

ANNUAL REPORT 2014



Giesecke & Devrient
Creating Confidence.

AT A GLANCE

Giesecke & Devrient Group (EUR million)			
	2014	2013	Change (%)
Sales	1,833.1	1,753.6	4.5
Capital expenditure	78.5	103.9	(24.4)
Research and development	119.7	128.2	(6.6)
EBIT (before restructuring)	62.0	56.2	10.3
EBIT (after restructuring)	(11.8)	56.2	(121.0)
Net income	(73.3)	2.6	-
Employees as of December 31	11,453	11,660	(1.8)

Sales by Business Unit (EUR million)		
Banknote		
2014		887
2013		844
Mobile Security		
2014		778
2013		731
Government Solutions		
2014		168
2013		178

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We are pleased to present the Giesecke & Devrient **Annual Report**. This comprises a **report on our business activities** in fiscal 2014, a certified management report, the consolidated financial statements, and a **progress report** on our participation in the UN Global Compact for the period July 2013 through December 2014. Bringing this information together in a single publication reflects our belief that day-to-day business operations and responsible governance are inextricably linked. Pages 10 through 17 outline how we are implementing the ten principles of the UN Global Compact and the progress we have made (Communication on Progress).

 unglobalcompact.org





Dr. Walter Schlebusch
Chairman of the Management Board

FOREWORD

LADIES AND GENTLEMEN:

2014 was an eventful and challenging year for G&D. Although we increased sales and achieved a slight rise in our operating result, overall performance remained significantly below expectations. Excluding exchange rate effects, sales grew by around 100 million euros compared with the previous year, with both the Banknote and Mobile Security business units contributing to this growth. At 62 million euros before restructuring costs, the company's operating result in 2014 was significantly below target, as in the previous reporting year.

The main reasons for this situation are increasing competition and price pressure in all relevant markets and the current state of the global economy. While some developed economies – most notably the United States – made a positive contribution to global growth, momentum in the emerging markets increasingly weakened and fell short of expectations. Economic activity was also hit by geopolitical tensions, in particular the simmering conflict between Russia and Ukraine and disputes in the Middle East. The combination of all these factors meant that our business performed less well than expected.

This situation is unsatisfactory. Accordingly, we launched a cost-cutting program in the second half of the year with the aim of boosting profitability by 100 million euros. The key elements of this program are capacity adjustments, the optimization of procurement costs, and a reduction in overheads. These measures – which also include job reductions, predominantly at the Munich site in Germany – will be implemented over the next two years. We have also taken other important steps in all three business units – Banknote, Mobile Security, and Government Solutions – to strengthen their position for the future.

Specific activities include reorganizing the Mobile Security and Banknote units and restructuring Government Solutions. Reorganization of the Mobile Security business unit, which took place in 2014, is intended to boost the global success of our innovative products for telecommunications and payment. This will be achieved partly by aligning activities more effectively with the customer base. Meanwhile, reorganization of the Banknote business unit as of April 1, 2015, is designed to systematically consolidate our expertise in two core focus areas: solutions for new banknotes and solutions for banknote processing. Veridos GmbH, the international joint venture between Government Solutions and Bundesdruckerei, commenced operations on January 1, 2015. G&D holds a 60 percent stake in this joint venture. The two partners are merging their international business in the field of secure identification solutions, such as passports and ID systems for governments.

Despite the current challenges, G&D is making good progress. In addition to our cost-cutting program and forward-looking structural changes, we are encouraged by the healthy order intake at the end of last fiscal year, the potential offered by growth markets in Asia and North America, and increasing sales opportunities in emerging segments such as mobile payment. The outlook for G&D is therefore positive. Accordingly, we are continuing to invest across all business units in order to protect our innovation leadership and further expand our market-leading positions.

G&D is the world's largest one-stop provider of banknotes. The Group is also a global leader in products, services, and end-to-end solutions for payment, secure communication, and identity management. Equally, G&D is a leading supplier of government security documents and an integrated provider of ID solutions.

Doing business in a responsible and sustainable way is central to our corporate philosophy. Since 2010, we have demonstrated our corporate responsibility by participating in the UN Global Compact and ensuring we operate in accordance with its principles on human rights, labor standards, environmental protection, and fighting corruption. We renewed our commitment to these principles in 2015, and a progress report is incorporated in this annual report.

In November, we were accredited as a full member of the Banknote Ethics Initiative (BnEI) after successfully completing the relevant audit. We are a founding member of the BnEI, which seeks to ensure ethical business practices in the banknote industry.

On behalf of the Management Board, I would like to take this opportunity to thank our customers and suppliers for their trust and positive engagement, our employees for their commitment, and our boards and committees for their open dialog. With the help of all these stakeholders, we will continue to shape the future of G&D.

A handwritten signature in dark ink, appearing to read 'W. Schlebusch'.

Dr. Walter Schlebusch
Chairman of the Management Board



*Dr. Peter-Alexander Wacker
Chairman of the Supervisory Board*

SUPERVISORY BOARD REPORT

LADIES AND GENTLEMEN:

During the 2014 fiscal year, the Supervisory Board of Giesecke & Devrient GmbH performed all its duties as stipulated by legal provisions and the Articles of Incorporation. The Supervisory Board duly monitored the Management Board and discussed issues of note with its members.

At meetings of the Supervisory Board, the Management Board provided regular, comprehensive information about the situation of the company and the Group as a whole. The Supervisory Board additionally received updates on G&D's performance and finances in the form of quarterly reports. Outside the scheduled meetings, the Chairman of the Supervisory Board was also in regular contact with the Management Board and was kept informed of issues relating to the current business situation.

In addition to the initial meeting in April following the election of its new members, the Supervisory Board held three scheduled meetings to review the company's economic situation and major investments. The Supervisory Board also considered the risk report and the Group's risk management and compliance system.

An important strategic topic at all of the meetings in fiscal 2014 was the establishment of a joint venture with Bundesdruckerei GmbH. The joint venture partners are merging their international business in the field of secure identification solutions, such as passports and ID systems for governments, in a company called Veridos GmbH. The Supervisory Board endorsed this joint venture and approved Mr. Kunz as Chairman of the Management Board of Veridos GmbH. Mr. Kunz also remains a member of the Management Board of Giesecke & Devrient GmbH.

The P100 cost reduction program, which affects all business units of Giesecke & Devrient GmbH, was presented to the Supervisory Board.

The Supervisory Board dealt with a number of HR matters in the reporting year, including individual aspects of the managing directors' service contracts. The Management Board also outlined the continuing progress made in reorganizing company pensions at Giesecke & Devrient GmbH.

The Supervisory Board duly received the annual financial statements and management report of Giesecke & Devrient GmbH for the period ending December 31, 2014, prepared in accordance with the German Commercial Code (HGB), and the consolidated financial statements and Group management report for the period ending December 31, 2014, prepared in accordance with IFRS, along with the auditors' report.

The auditor, KPMG, issued its opinion on the accounts. This opinion was unqualified with the exception that the notes to the consolidated financial statements do not contain disclosures required by IFRS with regard to the remuneration of managers in key positions where this information exceeds the reporting requirements of Section 314 of the German Commercial Code.

The Supervisory Board accepted KPMG's audit opinion on both sets of financial statements. The auditor attended the meeting on April 21, 2015, in which the financial statements were discussed, and reported on the main findings of the audit, particularly concerning the internal control and risk management system in relation to the financial reporting process.

The Supervisory Board concluded its review with no objections raised. It discussed, examined, and approved the annual and consolidated financial statements, including the corresponding management reports, at its meeting of April 21, 2015.

At the end of their term of office on April 8, 2014, Dr. Weiss, Dr. Hoppenstedt, Mr. Müller, Mr. Reinhard, Prof. Reinhart, Mr. Stark, and Mr. van der Velde stepped down as members of the Supervisory Board.

Prof. Dreo Rodosek, Mr. Fahrenschon, Prof. Lutz, and Mr. Winners were newly appointed to the Supervisory Board to represent the owners, along with Ms. Wächter, Mr. Fluri, and Mr. Hanke as employee representatives. At the newly formed Board's first meeting on April 8, 2014, Dr. Wacker was elected as Chairman of the Supervisory Board and Mr. Bogner as Deputy Chairman.

The Supervisory Board would like to thank its previous members for their dedicated contributions over the years. Thanks also go to the Management Board, all employees, and the Works Councils of the G&D Group for their efforts and high degree of personal commitment during the challenging 2014 fiscal year.

A stylized, handwritten signature in black ink, consisting of a large, sweeping 'P' followed by a smaller 'A'.

Dr. Peter-Alexander Wacker
Chairman of the Supervisory Board

Munich, April 2015

PRODUCTS AND SOLUTIONS

Our professional and private worlds are becoming increasingly complex and fast-paced. We travel more than ever, for both work and pleasure. We communicate more than ever and use the Internet to organize much of our everyday life. We consume more than ever, switching between cash, cards, and smartphones to pay for our items. We are more connected than ever and use smart machines. These developments all make life richer and more convenient. The common theme that unites them is an overriding need for security. Giesecke & Devrient has been providing this key ingredient for over 160 years. Originally a banknote and security printer, the company has evolved into an international technology and service provider that safeguards assets, transactions, and personal data through its activities in the payment, communication, and identity markets.

New records are being set more and more frequently in our markets today. Global cash volumes continue to increase. In the eurozone alone, around 17 billion banknotes are in circulation – twice as many as a decade ago. At the same time, cashless payment is also on the rise, with the number of payment cards predicted to reach 21 billion worldwide by 2017. This equates to three cards and 45 banknotes for every person on the planet. Online commerce and the associated electronic payment methods are likewise booming. In 2015, consumers around the world are set to buy goods worth 1.7 trillion US dollars over the Internet; expected to rise to 2.4 trillion by 2018. The mobile communications market is also experiencing dynamic growth. According to projections, the number of mobile phone contracts for Internet-enabled smartphones is set to double from three billion today to six billion by 2020. By the same year, mobile data traffic will rise to around 25 million terabytes per month, meaning an almost tenfold increase within just five years. And mobility is seeing similar trends, with people moving around in unprecedented numbers. Some three billion passengers now board a plane every year for business or leisure. That figure will more than double by 2030, according to the International Civil Aviation Organization (ICAO).

The level of technological sophistication required to make all this possible represents a growing challenge. G&D has an established reputation as a trusted partner to customers in the public and private sectors around the world for a

range of security solutions – from banknotes and cashless payment methods through mobile communications and IT security to ID cards and other identification documents. Our customers include public authorities, central and commercial banks, security transport companies, financial service providers, banknote printers, paper mills, telecommunications providers, hardware producers, OEMs, car manufacturers, public transportation companies, health insurers, retailers, and casinos. With 10,453 employees in 31 countries, we are close to our customers and their specific needs in all of our markets.

