible fixed assets	18 435
- Intangible fixed assets	6 481
- Financial assets	9 905
- Trade and other receivables	15 041
- Inventories	6 505
- Other current assets	6 283
Total assets held for sale	**62 650**
Liabilities classified as held for sale:	
- Trade and other payables	13 981
- Other current liabilities	6 984
- Employee benefits liabilities	873
- Other long-term liabilities	6 982
- Advances received from clients	2 749
- Current income taxes	580
- Deferred tax liabilities	251
- Provision for other liabilities and charges	134
Total liabilities held for sale	**32 535**
Total net assets held for sale	**30 115**

36. RESEARCH AND DEVELOPMENT

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

In USD'000	2017	restated 2016
Research and development	189 562	186 746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

37. DIVIDEND

On March 29, 2017, the Group paid a distribution of CHF 0.35 per bearer share and CHF 0.035 per registered share. The distribution amounted to kUSD 19 330. Since year end, the Board of Directors have proposed a distribution of kUSD 5 573, representing CHF 0.10 per bearer share and CHF 0.01 per registered share respectively. The final distribution may fluctuate upon the issuance of additional share capital for employees by utilization of conditional share capital or utilization of authorized share capital for acquisitions. The proposal calls for the distribution of CHF 0.10 per bearer share (CHF 0.01 per registered share) from capital contribution reserves at 31 December 2017 and is subject to shareholder approval at the Annual General Meeting. This proposed distribution has not been recorded as a liability in these financial statements.

38. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

	Shares 2017	Shares 2016
Shares underwritten by employees	11 315	6 400
Bonus shares from ESPP	2 263	1 280
Total employee share program	**13 578**	**7 680**
Amount paid by employee (In USD'000)	114	85
Booked corporate charges (excluding social charges) (In USD'000)	50	37
	164	**122**

SHARES ISSUED TO EMPLOYEES

In 2017, 125 558 (2016: 151 792) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 70 017 (2016: 110 497) include a seven-year blocking period and 55 541 (2016: 41 295) include a three-year blocking period. The fair value recognized for this equity based compensation is kUSD 1 655 (2016: kUSD 1 607)

39. RELATED PARTIES

Trading transactions

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

In USD'000	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
	2017	2016	2017	2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
APT-Skidata Ltd	7 464	8 513	–	–	–	–	1 164	305
SKIDATA Parking System Ltd	2 091	2 963	–	–	–	–	276	769
SKIDATA India Private Limited	818	962	–	–	1	–	177	73
iWedia SA	145	166	667	1 780	308	477	46	59
Total associated companies	**10 518**	**12 603**	**667**	**1 780**	**309**	**477**	**1 662**	**1 206**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 659	1 595
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 659**	**1 595**

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

Services provided to/by associates and other related parties are performed at arm's length. The associates are listed in Note 16. Outstanding balances are unsecured and are repayable in cash.

Key management compensation

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

In USD'000	2017	2016
Salaries and other short-term employees benefits	6 976	9 699
Post-employments benefits	68	90
Share-based payments	523	1 050
	7 567	**10 839**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

40. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Kudelski family pool	59%	63%	28%	35%
Kudelski family interests outside Kudelski family pool	4%	0%	7%	0%

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2017 and 2016, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2017 and 2016 variable compensation - issued in 2018 and 2017 respectively):

	31.12.2017	31.12.2016
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	10 434 423	14 474 423
Smadja Claude, vice chairman	1 300	1 300
Dassault Laurent, member	2 340	2 340
Deiss Joseph, member	1 000	1 000
Foetisch Patrick, member	1 000	1 000
Kudelski Marguerite, (as member of the family pool)	see above	see above
Lescure Pierre, member	2 000	2 000
Zeller Alexandre, member	–	–
Ross Alec, member	1 250	1 250
Total board members	**10 443 313**	**14 483 313**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	97 075	108 214
Roy Pierre, COO	39 837	47 956
Total Management (excluding CEO)	**136 912**	**156 170**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2017 and 2016.