BANKNOTES INSPIRE CONFIDENCE

The origins of our company lie in the banknote sector. Giesecke & Devrient has been developing, designing, printing, and managing banknotes for countries on every continent since 1852. In total, around 150 countries have chosen our products and solutions to date. We cover every stage in the entire lifecycle of a banknote: development of security and authentication features, design and implementation, production of a suitable substrate, printing, authentication and processing, and destruction of worn-out notes. As a fully integrated manufacturer, we are able to offer rapid response times, a high degree of flexibility, and efficient project management. Our breadth of expertise underpins our consistent success in acquiring customer projects and meeting even the tightest of deadlines. Every day, we give billions of people the reassuring feeling that

the banknotes they hold are an authentic and universally accepted store of value. This confidence helps to explain why banknotes remain the world's most popular payment method. Even in industrialized countries like Germany, the proportion of cash payments in the retail sector is still almost 60 percent.

Our customers expect a lot from a banknote, with anti-counterfeit protection, durability, and efficiency within the cash cycle being key requirements. Accordingly, we continually leverage our advanced technological expertise to develop new security features. Our experts combine multiple security features within sophisticated and appealing overall designs, thereby making life increasingly difficult for counterfeiters. One of our latest security features, RollingStar®, is based on a window thread embedded in the banknote substrate. The thread is made of microscopic mirrors, which produce an eye-catching dynamic effect. At the 2014 Banknote Conference, the RollingStar® thread received the IACA (International Association of Currency Affairs) Award for the best new security feature. RollingStar® is already used in banknotes in Morocco and Thailand, and made its first appearance in Europe in the Ryder Cup special edition Scottish five pound note in September 2014. Meanwhile, our LOOK® laser technology is redefining banknote numbering. Our graphic designers can explore new creative options and place the numbering almost anywhere they choose within the design. Our PEAK® pixel technology generates multicolored printed images made up of tiny dots (pixels). Tilting or turning the banknote reveals a second image that also changes color. Another G&D feature, MAGnite®, is based on the interaction between movable magnetic pigments and an external magnetic field. When held near the speaker of a cell phone, for instance, the microencapsulated color pigments create visible images. These and other “human features” that users can see or feel are backed up by concealed security components, such as UV fluorescence and magnetic MultiCode™ security threads. Here, the codes are invisible and can only be read by special sensors in banknote processing systems.

Such processing systems do much more than just recognize security features, however. They count, authenticate, sort, and destroy banknotes, thereby boosting the efficiency of the cash cycle. Central banks, in particular, attach great importance to an optimized end-to-end process, as demonstrated by the major contract worth over 100 million euros awarded to G&D by Banque de France in 2014. All of the French central bank's cash centers will be equipped with our processing solutions. Other recent contracts have come from New Zealand, Taiwan, Hong Kong, and Thailand. In India, 2014 marked the sale of our 20,000th banknote processing system since first entering the market in 2001.

Our portfolio ranges from compact desktop machines for retailers and commercial banks right through to complete cash center solutions for security transport companies and central banks. Our BPS® X9 model is the fastest system in the world, with a throughput of up to 44 banknotes per second. It received the pre-eminent international iF Product Design Award in 2014.

ELECTRONIC PAYMENT INCREASINGLY POPULAR

Alongside cash, more and more people are using electronic forms of payment, such as cards and smartphones. G&D is one of the world's leading providers of payment, fuel, loyalty, and customer cards. On behalf of banks and other customers, we produce and personalize highly secure smartcards, deliver them to end users, and protect the card data against unauthorized access – regardless of whether the card is inserted into a conventional reader or is one of the increasingly popular contactless cards, which simply need to be waved past a special terminal. A major improvement in security for end users is being brought about by the current migration from magnetic stripes to the EMV chip standard. In the EU, the majority of payment cards already feature this chip, and China is aiming to catch up within 2015. In the world's fourth-largest payment card market, Brazil, we operate a state-of-the-art manufacturing and personalization site in São Paulo. As a result of G&D's leading EMV solution, this standard has also been successfully established in the US – the biggest card market in the world after China. G&D has already supplied 1.6 billion EMV-compliant payment cards around the globe. Recent contracts and certifications have come from Spain's fourth-largest bank, Bankia, major banks in Asia, and Australia's eftpos payment network. In 2014, we made it possible for Germany's Commerzbank – which we provide with 60 percent of all its payment cards – to issue debit and credit cards directly to customers in local branches. Thanks to our Convego® System Instant Issuance technology, bank customers receive their cards within 20 minutes, with the associated security processes performed by G&D in the background at a high-security data center.

MOBILE COMMUNICATIONS BOOMING

The wide range of payment methods continues to expand with a powerful recent addition: smartphones and other mobile devices are increasingly acting as a wallet by providing credit card functionality, serving as rail tickets, supporting online banking, and allowing collection of loyalty points when shopping. Growing numbers of people on every continent are embracing mobile wallet technology in addition to cash and cards.

A survey conducted by Rabobank, one of the Netherlands’ biggest banks, found that its customers already carry out more banking transactions on their smartphones than on their home PCs. The bank recently began to offer a contactless payment function for smartphones, developed in collaboration with G&D. G&D has also been working with Australia’s largest bank, the Commonwealth Bank of Australia (CBA), to implement a virtual payment function that customers can load onto their cell phones. Payments can then be made by simply passing the phone over a contactless terminal in the supermarket, gas station, or subway. The number of acceptance points is growing rapidly around the world, as G&D’s products and solutions help to make mobile payments mainstream. In the first commercial project of its kind in Latin America, around 85 million customers of Claro cell phone company and Bradesco bank in Brazil can use secure technology to convert their smartphones into an electronic wallet with payment, ID, and loyalty card functionality.

In 2014, Deutsche Telekom launched its MyWallet electronic purse solution in Germany based on G&D’s NFC-enabled SkySIM® CX card, while BASE cell phone customers have access to a similar service in the form of the BASE Wallet. A key benefit is that the SkySIM® CX card can load the customer’s preferred application very quickly despite highly secure encryption and decryption processes. Swiss telecom provider Swisscom is also using our NFC-enabled SIM cards. Its Tapit smartphone app also allows users to buy public transportation tickets and pass through access controls, such as those in company buildings. In Hungary, G&D is premiering a technology that will drive the expansion of mobile payment. Magyar Telekom, a subsidiary of Deutsche Telekom, is offering its customers SIM cards from G&D that feature the CIPURSE™ standard. This open standard is especially attractive for public transportation systems, as it is able to replace existing systems that are mostly still closed and more expensive.

G&D solutions also come into their own in the dynamic pay TV and e-book markets. In 2014, pay TV specialist Verimatrix opted for a digital rights management (DRM) solution that incorporates G&D technology. This allows end users to conveniently buy and download videos, movies, and series onto mobile devices, while at the same time protecting vendors’ revenue streams. Similarly, we supply SIM cards to a Chinese manufacturer of tablets and e-book readers. Customers can choose one of the available mobile tariffs as soon as they turn on their device for the first time.

Another mobile communications growth area in which G&D is playing a key role is the networking of machines (machine-to-machine communication, or M2M). It is estimated that 26 billion machines – including cars, trucks, electricity meters, household appliances, industrial machines, medical equipment, and robots – will be connected to each other over the air by 2020. Possible scenarios include a car equipped with a SIM card that is able to connect to other vehicles as part of a traffic management system, receive traffic congestion alerts and weather warnings, pay parking fees, toll charges, and carsharing costs, find an empty parking space, buy and download music and maps, read incoming text messages, and much more. An increasing number of car manufacturers are incorporating M2M-enabled elements into their vehicles. G&D complies with the ISO/TS 16949 quality standard and is thus a certified supplier to the automotive industry. We already provide half of all SIM cards installed in new cars and were recently awarded the contract for the largest M2M project in Latin America, where Brazil made it compulsory in 2014 for all new cars to be fitted with a GPS-based anti-theft tracking system. We are providing the SIM cards and the server and software solution. Over the next few years, G&D will also supply South Korean electronics giant LG with several million M2M SIM cards for telematics boxes, which will then be installed in General Motors vehicles.

It is increasingly important for our customers to be able to distribute and deploy their machines effectively all over the world. Jasper Wireless, provider of the leading platform for connected devices, began offering G&D’s Global SIM in 2014. It enables vehicle manufacturers, electronics producers, and other companies to minimize the complexity involved in working with national and local mobile network providers.

These and many other applications make Internet-enabled devices, such as smartphones, tablets, cars, and even fitness watches, the digital hub of our everyday lives. More and more people are entrusting their financial and security-critical transactions and personal data to mobile devices. Accordingly, it is a top priority for G&D to ensure businesses and end users can have complete confidence in the corresponding security measures and know they are fully protected against unauthorized use of their data. As a one-stop provider for safeguarding all areas of digital life, we are working on increasingly powerful solutions here. In 2014, our solutions portfolio was recognized by leading market research company Juniper Research with the Future Mobile Gold Award.

IDENTITY ASSURANCE ESSENTIAL

Security is particularly crucial when it comes to protecting and verifying highly sensitive personal data and applications. As more people travel across national borders, more companies operate in global markets, and more employees enjoy flexible, mobile access to company networks, two questions become increasingly important. Is the person who wants to travel on an international flight or set up an electronic transfer to their bank account really who they say they are (identity)? And is the person entering a company’s premises or driving a particular car actually authorized to do so (authentication)? G&D helps to provide clear and reliable answers to these questions around the globe – with passports, visas, and border control systems, with ID, healthcare, and citizen cards, and with wide-ranging solutions for cyber security and protected data transmission between countries and authorities.

G&D is a market leader in both machine-readable and electronic passports. In 2014, we signed a contract to establish a joint venture called Veridos, which will incorporate our international business in secure identification solutions. G&D has a 60 percent stake in this company, with Bundesdruckerei, Germany’s federal printer, holding 40 percent. This powerful systems provider will be well placed to maximize the potential of the ever-expanding international market. Over 100 countries have already issued their citizens with e-passports, which they can use not only to prove who they are, but also to cast their vote, identify themselves when signing contracts, prove their age, and exchange data electronically with public authorities. Governments around the world rely on us for electronic passports and ID cards, or for the elements needed to produce them. In Iraq, for instance, we are delivering a cutting-edge project in the form of an electronic ID card system that offers maximum security against manipulation and identity theft. The new Supplemental Access Control

(SAC) digital access mechanism has been mandatory as a security protocol for passports in Europe since December 2014. Kosovo was the first European country to implement this standard – with electronic passports from G&D.

Identity verification and authentication is especially important in the online world. Developments such as cloud services, telecommuting, mobile payment, and machines connected via M2M technology present huge challenges for suppliers and consumers. Private individuals and businesses alike still lack a full understanding and awareness of the risks and the need for proactive security. Accordingly, the cyber security market is expected to roughly double in size by 2019. G&D is positioning itself in this area with a unique combination of expertise and industry contacts. For decades, we have been working closely with banks and financial service providers, hardware and software manufacturers, mobile network providers, OEMs, local transport operators, and government entities. We incorporate this knowledge and expertise into integrated packages that enable us to provide effective cyber security solutions for a wide range of industries. To take a recent example, customers of mobile network provider Vodafone can opt for a SIM card-based system to encrypt their mobile communications. The Secure SIM Data service from G&D encrypts and signs e-mails, documents, data storage media, and VPN connections. No tokens or smartcards are required; the private key and certificates are stored securely on the SIM card in the smartphone or tablet. Countries and government agencies also choose to partner with G&D in this field. China is a recent case in point, with G&D receiving certification from the Office of the State Commercial Cryptography Administration (OSCCA) in mid-2014. This enables us to develop and manufacture IT security solutions in China, becoming the first foreign company to do so.

RESPONSIBILITY AND THE ENVIRONMENT

Doing business in a responsible and sustainable way is central to our corporate philosophy. Our customers also increasingly expect this. We therefore seek to reconcile the commercial, social, and environmental impact of our activities. Since 2010, we have demonstrated our commitment to corporate responsibility by participating in the UN Global Compact and ensuring that we operate in accordance with its principles on human rights, labor standards, environmental protection, and fighting corruption.

 unglobalcompact.org

The principles of the UN Global Compact and our commitment to responsible corporate governance define the framework for our corporate social responsibility (CSR) strategy. This strategy was established in 2009 and further systematized and weighted in 2011/12 with the aid of input from selected internal and external stakeholders. In mid-2014, we carried out an online survey of our stakeholders to confirm the relevant issues for G&D and (re)prioritize them accordingly. Three key action areas emerged from this materiality analysis: resource-efficient and safe site operation, future-oriented employment policy, and fair and safe business practices.

 ecovadis.com

Responsible and sustainable corporate governance is also becoming increasingly important among our customers, which impacts us as a supplier. When taking part in tenders, for example, we are asked whether we meet specific sustainability standards and this information is then taken into account in awarding contracts and during supplier evaluation. As an EcoVadis participant, G&D received a Gold Standard rating in its annual CSR assessment in September 2014. EcoVadis is a global initiative set up by the information and telecommunications industry, which allows companies to monitor the sustainability performance of their suppliers (with regard to the environment, working conditions, human rights, fair operating practices, and the supply chain) and to verify it against supporting documents. In the banknote segment, we were successfully audited by an independent auditor as part of the Banknote Ethics Initiative (BnEI) and have thus been an accredited full member since the fall of 2014. The BnEI, which G&D co-founded in 2013, focuses on the prevention of corruption and on compliance with antitrust law

 bnei.com

within the banknote industry. Members must adhere to a strict code of ethical behavior in their day-to-day business practices.

PROMOTING COMPLIANCE

The external BnEI audit confirmed that G&D has an effective, well-functioning compliance management system in place for combating antitrust violations, bribery, and corruption. In 2014, we also adopted a declaration of compliance principles, which brings together our existing, long-established guidelines and regulations – including the anti-bribery and corruption (ABC) policy. This declaration gives all our employees – and, for the first time, also our business partners – an overview of the relevant internal regulations and specific measures taken at G&D to ensure compliance with legal requirements. Core topics include the evaluation of G&D business partners, practical advice relating to gifts and invitations, guidelines on donations and sponsorship, and antitrust law.

At G&D, we use prevention and awareness strategies to avoid compliance breaches occurring in the first place. Employees take part in extensive e-learning programs on compliance-related topics such as our Code of Conduct and antitrust law, with the participation rate now almost 100 percent across the Group. In 2014, we saw a very positive response to our Lunch & Learn events, where employees are given the opportunity to discuss real-world compliance cases, such as data protection issues and invitations from business partners. These events support us in our efforts to make employees aware of compliance with regulations as something that affects us all on a daily

basis. International standards and legal requirements also oblige G&D to check the integrity of its business partners, both before commencing a new business relationship and at regular intervals during an existing partnership. Accordingly, our partners are required to undergo an evaluation process, which includes completing a comprehensive questionnaire and committing themselves to following proper business and information practices.

ACCEPTING SOCIAL RESPONSIBILITY

As a family-owned company with over 160 years of tradition, we take our responsibility to wider society very seriously. The not-for-profit Giesecke & Devrient Foundation has been the vehicle for our corporate citizenship activities since 2010. The Foundation supports projects involving education, culture, and international exchange. There are currently three areas of focus: First, an exchange program for young people from all over the world, organized in conjunction with the Goethe Institute, which aims to promote intercultural skills and peaceful coexistence for the next generation. We also support the Museum of the Printing Arts in Leipzig, which celebrated its 20th anniversary in 2014. And finally, we encourage our employees to take part in a corporate volunteering program, which can include providing financial coaching for young people, assisting at facilities for socially disadvantaged children, or working with refugees.

PROTECTING THE ENVIRONMENT


A responsible attitude towards the environment is a key factor for the long-term success of our company. One of our primary objectives is therefore to help conserve natural resources for future generations. Customers and consumers in all our markets are also increasingly aware of environmental aspects. Our climate protection strategy addresses a corresponding range of environmental issues – from research and the use of raw materials through production (product range, manufacturing processes, and product lifecycles) to distribution and recycling. We plan and implement our sustainability activities with the aid of a sustainability management system that combines Group-wide standards with local responsibility. This builds on the ISO 14001, OHSAS 18001, and ISO 50001 certified management systems. In addition, our worldwide purchasing guidelines state that environmental impact should be a factor in every procurement decision.

Across the Group, G&D has set itself the goal of reducing direct emissions of CO₂ from its own facilities (scope 1) and indirect emissions from purchased energy (scope 2) by 10 percent between 2010 and 2016. We also publish

these reduction targets and our carbon footprint as part of the Carbon Disclosure Project (CDP), the world’s largest collection of climate protection information. Our emissions remained static until 2013, due to increased production activity and growth in headcount up to that point. However, we continue to work towards our target by systematically implementing our defined emission reduction measures. Recent examples include cutting total energy consumption at the Munich location by around 8 percent in 2014. Meanwhile, the Louisenthal paper mill uses hydroelectric power plus a combined heat and power system in the production of banknote paper, saving 5,000 metric tons of CO₂ per year. Our London and Barcelona sites switched to green electricity in 2013, while at our Ontario production facility, optimizing lighting efficiency alone is set to save over 500,000 kilowatt hours of electricity per year.

In addition to these activities at the company level, the environmental consciousness and active participation of our employees are crucial to reducing G&D’s ecological footprint. We support this via regular training and a range of activities aimed at raising awareness, including participating in Germany’s Sustainability Action Days initiative and awarding prizes for outstanding sustainability measures initiated by employees. The internal G&D Award scheme, which previously focused solely on technological developments, was expanded in 2014 to include additional prizes for “Best Idea” and “Best Disclosed Invention”, as well as a new “Sustainability” category. Our Chinese subsidiary in Nanchang received this award for its use of groundwater cooling in the site’s air conditioning system, which has significantly reduced energy costs.


In addition to operating a production process designed to minimize resource consumption, we offer environmentally friendly products in our various markets. Examples include banknotes manufactured from cotton comber noil – a by-product of the textile industry that can also be derived from organically grown cotton if desired. For cashless payment, G&D can supply card bodies made of renewable materials. We can also provide SIM cards in various form factors that use less material, as well as offering more environmentally friendly alternatives to the standard materials used. After production, the lifecycle of a SIM card can be extended by means of over-the-air updates to prolong its technical service life.

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EMPLOYEES

Customers all over the world use solutions developed by Giesecke & Devrient. Countries, companies, and consumers alike rely on us to safeguard transactions and values. These trusted business relationships, in some cases forged over many decades, depend in turn on our 11,000 employees. Every day, they deliver on our customer promise. Our aim is therefore to create an environment that motivates them to achieve their best, facilitates their development, leverages their diversity, and promotes their health.


Against a backdrop of rapidly changing markets and intense competition, G&D is currently implementing cost reduction measures that make tough demands on our employees and also include job losses. As a responsible employer, we are working with the relevant co-determination bodies to minimize the impact on the individuals concerned. In the medium to long term, however, our fundamental requirement remains unchanged: as an innovative, customer-focused technology company, we need qualified and motivated employees worldwide in order to be successful now and in the future. We respond to this challenge by taking action today to secure the skilled workforce of tomorrow. This includes engaging with high school students via initiatives such as Germany's nationwide Girls' Day, which gives girls an insight into our range of technology-based career options. We also support students who are studying technical subjects, as well as addressing the emerging shortfall of skilled workers by training apprentices in eight different vocations and assisting large numbers of students in dual study programs.

The core of our professional development activity is our global talent management program, which was launched almost ten years ago. We use this to systematically identify and develop employees who demonstrate the potential to take on more extensive projects and greater management responsibility. This allows us not only to fill more managerial vacancies and other key positions with staff from within our own organization, but also to cultivate a leadership style that is appropriate for G&D and its markets. In addition to the centrally managed Top Talent program, there are also regional talent pools in EMEA (Europe, the Middle East, and Africa), Asia-Pacific, and North/South America. The benefits of this system include the ability to train our own talented young employees and take account of cultural factors in career planning,

especially in the international markets that are becoming increasingly important for G&D. Our talent management program has proved its worth: half of all participants to date swiftly made significant advances in their careers within the company, and a quarter have even made it into our global management team. The fluctuation rate for our top performers is also well below the level of turnover for the workforce as a whole, which itself is very low. Recent external recognition includes G&D's ranking among the leaders in the 2014 German Education Award (DBP) competition after achieving around 90 percent of targets.