No loans were granted in 2017 and 2016 to the members of the Board of Directors and Group management.

41. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In USD'000	2 017	2 016
Within one year	14 059	13 317
In the second to fifth year inclusive	36 712	36 314
More than five years	5 929	5 277
	56 700	**54 908**

42. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2017:

Assets as per balance sheet date December 31, 2017 (in USD'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2017
Financial assets and non current assets:						
- equity instruments with no quoted market price (at cost less impairment)	18	–	–	512	–	512
- equity instruments with no quoted market price (level 3)	18	–	–	410	–	410
- marketable securities (level 1)	18	–	–	422	–	422
- long term loans	18	–	–	–	11 672	11 672
- state and government institutions	18	–	–	–	11 376	11 376
- trade accounts receivable - long-term portion	18	–	–	–	26 993	26 993
- guarantee deposits	18	–	–	–	3 061	3 061
Trade accounts receivable	20	–	–	–	285 746	285 746
Other current assets:						
- loans	21	–	–	–	117	117
- state and government institutions	21				18 084	18 084
- other receivable (third and related parties)	21	–	–	–	4 823	4 823
Cash and cash equivalents	22	–	–	–	71 911	71 911
Derivative financial instruments (level 2)	33	475	–	–	–	475
		475	**–**	**1 344**	**433 783**	**435 602**

Liabilities as per balance sheet date December 31, 2017 (in USD'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2017
Long term financial debt	25	–	–	357 528	357 528
Other long term liabilities:					
- deferred consideration	28	–	–	3 995	3 995
- contingent consideration (level 3)	28	–	4 568	–	4 568
- loans and others	28			1 435	1 435
Short term financial debt	29	–	–	66 902	66 902
Trade accounts payable	30	–	–	88 696	88 696
Other current liabilities:					
- deferred consideration	31	–	–	2 783	2 783
- contingent consideration (level 3)	31	–	3 212	–	3 212
- payable to pension fund	31	–	–	558	558
- other payables	31	–	–	17 240	17 240
Derivative financial instruments (level 2)	33	–	202	–	202
		–	**7 982**	**539 137**	**547 119**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

And for 2016:

Assets as per balance sheet date December 31, 2016 (in USD'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2016
Financial assets and non current assets:						
- equity instruments with no quoted market price	18	–	–	886	–	886
- marketable securities	18	–	–	612	–	612
- long term loans	18	–	–	–	9 223	9 223
- Trade accounts receivable - long-term portion	18	–	–	–	1 747	1 747
- guarantee deposits	18	–	–	–	2 628	2 628
Trade accounts receivable	20	–	–	–	236 289	236 289
Other current assets:						–
- Loans	21	–	–	–	16	16
Derivative financial instruments (short term)	33	350	–	–	–	350
Cash and cash equivalents	22	–	–	–	174 440	174 440
		350	**–**	**1 498**	**424 343**	**426 191**

Liabilities as per balance sheet date December 31, 2016 (in USD'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2016
Long term financial debt	25	–	–	343 595	343 595
Other long term liabilities	28	–	3 601	11 022	14 623
Short term financial debt	29	–	–	31 471	31 471
Trade accounts payable	30	–	–	66 797	66 797
Other current liabilities	31	–	5 429	7 324	12 753
Derivative financial instruments (short term)	33	–	97	–	97
		–	**9 127**	**460 209**	**469 336**

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2017 and 2016:

In USD'000		Note	31.12.2017	31.12.2016
Financial assets:				
- marketable securities	Level 1	18	422	612
- derivative financial instruments	Level 2	33	475	350
- equity instuments with no quoted market price	Level 3	18	410	394
Total financial assets			**1 307**	**1 356**
Financial liabilities:				
- derivative financial instruments	Level 2	33	202	97
- contingent consideration (short-term portion)	Level 3	31	3 212	5 429
- contingent consideration (long-term portion)	Level 3	28	4 568	3 601
Total financial liabilities			**7 982**	**9 127**

The fair value of Level 3 equity instruments with no quoted market price is determined using a discounted cash flow method provided by the company.
Level 3 contingent consideration consists of earn-out payments on companies that have been acquired. The fair value is measured using projections reviewed by management, and discount rate comprised between 4.0 and 7.6%.

RECONCILIATION OF LEVEL 3 FAIR VALUES:

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

In USD'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2016	404	7 458	-4 745
Assumed in a business combination	–	–	-5 588
Assumed in a transaction with non-controlling interest	–	–	-817
Settlements	–	–	474
Impairment	–	-7 556	1 483
Remeasurement (recognized in other operating income)	–	–	271
Discount effect (recognized in interest expense)	–	182	-88
Exchange difference	-10	-121	24
Currency translation adjustment		37	-44
Balance at December 31, 2016 and January 1, 2017	**394**	**0**	**-9 030**
Assumed in a business combination	–	–	-2 857
Settlements	–	–	4 566
Remeasurement (recognized in other operating income)	–	–	-146
Discount effect (recognized in interest expense)	–	–	-126
Exchange difference	16	–	–
Currency translation adjustment	–	–	-188
Balance at December 31, 2017	**410**	**0**	**-7 781**

2016 contingent assets and liabilities impairment consisted of earn-outs relating to a disposed company which realizations were not likely.

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

In USD'000	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Financial liabilities				
- CHF 200 million bond	204 332	210 100	196 362	205 714
- CHF 150 million bond	153 111	154 707	147 149	153 103

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

44. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

In USD'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Bonds	6 183	5 946	229 672	23 783	158 345	355 271	-36 757	-41 490	357 443	343 510
Short term financial debt	66 902	31 471	–	–	–	–	–	–	66 902	31 471
Trade accounts payable	88 696	66 797	–	–	–	–	–	–	88 696	66 797
Other payables	17 240	24 277	–	–	–	–	–	–	17 240	24 277
Total	**179 021**	**128 491**	**229 672**	**23 783**	**158 345**	**355 271**	**-36 757**	**-41 490**	**530 281**	**466 055**

45. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the CHF and the EUR. The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in the CHF and a 10% (2016: 10%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

In USD'000	CHF 2 017	CHF 2 016	EUR 2 017	EUR 2 016
Post-tax net income				
- Increase	-7 804	-13 515	-5 359	-8 871
- Decrease	2 023	8 806	5 359	8 871
Comprehensive income (post-tax effect)				
- Increase	-20 791	-17 487	-2 038	-1 799
- Decrease	21 436	17 821	2 038	1 799

Interest rates

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

- USD: increase of 200 basis points and decrease of 50 basis points (2016: 200 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2016: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2016: 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, 2017 would increase by kUSD 152 and increase by kUSD 129, respectively. (2016: increase by kUSD 1 484 and decrease by kUSD 948). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2017 and 2016.

Equity prices

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

46. COLLATERAL RECEIVED AND GIVEN

In USD'000	31.12.2017	31.12.2016
Guarantees in favor of third parties	47 010	44 850

47. RISK CONCENTRATION

At December 31, 2017 and 2016, no financial asset exposure was more than 10% of the financial assets.

48. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2017 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

49. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow to net financial debt ratio as at 31 December 2017 was -15.4% (2016: 61.9%).

2017 operating cash flow was negative USD 54.2 million. Such negative operating cash flow is due to a negative USD 110.5 million adjustment for changes in working capital. Such adjustment is a one-off in nature and is mainly due to additional temporary working capital requirements at SKIDATA as well as the structure of 2017 IP licensing transactions resulting in delayed cash inflows. 2017 cash flow from operating activities, net of such adjustments, was positive at USD 56.3 million.

50. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Acquisition of Cytel (Shanghai) Co., Ltd
On January 30, 2018, the Kudelski Group, through SKIDATA, its Public Access sector subsidiary, acquired 51% of Cytel (Shanghai) Co., Ltd, a company specialized in car park revenue control and management systems. It has more than 20 years track record in the supply and installation of parking management systems. As a high-end parking system supplier for the most prestigious projects in China, Cytel has an experienced and well trained team, and has over the years established a nationwide sales and service network across the country. The Group has an option to purchase the remaining 49% of the company between January 1, 2022 and January 31, 2022.