ADVANCING AND LEVERAGING DIVERSITY

In addition to excellent development and promotion opportunities, we seek to offer a working environment that acknowledges our employees' different personal circumstances. Indeed, our three-pronged diversity management approach goes even further, aiming to create conditions in which our employees can perform to the very best of their ability regardless of gender, age, or cultural origin. As a global company, we firmly believe that leveraging the diversity of our people and actively countering discrimination are essential to our long-term success in extremely fast-moving markets. G&D therefore regards a diverse workforce as a significant competitive advantage. In 2014, we signed the German government's Diversity Charter, which is designed to promote respect and combat prejudice in the corporate world. We were also one of the three finalists for the 2014 Diversity Award organized by the German CSR Forum. In February 2014, we invited a number of leading figures to a stakeholder dialog, in which representatives of our internal and external stakeholders communicated their expectations with regard to diversity management at G&D. This valuable input is helping us to continuously improve and expand our programs and activities in this area.

 [deutscher-
bildungspreis.de](http://deutscher-bildungspreis.de)

 girls-day.de/english

 charta-der-vielfalt.de/en

 csrforum.eu

ENSURING EQUAL OPPORTUNITIES

Equal opportunities for women and a healthy work-life balance are particular priorities at G&D. We provide a range of options here, from mobile working and telecommuting to in-house childcare facilities and assistance for employees with dependent relatives. We also offer flexible working time models and job sharing. The proportion of part-time positions at our German locations is now almost 10 percent. In 2014, we successfully completed the "berufundfamilie" work-life balance audit for the fourth time, confirming the flexibility of our HR policy. A family-friendly corporate culture and management style is essential to the satisfaction and health of our employees. It is also key to achieving another of G&D's objectives to boost diversity within the company: in the medium term, we aim to increase the proportion of women at executive and global management level to 15 percent from 11 percent to date. Some 35 percent of the participants in our talent management programs and 80 percent of our trainees are female. G&D also successfully took part in the "Mit ElternKOMPETENZ gewinnen" project organized by the Bavarian Ministry of Labor, which aims to make workplaces more female- and family-friendly. And 2014 marked the start of our drive to take all aspects of management skills into consideration when assessing potential across our global workforce. As a result of this gender-sensitive approach, we were able to significantly increase the number of women nominated for our 2015 talent programs, which should lead to a higher proportion of women in management positions in the future. A G&D women's network has been active since 2012, advising the Management Board and running a mentoring program for junior female staff. In late 2014, this was supplemented by the Career Counseling network, formed especially for women under thirty. The Women in Business pilot project, meanwhile, is particularly intended to encourage international networking and the peer-to-peer exchange of advice between women in the G&D Group. G&D also benefits from sharing best practice information with other companies on the genderdax platform, an initiative supported by the German government.

Another challenge is demographic change in the industrialized countries. As the average age of our workforce continues to rise, we have a responsibility to support our people throughout their entire working lives, ensuring they are able to maintain their health, motivation, and performance levels. G&D's response here takes the form of a demographic strategy that includes staff development tailored to different life stages, preventive healthcare measures, the intergenerational transfer of expertise, management awareness training, a labor management agreement to facilitate reintegration after extended periods of sick leave, and an employer-funded retirement plan. In 2015, for example, a pilot project will be launched to train employees in knowledge exchange. The aim is to professionalize the transfer of expertise that becomes necessary as a new generation of employees takes over – particularly in strategically important areas such as research and development.

Cultural diversity is also very important to G&D. We operate in 31 countries, with around 60 percent of our employees working outside Germany and 85 percent of our sales generated internationally. G&D's cultural diversity measures include selecting promising new talent on an international basis, intercultural training, and sharing knowledge and best practices between locations.

LEADERSHIP INITIATIVE LAUNCHED

For a global company with a broad portfolio, uniform standards are as important as diversity – particularly in times of change. One example is our global performance management system, introduced in 2013, which includes conducting employee reviews and evaluations based on the same transparent standards worldwide. Equally, the leadership initiative launched in 2014 aims to establish a management philosophy across the Group that promotes a sense of identity and builds on our specific strengths, as well as embedding a value-based leadership culture. The majority of our managers have already taken part in this initiative. At G&D, the key attributes of effective and professional leadership are setting an example, providing motivation, and promoting professional development. Line managers should also offer guidance and orientation, especially in times of change, and we will be undertaking further activities in this regard in 2015. As an international company, we have also made a commitment to uphold fundamental labor standards based on the principles of the International Labor Organization (ILO). These are: freedom of association, non-use of forced or child labor, equal opportunities for all employees, and a safe working environment. Additionally, all relevant production locations will be certified according to the international OHSAS 18001 health and safety standard by mid-2015.

 beruf-und-familie.de

 [kompetenzgewinn.
bayern.de](http://kompetenzgewinn.bayern.de)

 genderdax.de

G&D’S CSR PROGRAM

FOCUS / ACTIVITY		STATUS / GOAL	GLOBAL COMPACT PRINCIPLES*	PROGRESS / OUTLOOK
CSR strategy	Materiality analysis	Completed; focus on three key CSR action areas		Online survey of selected internal and external stakeholders regarding key CSR issues for G&D. Review of existing priorities; focus on following action areas: safe and environmentally friendly site operation, forward-looking HR policy, fair and safe business practices
	G&D Award with “Sustainability” category	Adjustment and continuation in 2015	7, 8, 9	Expansion of internal G&D Award to include submission of planned or implemented sustainability measures that will allow G&D to have a positive impact on the environment, employees, business partners, or society
Employee awareness	Participation in Germany’s Sustainability Action Days	June 2014 2015 participation planned	8	Three-day program with in-house event and action days focusing on healthy eating, waste avoidance, climate protection, and electric vehicles
	UN Global Compact progress report	Ongoing		Fourth progress report as per the requirements of the UN Global Compact, covering 2013/2014. Combined with annual report for the first time
Reporting	Participation in EcoVadis CSR assessment platform	Ongoing; annual rating		Gold Standard rating in the annual evaluation (09/2014) of G&D’s activities / supporting documentation relating to the environment, working conditions, human rights, fair business practices, and sustainable supply chain (improvement from 60 to 65 out of 100 possible points)
	Diversity management	Ongoing	1, 2, 6	Phased expansion involving concepts and selected activities around age (step 1), gender (step 2), and cultural diversity (step 3)
Action area: Employees Future-oriented employment policy	Measures relating to cultural diversity	February 2014	1, 2, 6	Stakeholder dialog on cultural diversity: exchange of ideas with experts from business and academia on a diverse corporate culture and possible strategies and measures
		February 2014	1, 2, 6	Signing of German Diversity Charter (national business initiative to promote diversity in companies and institutions) as a commitment to a diverse corporate culture
		September 2014; “Virtual Soft Skills / Virtual Leadership” training planned for 2015	1, 2, 6	Internal workshop on cultural diversity: internationally focused workshop for managers on identifying key success factors for effective global collaboration; follow-up project “G&D – the better connected company” – optimization of virtual, global cooperation in diverse teams
	Measures relating to gender / equal opportunities for women	Ongoing; medium-term objective: increase proportion of women in global/executive management to 15%	1, 2, 6	Internal women’s network (Munich) continued. Goal for 2015: increase membership to boost knowledge sharing and achieve greater economic effectiveness
			1, 2, 6	Initiatives/projects for career development and improved national and international networking between women: mentoring program for female staff, career counseling for women under 30, Women in Business project, Bavarian Ministry of Labor initiative (“Mit ElternKOMPETENZ gewinnen”), establishment of a gender-sensitive approach to assessing potential for talent management
	Measures relating to age / demographic change	Starting April 2015	1, 2, 6	Pilot project to train employees in transferring expertise in order to improve knowledge management – “Managing Knowledge Strategically: From Knowledge Holder to Knowledge Provider”
		Ongoing	1, 2, 6	Target-group-specific training programs, e.g. “50 Plus: Prospects for Your Professional Future” and “Age Diversity – Success Through Diverse Teams” (Q4/2015)
	Global talent management	Ongoing	1, 2, 6	Internal development program for systematic identification and development of high-potential employees in three regions (EMEA, APAC, Americas), plus a centrally managed global Top Talent program
	Leadership initiative (Kompass training)	Since 2014; addition of customized training and workshops planned for 2015	1, 2, 6	Series of training sessions for all managers in Germany to establish a Group-wide management philosophy and value-based leadership culture
	German Education Award (TÜV audit)	Audited May 2014	1, 2, 6	Participation in German Education Award (DBP) competition with audit of entire education and talent management system with regard to quality, efficiency, and innovation of all offerings for staff and managers in Germany; audit also included global strategic programs. G&D assessed as an “excellent company”
	Encouraging a healthy work/life/caregiving balance	Re-audit to conclude August 2016	6	Continuation of flexible working time models / job sharing, working from flexible locations and telecommuting introduced in Munich, provision of childcare (own facility at Louisenthal paper mill; cooperation with local daycare centers in Munich and Königstein), vacation program for employees’ children, advice and seminars for employees with dependent relatives plus Munich-based “Care Day” in May 2014, berufundfamilie re-audit
	Health management and promotion	Certification of all major sites to OHSAS 18001 by mid-2015	6	Shift in strategy from centralized to decentralized approach, enabling a more rapid, specific and local response to the needs of subsidiaries. Subsidiaries are responsible for tracking objectives, action planning, and implementation of KPI systems where applicable. Measures in Germany: comprehensive support included in training program; “Stay Healthy at Work” campaign as part of Sustainability Action Days in June 2014; focus areas including healthy eating, colon cancer screening, and preventive healthcare within the company