At the time the financial statements were authorized for issue, the Group had not yet completed the accounting for this acquisition, and accordingly, the financial effects of this transaction have not been recognized in these financial statements. The operating results, assets and liabilities of the acquired company will be consolidated from January 30, 2018.

51. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2017	2016	2017	2016
1 CHF	1.0246	0.9852	1.0157	1.0151
1 EUR	1.1988	1.0581	1.1293	1.1066
100 CNY	15.3688	14.4039	14.7996	15.0541
100 NOK	12.1926	11.6345	12.1009	11.9126
1 GBP	1.3514	1.2374	1.2885	1.3554
100 BRL	30.2254	30.7389	31.3459	28.8702
100 INR	1.5676	1.4778	1.5363	1.4884
1 SGD	0.7479	0.6926	0.7244	0.7244
100 ZAR	8.0943	7.3005	7.5165	6.8318
100 RUB	1.7275	1.6394	1.7153	1.5010
1 AUD	0.7818	0.7232	0.7667	0.7440

52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 13, 2018.

53. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2017	Percentage held 2016
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	77.5	77.5
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	100	100
Conax Group	NO - Oslo	Conditional access modules and set-top-boxes	100	100
Kudelski Security, Inc.	US - Minneapolis	Cyber Security Solutions	100	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

54. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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

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

Financial Risk Management
The major financial risks consist of accounting complexity and the control environment. Risks related to the control environment include information systems complexity, timely review of results and the robustness of the documentation of processes. Executive management continues to address these risks with process documentation initiatives as well as establishment of process and entity level controls. Financial risk management is described in more details in note 3.
The most critical accounting policies to address accounting complexity include revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and impairments, tax provisions, equity based compensation and contingencies.

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting on the consolidated financial statements 2017

Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kudelski SA and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 4 to 55) give a true and fair view of the consolidated balance sheet of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview

Materiality

Audit scope

Key audit matters

Overall Group materiality: USD 3'056'000

We concluded full scope audit work at 11 reporting components in 7 countries and for 13 reporting components we performed specified procedures. Our audit scope addressed over 83% of the Group's revenue and 84% of the Group's assets.

The goodwill impairment assessment has been identified as an area of focus.

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

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Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole.

The group financial statements are a consolidation of 72 reporting components. Following our assessment of the risk of material misstatement to the Group's consolidated financial statements and considering the significance of the reporting components' business operations relative to the Group, we selected 24 reporting components which represent the principal business operations of the Group. Of the 24 reporting components, 11 of these components were subject to an audit of complete financial information and 13 reporting components were subject to specific audit procedures.

The reporting components subject to an audit of complete financial information or specific audit procedures accounted for 83% of Group revenue and 84% of the Group's assets.

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

The group audit team, in addition to the audit of the consolidation, was directly responsible for auditing 4 of the 11 reporting components which were subject to a full audit and 1 of the 13 reporting components subject to specific audit procedures. For the other reporting components, the group audit team directed and supervised the audit work performed by the PwC component teams at all stages of the audit.

Materiality

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

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

Overall Group materiality	USD 3'056'000
How we determined it	5% of average net income before tax from continuing operations of the last 3 years
Rationale for the materiality benchmark applied	We chose net income before tax from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. To account for the volatility of the project-based business, the average value of the last three years was chosen for the materiality calculation.