	FOCUS / ACTIVITY	STATUS / GOAL	GLOBAL COMPACT PRINCIPLES*	PROGRESS / OUTLOOK
Action area: Environment Resource-efficient and safe site operation	Sustainability management system for planning and implementing sustainability measures	Ongoing	7, 9	Shift in strategy from centralized to decentralized approach, enabling a more rapid, specific and local response to the needs of subsidiaries. Subsidiaries are responsible for tracking objectives, action planning, and implementation of sustainability KPI systems where applicable
	Group-wide certification to ISO 14001 and OHSAS 18001	Ongoing process	7, 8, 9	Certification of all of the Group's 22 relevant production locations by mid-2015
	Corporate carbon footprint (CCF)	Ongoing process	7, 8	Generation of CCF 2013 for the relevant production locations and completion of external verification audit: scope 1 and 2 emissions almost static. Recalculation of emissions from base year onwards due to improved data quality and external verification. CCF 2014 survey of the Group's 22 production locations by Q2/2015. Publication in Carbon Disclosure Project (CDP). Product carbon footprint: product-specific CO ₂ for cards manufactured or personalized at four different locations
	Conserving resources in production and site operation (selected examples)	Ongoing	7, 9	<ul style="list-style-type: none">• Louisenthal paper mill / banknote paper production: installation of a combined heat and power system in the production area (use of machine exhaust air to heat building), phased development of a heat recycling network; waste water regeneration through state-of-the-art biomembrane reactors in Louisenthal and Königstein → 40% reduction in fresh water use with beneficial environmental effects (drinking water protection area); 25% reduction in organic waste load through mechanical pre-treatment on site• Munich site: introduction of an innovative, energy-efficient cooling distribution system to reduce cooling energy, electricity consumption, and CO₂ emissions• Card production, China: groundwater cooling for air conditioning system• Card production, Brazil: reduction of water consumption by switching to automated operation of water treatment system• Card production, Slovakia: implementation of a waste reduction plan
	Environmentally friendly products	Ongoing	9	<ul style="list-style-type: none">• Development/supply of environmentally friendly products, e.g. card bodies made of renewable materials; SIM cards in various form factors that use less material• Banknote paper using cotton comber noil as a raw material, occurring as a by-product of the textile industry (from organically grown cotton on customer request)
	Dialog with stakeholders on environmental and climate protection / initiatives	Ongoing	8	<ul style="list-style-type: none">• Customer workshop with French commercial bank on Green Product Strategy (06/2014)• Climate reporting partner of Deutsche Telekom in collaboration with the Carbon Disclosure Project (CDP) and WWF• Participation in CDP
	Informing employees and raising awareness	Ongoing	10	Implementation of e-learning program: “Step by Step Towards Sustainability – Reducing G&D's Environmental Footprint”; participation in Sustainability Action Days (see above)
	EHS legal management software	Adjustment and continuation in 2015	7, 8, 9	Introduction of legal management software at the Munich site with the aims of increasing transparency, ensuring compliance with legal and statutory requirements, and systematically applying legislative changes within the EHS management system
	Group-wide Code of Conduct	Ongoing	1–10	Code of Conduct for all employees and business partners; incorporates the UN Global Compact, ILO core employment standards, the UN Declaration of Human Rights, OHSAS 18001; compliance is monitored by Corporate Auditing
	Declaration of compliance principles	Completed 2014	1–10	Consolidation of all existing guidelines and internal regulations for employees and, for the first time, also for business partners
Action area: Compliance / anti-corruption Fair and safe business practices	Employee awareness / prevention	Training: international roll-out planned for 2015	4, 5, 10	National online training concept that focuses on: Code of Conduct, anti-corruption, and antitrust law; Lunch & Learn events: communication of compliance-related topics using real-world examples
	Audit of compliance management system	Completed 2014	1–10, esp. 10	Second external audit to check the effectiveness of established compliance measures in accordance with Assurance Standard 980 of the German Institute of Public Auditors (IDW PS 980)
	Business partner evaluation	Ongoing	1–10	Results of the IDW PS 980 audit of G&D's compliance management system show widespread performance of integrity checks for business partners (business partner evaluation) throughout the Group as per G&D guidelines
	Banknote Ethics Initiative (BnEI)	Ongoing	1, 2, 10	G&D a founding member; accredited full member since November 2014 following audit by independent auditor
Sustainable supply chain	Supplier evaluation via business partner evaluation	Ongoing	1–10	Results of the IDW PS 980 audit of G&D's compliance management system show that business partner evaluations are used extensively in the context of supplier evaluation throughout the Group
	BOMcheck database for G&D suppliers (bill of material)	Ongoing	7, 8	Use of BOMcheck online database to capture and check the contents of materials supplied, including conflict minerals in accordance with the Dodd-Frank Act
Corporate citizenship	Giesecke & Devrient Foundation	Ongoing		Support for various projects, e.g. the Museum of the Printing Arts in Leipzig, an international development program for young people from Africa in partnership with the Goethe Institute in summer 2015, sponsorship of the Technical University of Munich's Germany Scholarship program
	Corporate volunteering program	Ongoing		Continuation of the program (launched in 2012) of social projects such as excursions with refugees, assisting with maintenance of a children's farm, helping with work on nursery and school buildings; support for “My Finance Coach” project to teach schoolchildren how to manage money

* 10 principles of the UN Global Compact

- Principle 01** Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 02 Businesses should make sure that they are not complicit in human rights abuses.
Principle 03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 04 Businesses should uphold the elimination of all forms of forced and compulsory labor.
Principle 05 Businesses should uphold the effective abolition of child labor.

- Principle 06** Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Principle 07 Businesses should support a precautionary approach to environmental challenges.
Principle 08 Businesses should undertake initiatives to promote greater environmental responsibility.
Principle 09 Businesses should encourage the development and diffusion of environmentally friendly technologies.
Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

GROUP MANAGEMENT REPORT AS OF DECEMBER 31, 2014

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033	Forecast

01 GROUP PROFILE

Giesecke & Devrient (G&D) is a family-owned company with global operations that provides solutions to ensure reliable transactions and safeguard the authenticity of identities and values across three areas of business. G&D is an international leader in banknote production and processing (Banknote business unit). We equally offer end-to-end mobile security solutions – comprising hardware, software, and services – to banks, network operators, public transportation providers, and increasingly also other companies, with networked products and services in the fields of telecommunication and electronic payment a particular specialty (Mobile Security business unit). G&D further supplies highly secure travel documents, ID systems, and healthcare cards, which can be used for conventional identification purposes as well as for authentication and protection in electronic business processes via the Internet (Government Solutions business unit). Corporate Functions has a steering role and also provides services for the entire Group.

Group Structure up to December 31, 2014

Operating Activities			
Business Unit	Banknote	Mobile Security	Government Solutions
Division	<ul style="list-style-type: none">• Paper• Printing• Processing	<ul style="list-style-type: none">• Secure Devices• Server Software and Services (35)	<ul style="list-style-type: none">• Government• secunet
Corporate Functions			

In order to further extend the global success of our innovative products for telecommunications and payment, we restructured the Mobile Security business unit in 2015 to align it more effectively with our product solutions and customer base.

On January 1, 2015, G&D and Bundesdruckerei established a joint venture called Veridos GmbH. The joint venture partners are merging their international business in the field of secure identification solutions, such as passports and ID systems for governments. G&D has a 60% stake in this joint venture, which will incorporate the bulk of its Government division.

Group Structure as of January 1, 2015

Operating Activities			
Business Unit	Banknote	Mobile Security	Government Solutions
Division	<ul style="list-style-type: none">• Paper• Printing• Processing	<ul style="list-style-type: none">• Financial Institutions• Telecommunication Industries• Enterprise Security / OEM	<ul style="list-style-type: none">• Veridos• secunet
Corporate Functions			

Information on key aspects of our research and development activity can be found in section 2.1.2.

02 BUSINESS PERFORMANCE

Global economic expansion stalled during 2014. While some developed economies – most notably the United States – made a positive contribution to global growth, momentum in the emerging markets increasingly weakened and fell short of expectations. Economic activity in the eurozone was hit by geopolitical tensions, in particular the simmering conflict between Russia and Ukraine.¹

The markets served by the G&D Group and its business units are chiefly growth markets, which are subject to intense price and cost pressures in conjunction with tough competition.

An extensive cost-cutting program was launched in the second half of the year under review to boost G&D’s competitive-ness. The P100 program aims to increase profitability by EUR 100 million p.a. The key elements of this program are capacity adjustments, procurement optimization, and reduction of overheads.

The individual measures involved include closing our banknote printing plant in Munich in 2015 and relocating production and development of banknote security systems from Munich to Louisenthal during 2016. The plan is to establish a compe-tence center for banknote security solutions in Louisenthal. We also intend to close the Munich service center, where cards are personalized, moving these services to a more cost-effective location within Germany. Leaner administrative structures are another important requirement, which will involve reducing staff. We intend to terminate around 950 jobs out of a global workforce of 11,453 employees. This figure includes around 630 jobs at the Munich site. In addition to these job cuts, some 150 posts will be relocated within Germany.

To improve comparability of Group earnings, the costs relating to P100 are shown separately in the Restructuring column in the table below.

2.1. GROUP BUSINESS PERFORMANCE

The key financial performance indicators at the Group level are net sales, earnings before interest and taxes (EBIT), capital expenditure, average working capital intensity², free cash flow, and economic value added (EVA)³. From 2015, the additional figure of earnings before interest, taxes, depreciation and amortization (EBITDA) will be used as a key performance indicator.

¹ According to the IMF's 2014 fall report of September 10, 2014

² Ratio of average working capital to annual sales at balance sheet dates;
working capital = customer receivables + inventories - liabilities - advances received

³ EVA is the result of the difference between internal return on capital employed (ROCE) and the weighted average cost of capital (WACC).
The latter represents the minimum return required over the long term and was fixed at 9.7% for the reporting year. ROCE is calculated based on the ratio between adjusted EBIT and average capital employed. Average capital employed is calculated from the mean of capital employed in the prior year and the period under review.

2.1.1. RESULTS OF OPERATIONS

Consolidated Income Statement (IFRS)						
EUR million	Before restructuring 2014	Restructuring 2014	After restructuring 2014	2013	Change (%)	Change (absolute)
Net sales	1,833.1	0.0	1,833.1	1,753.6	4.5	79.5
Gross profit	496.3	(35.5)	460.8	504.8	(1.7)	(8.5)
Gross margin (% of sales)	27.1		25.1	28.8	(5.9)	(1.7 pp)
Selling, R&D, and general administrative expenses	(440.1)	(38.3)	(478.4)	(453.0)	(2.8)	12.9
Other operating income and expenses, net	6.4	0.0	6.4	9.5	(32.6)	(3.1)
Operating profit	62.6	(73.8)	(11.2)	61.3	2.1	1.3
Financial income	(0.6)	0.0	(0.6)	(5.1)	(88.2)	4.5
Earnings before interest and income taxes (EBIT)	62.0	(73.8)	(11.8)	56.2	10.3	5.8
EBIT margin (% of sales)	3.4		(0.6)	3.2	6.3	(0.2 pp)
Interest income			1.9	1.8	5.6	0.1
Interest expense			(30.4)	(27.5)	(10.5)	(2.9)
Earnings before income taxes (EBT)			(40.3)	30.5	-	(70.8)
Income taxes			(33.0)	(27.9)	(18.3)	(5.1)
Net loss / net income			(73.3)	2.6	-	(75.9)
Reconciliation to EBITDA						
Earnings before interest and income taxes (EBIT)	62.0	(73.8)	(11.8)	56.2	10.3	5.8
Depreciation and amortization	(103.9)		(103.9)	(97.8)	6.2	(6.1)
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	165.9	(73.8)	92.1	154.0	7.7	11.9

The G&D Group generated net sales of EUR 1,833.1 million in fiscal 2014. Sales rose by EUR 79.5 million or 4.5% compared with the previous year, with both the Banknote unit and Mobile Security contributing. Excluding exchange rate effects, sales grew by around EUR 100 million.

Sales				
EUR million	2014	2013	Change (%)	Change (absolute)
Banknote	887.5	844.3	5.1	43.2
Mobile Security	777.8	731.3	6.4	46.5
Government Solutions	167.8	178.0	(5.7)	(10.2)
Total	1,833.1	1,753.6	4.5	79.5

Restructuring costs of EUR 73.8 million were incurred in 2014 as part of the P100 program. These costs are shown in a separate column in the income statement and specified for each functional area. The following comments relate to the figures before restructuring, unless otherwise stated.

Gross profit was negatively affected primarily by excess capacity in the banknote printing market and the high level of price sensitivity in relation to card products. Product mix was an additional factor, with banknote processing machines accounting for a relatively high proportion of sales at a comparatively low margin. This, in turn, had an unfavorable impact on gross margin, leading to a decrease from 28.8% to 27.1% for the Group.

Selling expenses, research and development, and general administrative expenses declined from EUR 453.0 million to EUR 440.1 million. While selling expenses remained at the previous year’s level, R&D costs were lower than in 2013 as the result of a higher proportion of capitalized development work related to specific contracts in 2014. Savings in general and administrative expenses are largely attributable to lower consulting costs, reduced travel expenses, and decreased spending on building maintenance.

Other operating income and expenses were down EUR 3.1 million compared with the previous year. This difference is mainly due to the unwinding of a conditional purchase price commitment, which resulted in exceptional net income of EUR 5.0 million in 2013.

Financial income was EUR 4.5 million higher than the previous year. Income from exchange rate and currency hedging effects was almost flat in the last fiscal year at EUR -0.9 million (previous year: EUR -9.1 million). Investments accounted for using the equity method also performed better than in the previous year, improving by EUR 0.8 million. Gains on securities were around EUR 4.4 million lower than in the previous year.

At EUR 62.0 million, EBIT was 10.3% higher than in the previous year. However, we were not able to achieve the planned increase in sales and earnings in 2014.

EBITDA rose by EUR 11.9 million in 2014, due to a combination of improved EBIT and higher depreciation amounts.

Net interest income includes interest of EUR 15.5 million on pension obligations. At EUR 13.9 million, interest expense for financial liabilities slightly exceeded that of the previous year.

Tax expenses rose by EUR 5.1 million to EUR 33.0 million compared with the previous year. This is primarily due to changes in valuation allowances for deferred taxes accrued on loss carryforwards in previous years and to choosing largely not to capitalize deferred taxes on losses in the reporting year.

After interest and taxes, a net loss of EUR 73.3 million was recorded for the 2014 fiscal year. In comparison with the previous year’s result, this reflects the significant one-time effects of restructuring.

2.1.2. RESEARCH AND DEVELOPMENT

Research and Development	2014	2013	Change (%)
Number of R&D employees (FTEs)	1,200	1,282	(6.4)
Percentage of total employees	10.5	11.0	(0.5 pp)
Spending on R&D (EUR million)	143.9	143.8	0.1
of which pure R&D expenditure (EUR million)	119.7	128.2	(6.6)
R&D ratio (% of sales)	6.5	7.3	(0.8 pp)
of which capitalizable costs (EUR million)	9.5	2.2	> 100
of which cost of goods sold	14.7	13.5	8.9
Number of active patents	7,250	7,500	(3.3)
New patent applications	158	168	(6.0)

As an innovative, customer-focused technology company, G&D is heavily reliant on research and development to safeguard its ongoing success. At EUR 143.9 million, total R&D spending in fiscal 2014 remained virtually unchanged from the previous year. After deducting customer-specific development costs and capitalizable costs, pure R&D expenditure amounted to EUR 119.7 million. Our activities focused on security features and technology for banknotes. In the banknote paper market, durability of the product is a crucial competitive factor and we respond to this challenge by developing innovative banknote substrates. We actively help to shape market trends and seek to expand our market-leading position in the **Banknote** sector by continuously improving performance and boosting intelligent integration of our system solutions for banknote processing.

Technology development in the **Mobile Security** business unit focused on communication in the Internet of Things and on protecting mobile applications for Android devices. Significant R&D activity was also devoted to developing products for the automotive, transit, and authentication markets. We delivered new variants of the Convego® Join multi-application platform, which allows different applications to be combined on a smartcard according to individual needs. Additional development teams were established in Spain and India to meet the high level of customer demand in this area. In the field of NFC technology, we created a new platform for high-end NFC cards that will serve as the basis for future customer projects.

In the **Government Solutions** business unit, G&D has strengthened competitiveness by enhancing the product portfolio with a polycarbonate data page for electronic passports that combines the latest security features (such as a transparent stripe). A powerful Java platform for ID cards was also developed in line with the latest security criteria, authentication methods, and international certification requirements. Meanwhile, the optimized eID system entered its pilot phase. This system uses secure standard protocols and enables the creation of contactless ID cards with a wide range of e-government applications. In the context of the EU-funded project to standardize automated border controls, further progress was made on expanding the software platform required for verification.

The changes in the number of active patents and new patent applications were within the industry’s normal range of fluctuation.

2.1.3. CAPITAL EXPENDITURE

Capital Expenditure and Depreciation/Amortization

EUR million	2014	2013	Change (%)	Change (absolute)
Capital expenditure	78.5	103.9	(24.4)	(25.4)
Depreciation/amortization	100.9	97.8	3.2	3.1
Investment ratio (% of fixed assets)	12.1	15.4		(3.3 pp)

In the last fiscal year, capital expenditure was rigorously reviewed and remained significantly lower than depreciation. Investment was limited to EUR 78.5 million. Of this total, EUR 20.5 million was invested in intangible assets, representing a reduction compared with the previous year. This is mainly attributable to the decrease in capitalization linked to our process optimization program, Change. In the Banknote and Mobile Security business units, investment activity predominantly focused on optimizing production facilities and expanding the global network of personalization centers. Investment in tangible assets stood at EUR 58.0 million overall. The investment ratio as a percentage of fixed assets was 12.1% across the Group and thus below the previous year’s figure of 15.4%. There are no significant investment commitments for 2015.

2.1.4. ASSETS AND LIABILITIES

Balance Sheet Summary (IFRS)

EUR million	2014	2013	2014 % of total assets	Change (absolute)
Assets	1,922.2	1,840.5		81.7
Current assets	1,066.9	989.5	55.5	77.4
Non-current assets	855.3	851.0	44.5	4.3
Liabilities	1,922.2	1,840.5		81.7
Current liabilities	745.3	685.8	38.8	59.5
of which current financial liabilities	138.5	175.4	7.2	(36.9)
of which current lease liabilities	2.2	2.0	0.1	0.2
Non-current liabilities	889.3	719.1	46.3	170.2
of which non-current financial liabilities	281.5	245.6	14.6	35.9
of which non-current lease liabilities	8.1	8.9	0.4	(0.8)
of which pensions and similar liabilities	555.9	417.5	28.9	138.4
Equity	287.6	435.6	15.0	(148.0)

Current assets increased by EUR 77.4 million in fiscal 2014. This was largely attributable to the rise in inventories to EUR 409.3 million (+ EUR 25.9 million) and of current trade receivables to EUR 325.3 million (+ EUR 22.7 million). Cash and cash equivalents climbed to EUR 186.4 million (+ EUR 15.2 million).

Non-current assets remained at a similar level to the previous year. Fixed and intangible assets declined by a total of EUR 23.5 million due to reduced investment activity. In particular, the recognition of deferred tax assets on valuation differences relating to sharply increased pension provisions under IFRS caused by actuarial losses resulted in this line item increasing to EUR 146.2 million (+ EUR 39.2 million). Non-current income tax receivables fell by EUR 10.7 million following disposal of the remaining corporation tax claims.

Current liabilities rose as a result of accrued restructuring provisions relating to P100 (EUR 66.4 million). In addition, current trade payables, including the current share of advance payments received, increased from EUR 308.4 million to EUR 326.0 million.

To cover medium- to long-term financing requirements, Giesecke & Devrient GmbH took out a maturity loan of EUR 120 million in September 2014 with a term that ends on December 20, 2018. At the same time, existing loans were repaid. Overall debt remained at the same level as the previous year.

The increase in non-current liabilities can be primarily attributed to the change in pension provisions. The necessary reduction in the actuarial interest rate from 3.8% in the previous year to 2.2% in fiscal 2014 means that the associated valuation changes must be recognized immediately in accordance with IAS 19 and reflected in retained earnings.

Alongside the increase in pension provisions, the annual net loss was the other key factor in the decline in equity. The equity ratio fell to 15.0% from 23.7% in the previous year.

Average working capital intensity increased from 19.2% in the previous year to 23.0%. Cash and cash equivalents, which are discussed in more detail in section 2.1.5, rose by EUR 15.2 million.

No significant effects are expected from off-balance-sheet liabilities. Please see note 32 of the consolidated financial statements.

2.1.5. FINANCIAL POSITION

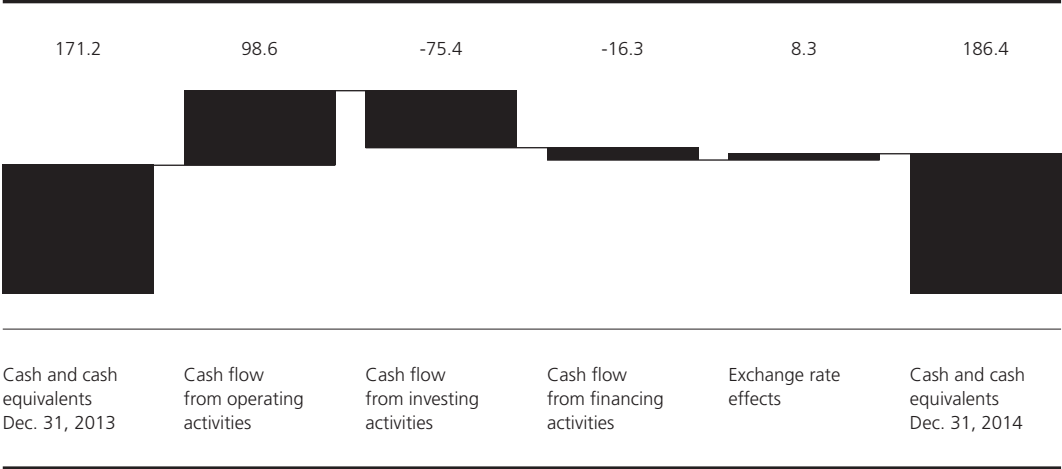
Cash flow from operating activities increased significantly compared with the previous year. P100 has had a negligible impact on cash flow to date.