We agreed with the Audit Committee that we would report to them misstatements above USD 305'600 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group's goodwill is recognised in two Cash Generating Units (CGUs): "Integrated Digital Television" (USD 326m) and "Public Access Solutions"(USD33m). We consider the assessment of the carrying value of the "Integrated Digital Television" goodwill to be a key audit matter for the following reasons. The "Integrated Digital Television" Goodwill is a significant balance sheet position amounting to USD 326m as per December 31, 2017. • Judgement is required to determine the assumptions relating to the future results and the discount rate applied to the forecasted cash flows. • In particular, those assessments and judgements made to support the carrying value of the goodwill allocated to the "Integrated Digital Television" segment were critical, given the 2017 underlying results. Management also performed a sensitivity analysis over the value in use impairment calculation, by varying the assumptions used (growth rates, including the terminal growth rate and discount rate) to assess the impact on the valuations. Refer to page 18 (note 2 – Critical accounting estimates and judgements), and pages 30-31 (note 15– Intangible assets) for details of management's impairment test and assumptions.	We evaluated the reasonableness of management's cash-flow forecasts and the process by which they were developed, by comparing them to the latest Board approved budgets. We found that the budgets used in the value in use calculations were consistent with the Board approved budget. We noted that the Board approved the 2018 budget, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 2-5 a particular focus area for the procedures below. We challenged management to substantiate the key assumptions in the cash flow projections during the forecasted period and their intention and ability to execute their strategic initiatives. We considered with the support of our valuation specialists, the reasonableness of the discount rate of 9% applied to those future cash flows by assessing the cost of capital for the Group by comparing it to market data. We also tested the mathematical accuracy of the model. We tested the reasonableness of the terminal growth rate of 1.5% by comparing to the growth realised in the period prior to the terminal growth. We assessed management's sensitivity analysis around key estimates to quantify the downside changes in assumptions that could result in an impairment. We assessed the disclosures included in Note 15. As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the carrying value of goodwill were reasonable and supportable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the

consolidated financial statements, the stand-alone financial statements and the remuneration report of Kudelski SA and our auditor's reports thereon.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA

Luc Schulthess	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Lausanne, 13 February 2018

BALANCE SHEETS AT DECEMBER 31, 2017 AND 2016

ASSETS

In CHF'000	Notes	31.12.2017	31.12.2016
Current assets			
Cash and cash equivalents		3 009	18 662
Accounts receivable from Group companies		55 993	63 471
Other current receivables and prepaid expenses	3.1	1 204	1 375
Total current assets		**60 206**	**83 508**
Fixed assets			
Loans to Group companies		746 077	731 913
Investments	3.2	377 472	399 741
Total fixed assets		**1 123 549**	**1 131 654**
Total assets		**1 183 755**	**1 215 162**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2017	31.12.2016
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		20 464	–
Other short-term liabilities :			
- due to third parties		480	433
- due to Group companies		35 050	19 248
Accrued expenses		2 017	3 128
Total short-term liabilities		**58 011**	**22 809**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	350 000
Total long-term liabilities		**350 000**	**350 000**
Total liabilities		**408 011**	**372 809**
Shareholders' equity			
Share capital		435 118	434 005
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		85 010	97 925
Retained earnings		194 985	156 321
Net (loss) / income		-49 369	44 102
Total shareholders' equity	**3.4**	**775 744**	**842 353**
Total liabilities and shareholders' equity		**1 183 755**	**1 215 162**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2017

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

In CHF'000	Notes	2017	2016
Other non operating income		133	90
Financial income	4.1	42 717	44 626
Administrative and other expenses		-3 106	-3 175
Financial expenses and exchange result	4.2	-10 577	4 036
Impairment of financial fixed assets	4.3	-77 221	–
Income/(loss) before tax		**-48 054**	**45 577**
Direct taxes (other than income tax)		-1 315	-1 475
Net income/(loss)		**-49 369**	**44 102**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2017

In CHF'000	Legal reserves from capital contribu-tion	Retained earnings
Balance brought forward from previous year	97 925	200 423
Dividend	-13 593	-5 437
Share capital increase	678	–
Net result	–	-49 369
Total available earnings	**85 010**	**145 617**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.10 on 49'759'755* bearer shares (out of capital contribution reserve)	-4 976	–
- CHF 0.01 on 46'300'000 registered shares (out of capital contribution reserve)	-463	–
Balance to be carried forward	**79 571**	**145 617**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2017 and may fluctuate upon issuance of additional share capital for the employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies.

NOTES TO THE FINANCIAL STATEMENTS 2017

1. INTRODUCTION

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the Swiss accounting legislation of the Swiss Code of Obligations (SCO).

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

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

FINANCIAL ASSETS

Investments and loans to group companies are initially recognized at cost. Investments in Kudelski Group subsidiaries are assessed annually and in case of an impairment adjusted to their recoverable amount within their category.

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 2017

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2017	31.12.2016
Prepaid expenses	1 169	1 355
Withholding tax	19	7
Other accounts receivable	16	13
	1 204	**1 375**

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

3.2 INVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2017	2016
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	10	100	100
SKIDATA AG	AT - Salzburg	Public access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	77.5	77.5
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Beijing Co. Ltd	CN - Beijing	R & D, Sales and services	KCNY	15 890	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Nagra Media (Taiwan) Co., Ltd	TW - Taipei	Sales and support	kNTD	500	100	H
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	40
Kryptus Segurança da Informaçao Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL	298	16	16
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR	163	100	100
OpenTV Europe SAS	FR - Issy les Moulineaux	Research & development	kEUR	38	M	100
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD	50	100	100
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD	1	100	100
NexGuard Labs B.V.	NL - Eindhoven	Watermarking Solutions	kEUR	25	100	100

M : Merged companies
H : Held indirectly

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2017	2016
Conax AS	NO - Oslo	Conditional access modules and set-top-boxes	kNOK	1 111	100	100
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	kUSD	112 887	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	kUSD	2 043	50	50
Kudelski Security Inc.	US - Minneapolis	Cyber Security Solutions	kUSD	0	100	100
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	60
SKIDATA Benelux BV	NL – Barenbrecht	Public access	kEUR	90.6	100	100
SKIDATA (Schweiz) AG	CH - Adliswil	Public access	kCHF	150	100	100
SKIDATA Inc	US – Hillsborough	Public access	kUSD	5 510	100	100
SKIDATA Australasia Pty Ltd	AU – Melbourne	Public access	kAUD	5 472	100	100

3.3 BONDS

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

On May 12, 2016 the company also issued a CHF 200 million bond with a subscription price of 100%, bearing an interest rate of 1.875% and maturing on August 12, 2022 with denominations of CHF 5 000 and multiples thereof.

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

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

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	Legal reserves from retained earnings	Legal reserves from capital contribution	Retained earnings	Total Shareholders' equity
As of December 31, 2015	**540 911**	**110 000**	**8 300**	**156 321**	**815 532**
Share capital increase	1 575	–	128	–	1 703
Share capital reduction	-108 481	–	89 497	–	-18 984
Net Income	–	–	–	44 102	44 102
As of December 31, 2016	**434 005**	**110 000**	**97 925**	**200 423**	**842 353**
Dividend			-13 593	-5 437	-19 030
Share capital increase	1 113		678		1 791
Net Income				-49 369	-49 369
As of December 31, 2017	**435 118**	**110 000**	**85 010**	**145 616**	**775 744**

NOTES TO THE FINANCIAL STATEMENTS 2017

SHARE CAPITAL

In CHF'000	31.12.2017	31.12.2016
49'759'755 / 49'620'619 bearer shares, at CHF 8 each	398 078	396 965
46'300'000 registered shares, at CHF 0.80 each	37 040	37 040
	435 118	434 005

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	2017	2016
Conditional share capital as of January 1	85 545	108 526
Reduction of nominal share value	–	-21 408
Employee share purchase plan	-109	-85
Shares allotted to employees	-1 004	-1 488
Conditional share capital at December 31	**84 432**	**85 545**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each	80 000	80 000
- Options or share subscriptions to employees:		
554'001 / 693'137 bearer shares, at CHF 8 each	4 432	5 545
	84 432	85 545

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2017	31.12.2016
3'768'164 bearer shares, at CHF 8 each	30 145	30 145
3'200'000 registered shares, at CHF 0.80 each	2 560	2 560
Authorized share capital as of December 31	**32 705**	**32 705**