Net cash used for investment was provided entirely by operating activities. Overall, the Group achieved positive free cash flow of EUR 23.2 million, which was significantly above the previous year’s level and in line with planning.

As part of financing activities, funds from a new maturity loan of EUR 120.0 million were primarily used to reduce utilization of the working capital credit line. Liabilities from leases and loans totaling EUR 79.7 million and short-term debt and borrowings of EUR 60.8 million were also repaid. To cover short-term financing requirements for investment in current assets, the two Chinese subsidiaries borrowed EUR 33.0 million. Financial and lease liabilities were reduced by EUR 6.8 million overall. Please refer to note 13 of the consolidated financial statements for information on approved but unused credit lines. A dividend payment of EUR 7.5 million was made in the reporting year.

Cash and cash equivalents increased by EUR 15.2 million to EUR 186.4 million in 2014.

Change in Cash and Cash Equivalents (EUR million)



Our Giesecke & Devrient Malaysia SDN BHD subsidiary took out a long-term loan and is subject to a ban on making dividend payments for its duration. There are no other restrictions that may impact the availability of capital.

2.1.6. RETURN ON CAPITAL AND ECONOMIC VALUE ADDED

A key performance indicator for G&D is economic value added (EVA). Average capital employed of EUR 1,069.4 million and EBIT before restructuring of EUR 62.0 million translates into return on capital employed (ROCE) of 5.8%. With the weighted average cost of capital (WACC) remaining level with the previous year at 9.7%, EVA amounted to EUR -41.7 million or -3.9%. The planned increase in EVA was not achieved.

2.1.7. EMPLOYEES

Number of Employees (FTEs)				
	2014	2013	Change (%)	Change (absolute)
Production	7,577	7,688	(1.4)	(111)
Sales	1,344	1,311	2.5	33
Research and development	1,200	1,282	(6.4)	(82)
Administration	1,332	1,379	(3.4)	(47)
Total	11,453	11,660	(1.8)	(207)

Following steady expansion of the workforce in previous years, a further increase in employee numbers was planned for 2014. Primarily due to the necessary restructuring measures, a very restrictive approach was taken to recruitment of new staff. At the end of the year, G&D employed 11,453 FTEs; 207 fewer than the previous year.

2.2. OVERALL ASSESSMENT OF ECONOMIC SITUATION

G&D was able to improve its operational performance slightly after the difficult 2013 fiscal year. Sales rose to over EUR 1.8 billion in 2014 but the situation remained unsatisfactory, particularly in terms of profitability. The Group did not achieve the planned increase in sales and earnings. This was mainly due to excess capacity and sharply increasing competition from government-subsidized providers in the banknote industry, high price sensitivity in relation to card products, and delays in the creation of new ecosystems for mobile services. Geopolitical instability in the Middle East, Russia, and Africa meant that progress on projects relating to banknote processing systems was slower than scheduled, without it being possible to offset this with other projects. This situation also had an adverse effect on the operating activities of the Government Solutions business unit, which experienced a marked decline in earnings in the second half of 2014. It is also apparent that banks remain reluctant to invest. Despite the slight increase in operational EBIT to EUR 62.0 million compared with the previous year, EVA was once again negative. This is clearly unsatisfactory.

The P100 cost reduction program was launched in the second half of the year with the aim of boosting G&D’s profitability. This program involves slimming down administrative functions, adjusting printing capacity, and relocating R&D functions and the Mobile Security business unit’s personalization center. We expect to see a significant positive impact on the earnings situation in 2016. Measures to reduce working capital were also defined as part of the P100 program in response to the renewed increase in this metric.

03 SUBSEQUENT EVENTS

Veridos GmbH, the joint venture between Giesecke & Devrient and Bundesdruckerei GmbH, commenced its activities as of January 1, 2015. The joint venture partners are merging their international business in the field of secure identification solutions, such as passports and ID systems for governments. G&D holds a 60% stake in Veridos, while Bundesdruckerei holds 40%.

No further events requiring disclosure in accordance with IAS 10 occurred between the balance sheet date of December 31, 2014, and approval of the consolidated financial statements by the Management Board.

04 OPPORTUNITIES AND RISK REPORT, INCLUDING RISK REPORTING ON THE USE OF FINANCIAL INSTRUMENTS

As a global enterprise, G&D has to find the right balance between opportunity and risk when carrying out its diverse business activities. Failure to identify and manage risk satisfactorily could jeopardize individual business units or even threaten the Group’s existence. Effective risk management forms part of responsible and sustainable corporate governance. At G&D, the objective of risk management is to recognize risk as early as possible, properly assess it, and then counter it by taking appropriate action. This is intended to minimize any potential impact on the Group’s net assets, financial position, and profitability, to safeguard the ongoing existence of G&D as an independent business, to strengthen its market position, and to achieve real increases in enterprise value.

4.1. RISK MANAGEMENT SYSTEM

The risk management system incorporates all the process and organizational guidelines needed to identify, analyze, assess, and manage the Group’s overall risk situation. This system is embedded into strategy, planning, and controlling mechanisms across the entire Group. While operating and financial risks are dealt with on an ongoing basis whenever necessary in the course of day-to-day business management and assessed during the quarterly performance reviews, strategic risks are subject to an annual review as part of the strategy process and therefore to separate reporting. Compliance risks are likewise managed via our own compliance organization and are also subject to separate reporting, including notification of Corporate Controlling in case of financial implications.

A standard risk identification and evaluation procedure – GAAPS (G&D’s Approach to Achieving Project Success) – is applied to customer business across all divisions. From the point a contract is signed, risks identified as part of the GAAPS process are entered in the Group’s risk management system so they can be tracked. The degree of potential risk is quantified and the probability of occurrence defined.

Corporate Controlling compiles a Group risk report on a quarterly basis, which provides information on the current status of risks. The risk report is provided to members of the Supervisory Board and Advisory Board as part of quarterly reporting. The Group accounting department incorporates all accounting practices and valuation methods into the Group’s standard accounting policy and updates this policy when new IFRS standards are published or existing ones amended. In order to evaluate all risks relevant to accounting (e.g. inventory valuation, credit default risks with regard to receivables, valuation of provisions), the Group accounting department has defined standard requirements for the Group. External experts are consulted to help assess special areas, such as pension obligations.

4.2. COMPLIANCE MANAGEMENT

The purpose of the compliance management system is to maintain customer confidence in G&D. At the same time, it safeguards the Group’s ongoing existence. The compliance management system is continually updated to satisfy new legal requirements and also to reflect G&D’s current risk profile. This requires the Group’s risk map to be revised on a regular basis.

The Compliance Office reported to the Group’s Management Board on a quarterly basis about activities in the core compliance areas of prevention, detection, and response during the period under review. The Management Board reports annually to the Supervisory Board on compliance management within the Group. Individual events are reported separately and directly to the Chairman of the Management Board, who takes appropriate measures in conjunction with the other Board members. External consultants are also used to examine and advise on compliance matters.

In November 2014, G&D was accredited as a member of the Banknote Ethics Initiative (BnEI) after successfully completing an audit. This organization aims to promote ethical business practices, focusing in particular on the prevention of corruption and on compliance with antitrust law in the banknote sector. Five companies within the industry are currently being assessed against BnEI’s ambitious and rigorous guidelines, which were developed in conjunction with an international specialist in corporate responsibility and business ethics.

On behalf of the Management Board, the Group auditing department (Corporate Auditing) conducts regular checks to assess the implementation and effectiveness of Group management and monitoring processes. The main aspects looked at are risk management, the internal control system, legal regulations, and internal corporate guidelines. The Group auditing department was certified by KPMG in accordance with the requirements of the Deutsches Institut für Interne Revision e.V. (The Institute of Internal Auditors) in 2011. In fiscal 2014, Corporate Auditing carried out a total of 19 audits. Findings are reported to the Management Board and the management of the audited entity. Corporate Auditing checks that measures arising from these investigations are implemented appropriately.

4.3. RISK ANALYSIS AND ASSESSMENT

G&D carries out integrated risk analysis, extending from contract initiation right through to the expiry of any warranty period. Where the relevant undertaking comes under the operational responsibility of a Group company and this company receives technical, logistical, or other specialist support or supplies from a different Group company, joint risk analysis must be performed for all Group companies involved.

G&D distinguishes between operating risks and financial risks. Operating risks are broken down into the following risk categories: own value-adding activities, sales-related risk, procurement/staff, and tax risk. A number of individual risks may be associated with any project or venture. These may be cumulative or mutually exclusive. The individual risks must be assessed separately and also aggregated in a manner appropriate to the project or venture in question to provide a useful indicator of overall risk. The risks identified (individual risks and overall risk) are evaluated using the gross and net methods. Gross risk is defined as the potential damage that might result if no measures or controls were in place to mitigate the risk. Net risk is the risk remaining when mitigating actions are taken into account. The probability of occurrence is multiplied by the net risk to give the risk value.

The probability of occurrence indicates the estimated likelihood of the identified risk occurring, which is classified as follows based on IFRS accounting standards:

Description	Probability of Occurrence
Expected to occur	x > 80%
Probable	80% ≥ x > 50%
Not probable	50% ≥ x > 10%
Possible, but largely theoretical	x ≤ 10%

The potential damage per risk category, as determined in the cumulative risk assessment, is divided into three levels. The damage is classified as low, moderate, or substantial depending on the degree of financial impact.

Risk	Risk Value per Risk Category (EUR million)
Low	< 10
Moderate	10 – 50
Substantial	> 50

4.4. OPERATING RISKS AND OPPORTUNITIES

All identified operating risks are regularly assessed by the risk owners in the subsidiaries. This involves an analysis of the probability of occurrence, the potential damage, and the effectiveness of the measures employed to mitigate the risk.

4.4.1. OPERATING RISKS

Operating risks are risks that may occur anywhere along the value chain and jeopardize the achievement of near-term corporate objectives. As of December 31, 2014, 42 overall operating risks had been reported to the Management Board and the Supervisory Board via the risk report.

The risks described have already been taken into consideration in these financial statements and in the forecast, in accordance with the Group’s accounting policy. If the risks for which no provisions have been made due to the low probability of occurrence do occur, this would have a negative impact on our net assets, financial position, and results of operations. If all of the risks were to occur together, serious damage would result. If the risks covered by provisions occur, there would also be a cash outflow.