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

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Kudelski family pool	59%	63%	28%	35%
Kudelski family interests outside Kudelski family pool	4%	0%	7%	0%

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2017	2016
Dividends received from Group subsidiaries	18 038	20 887
Interest on loans to Group subsidiaries	24 397	23 366
Interest income third parties	282	170
Value adjustment on investments	–	203
	42 717	**44 626**

4.2 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2017	2016
Net currency exchange result	-3 697	12 186
Interest on loans from Group subsidiaries	-237	-77
Interest expenses and bank charges	-6 643	-8 074
	-10 577	**4 036**

4.3 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2017	2016
Change in provision on Group investments and loans	-77 012	–
Value adjustment on investments	-209	–
	-77 221	**–**

NOTES TO THE FINANCIAL STATEMENTS 2017

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2017	31.12.2016
Guarantee commitments		
Commitment in favor of third parties	5 458	5 610
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 2017 and 2016 did not exceed ten people.

7. BOARD AND EXECUTIVE INTEREST DISCLOSURES

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

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting

on the financial statements 2017

Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kudelski SA, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 62 to 69) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

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

Our audit approach

Overview

Overall materiality: CHF 11'800'000

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

Valuation of investments in subsidiaries and loans to Group companies has been identified as a key audit matter.

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

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Audit scope

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

Materiality

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

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

Overall materiality	CHF 11'800'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. Total assets is a generally accepted benchmark for determining the materiality according to auditing standards. This calculation results in an overall materiality of CHF 11'800'000.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1'180'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Valuation of investments in subsidiaries and loans to Group companies

Key audit matter	*How our audit addressed the key audit matter*
Kudelski SA's investments in and loans to Group companies are valued at CHF 429m and CHF 771 m respectively. The company has allocated the investments in subsidiaries and loans to Group companies to 2 Cash Generating Units (CGU's): "Integrated Digital Television"(CHF 1'033m) and "Public Access Solutions" (CHF 167m). We consider the assessment of the carrying value of the "Integrated Digital Television" investments in subsidiaries and loans to Group companies to be a key audit matter for the following reasons: "Integrated Digital Television" investments in subsidiaries and loans to Group companies represent a significant balance amounting to CHF 1'031m as per December 31, 2017. For the year ended 31 December 2017, management have performed an impairment assessment of investments in subsidiaries and loans to Group companies. To determine the Enterprise Value management uses a discounted cash flow method. • Judgement is required to determine the assumptions relating to the future results and the discount rate applied to the forecasted cash flows. • In particular, those assessments and judgements made to support the carrying value of the investments in subsidiaries and loans to Group companies allocated to the "Integrated Digital Television" segment were critical, given the 2017 underlying results. The results of management's impairment testing indicated that the "Integrated Digital Television" investments in subsidiaries and loans to group companies were impaired. As a result, management recorded an impairment for the value of CHF 77m. Refer to page 65 (note 3.2– Investments) for details of the investments and the impairment booked.	We evaluated the reasonableness of management's cash-flow forecasts and the process by which they were developed, by comparing them to the latest Board approved budgets. We found that the budgets used in the value in use calculations were consistent with the Board approved budget. We noted that the Board approved the 2018 budget, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 2-5 a particular focus area for the procedures below. We challenged management to substantiate the key assumptions in the cash flow projections during the forecasted period and their intention and ability to execute their strategic initiatives. We considered with the support of our valuation specialists, the reasonableness of the discount rate of 9% applied to those future cash flows by assessing the cost of capital for the Group by comparing it to market data. We also tested the mathematical accuracy of the model. We tested the reasonableness of the terminal growth rate of 1.5% by comparing to the growth realised in the period prior to the terminal growth. As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the impairment of the "Integrated Digital Television" investments in subsidiaries and loans to group companies for an amount of CHF77m are reasonable and acceptable.

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA

Luc Schulthess
Audit expert
Auditor in charge

Mario Berckmoes
Audit expert

Lausanne, 13 February 2018

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