The operating risk categories documented in the risk management system are as follows:

Operating Risk Category			
EUR million	Risk	Risk Value	Provision
Own value-adding activities	Low	3.8	5.4
Sales-related risk	Moderate	19.8	16.8
Procurement/staff	Low	4.2	3.4
Tax risk	Low	2.6	1.3
Total		30.4	26.9

A provision corresponding to 100% of the net risk value is recognized if the probability of occurrence is greater than 50%. As a result, the provisions in the risk categories may exceed the risk value

Own Value-Adding Activities

To maintain our competitiveness, we need to develop new products, services, and solutions. This also entails establishing complete ecosystems and implementing the associated business models, which can change the liability situation. Developing the right technology at the right time and having the necessary organizational structures in place is crucial. We seek to shape market developments through carefully targeted investment in research and development. If activities are started too soon, this can result in idle time costs, while starting too late can lead to a loss of market share. Changes in strategy can result in substantial restructuring costs. We counter this risk by reviewing divisional and Group strategy on an annual basis.

Targeted acquisitions, which tie up capital, are sometimes necessary to support corporate strategy and expand our portfolio of products and services. Implementing an acquired company’s business plan and necessary post-merger integration measures entails considerable risk. Failing to meet objectives may cause the value of the assets to fall and thus impact results.

Any production stoppage or downtime would have serious consequences for our net assets, financial position, and results of operations. Additional capacity must therefore be maintained to safeguard continuous production. We aim to ensure optimum machine utilization and back-up capacity by means of production planning and management.

Machines that are outdated or no longer meet the latest technical standards could lead to a loss of production capacity, resulting in partial or complete failure to produce the planned quantities. Capital expenditure is managed centrally at G&D and closely monitored by the project controlling team so that countermeasures can be taken in the event of deviation from targets. Problems of this kind can result in project delays or late delivery of products to end customers. If G&D is late in delivering products, we could face contractual penalties for failing to comply with delivery deadlines.

Statutory requirements can also impact production, for instance if emissions limits are regulated more tightly. Environmental issues are becoming increasingly important for businesses. We seek to counter risks in this area by means of our environmental management system and approach to corporate social responsibility (CSR). Details of the measures taken can be found in our CSR report.

Unrecognized defects or the delayed introduction of new products could result in higher costs for G&D and have an adverse impact both on demand for our products and on our reputation. To counter this, ongoing and efficient development of our quality management system is essential, with a corresponding focus on customer needs. In relation to product development, timely implementation of preventative measures is especially important in order to achieve the warranted product quality and avoid substantial additional costs during the subsequent commercialization phase. Our underlying approach is that “quality is everybody’s business.” Making this attitude a reality requires processes, organizational interfaces, tasks, and responsibilities to be clearly defined and communicated. Each employee therefore needs to be fully aware of the contribution they can make within their role.

The replacement of existing products in a region may mean that spare parts inventories can no longer be used. We counter this risk by periodically revising our phase-out and sales planning. In addition, inventories are regularly subjected to impairment testing during the preparation of financial statements.

G&D is not completely immune to cyber security risks, whether in the form of economic or industrial espionage or of cyber attacks by specific countries or competitors. These risks could lead to unintentional sharing of confidential information or intellectual property, product damage, supply difficulties, loss of production, or compromised (personal) data. We may also be faced with threats from individuals who gain unauthorized access to buildings or systems and misuse, steal or damage information or assets. We have taken a range of technical and organizational precautions to minimize this risk. These include IT security measures, identity management, multi-level access control and entry systems, camera surveillance, deployment of a Group security service, and raising employee awareness through regular training sessions on compliance and security issues. If any of these measures fail, our business operations and provision of services could be exposed to the above-mentioned risks, which would have a negative impact on our reputation, business activities, financial and earnings situation, and cash flow. We have implemented a security/control system that enables us to identify and respond promptly to risks.

Sales-Related Risk

Many of our target markets are subject to dynamic change. This applies in particular to our Mobile Security business unit. The markets relevant to G&D are defined by tough competition and constant price pressure. New competitors in emerging countries with more favorable cost structures may attempt to position themselves in our core markets. Government-owned competitors are increasingly crowding into the banknote printing market and can frequently afford to concern themselves less with commercial constraints. Existing value chains could be actively disrupted or broken. Suppliers may also extend their value chains vertically and thus become potential competitors.

In some markets, customer procedures for invitations to tender and awarding contracts have changed. In addition, putting agreements with customers into contractual form could lead to extended warranty periods or claims for damages in warranty cases.

Some Middle Eastern countries are currently affected by political change processes and regime change. Contracts with customers from these regions may be affected by extreme developments that make it impossible for the parties to fulfill contractual agreements due to force majeure.

We counter these risks by continually monitoring economic and political developments in our key markets, aided by the strong regional focus of G&D’s sales organization. Production and capital expenditure are managed centrally, enabling a rapid response in the event of any economic slowdown. We also take particular care in drafting customer contracts to ensure that aspects such as liability issues in the event of extreme situations are clearly defined in advance. We seek to minimize competitive risk through continual innovation and ongoing optimization of processes and costs.

Procurement/Staff

Supply chain management is centralized at G&D. Any disruptions, such as delivery delays on the supplier side, may have adverse effects on the availability, quality, and cost of G&D products and therefore impact sales and earnings.

It is crucial to protect, license, or acquire intellectual property rights as part of our R&D activities. Third parties could accuse us of breaching their intellectual property rights. This could result in compensation payments for damages and a ban on using certain technologies. The Group’s patent department works with external law firms to register and monitor patents.

When selecting external partners, care must be taken to ensure that they abide by internal rules and applicable laws and regulations, as well as supplying our customers with high-quality products.

When employment relationships end, legal disputes may arise, in which claims could be brought against G&D. If we are unable to manage our workforce effectively, it could have a negative impact on our net assets, financial position, and results of operations. To ensure success, our HR organization takes an active approach to personnel management around the globe. Internally, an integrated program to nurture talent is designed to foster staff loyalty.

Tax Risk

Giesecke & Devrient’s business activities are subject to the usual risks associated with international operations. These include the incompatibility of different tax regimes, possible tax obstacles that make business more difficult, and import/export regulations. Intercompany netting may be challenged by the tax authorities, which can entail lengthy negotiations and the need to produce extensive documentation. We seek to counter these risks by continually adapting our internal processes to changing requirements and taking advice from auditors, lawyers, and tax consultants in the countries concerned.

4.4.2. OPERATING OPPORTUNITIES

The dynamic market conditions mean new business opportunities are opening up all the time. Maintaining an extensive vertical and horizontal portfolio of products and solutions allows the Group to diversify risk and take advantage of these market opportunities.

In our dynamic market environment, it may occasionally be the case that customers are no longer able to meet their payment obligations. If a customer has filed for bankruptcy, impairment adjustments need to be made to these receivables in the accounts. The 2014 financial statements include impaired customer receivables totaling EUR 7.5 million. If, contrary to expectations, it becomes possible for the customer to settle the outstanding receivables, the derecognition would be reversed. This would positively impact our net assets, financial position, and results of operations by the corresponding amount.

We see other, hard-to-quantify opportunities in the following areas:

Given the international nature of its business, G&D’s success is affected by economic conditions in the various countries in which it operates. If the global economy experiences a stronger recovery than assumed in our planning, there could be a positive impact on our prospects. After several years characterized by a reluctance to invest, especially among customers in the banking and government sector, there are signs of catch-up effects that could lead to stronger investment in new technology in the coming years. If the impact of these catch-up effects is felt sooner than expected, our sales and earnings forecasts could be raised.

In a dynamic market environment, G&D strikes a balance between effectively meeting the current needs of customers and investing in promising new products and solutions. If the vertical and horizontal expansion of our value-adding activities proves more rapid and extensive than currently anticipated and awareness of security issues in the digital world results in an even greater need for security technology than expected, we could see a faster rise in demand for new and improved products. This could have a positive impact on our net assets, financial position, and results of operations and allow an upward revision of existing forecasts.

Finally, legal requirements could also lead to an increase in sales and earnings. Our forecasts could be revised upwards if the use of a technology that we are helping to develop or that is contained in our products were to be made mandatory, for instance.

Provisions of EUR 26.9 million were made for the operational risks described in section 4.4.1. Should the probability of occurrence of these risks decline or the risk be eliminated entirely, or the potential loss be reduced further by appropriate countermeasures, this would have a positive impact on assets and earnings due to the corresponding reversal of provisions.

4.5. FINANCIAL RISKS

G&D is subject to typical liquidity risk, counterparty credit risk, and market risks stemming from changes to exchange rates, interest rates, and share prices. On the procurement side, risks are associated with price rises for raw materials (particularly semiconductors and cotton). These risks can adversely impact our net assets, financial position, and results of operations and are primarily managed as part of the Group’s ongoing business and financing activities. Additionally, financial risks affecting the G&D Group and its operating subsidiaries are identified centrally on the basis of written guidelines, and their management is also largely handled by Giesecke & Devrient GmbH. Financial risk forms part of the quarterly risk reports submitted to the Management Board and is also included in regular reporting to the Supervisory and Advisory Boards.

If necessary, derivative financial instruments are deployed in relation to foreign currency and interest rates to hedge underlying transactions. In accordance with risk management standards applying to international banks, all trading activity is subject to independent financial monitoring instigated by the Group’s treasury department.

In accordance with IAS 19, G&D is required to recognize actuarial gains and losses and other valuation changes in pension obligations fully and immediately in equity. This leads to high volatility of equity in response to changes in capital market interest rates.

The financial risks described could have a negative impact on our net assets, financial position, and results of operations.

For further details about financial risk, please see note 22 of the consolidated financial statements.

4.6. OVERALL GROUP RISK SITUATION

Our opinion is that the risks described above, given their probability of occurrence and impact, are not existential in nature, either individually or overall. Thanks to the G&D’s strong market positioning, capacity for technological innovation, globally standardized processes, and committed employees, the Management Board is confident that the Group is well equipped to meet the challenges posed by these risks in 2015 and to leverage the opportunities that arise.

05 FORECAST

At the end of fiscal 2014, the order backlog stood at the same level as the previous year thanks to strong order intake. At Group level, the forward order book covers a period of seven months.

We expect the joint venture with Bundesdruckerei to boost growth in the Government Solutions business unit in 2015, which should generate a moderate increase in Group sales compared with 2014.

We also anticipate continued pressure on pricing and a distorted competitive environment due to government-owned providers. Capacity adjustments in the Banknote business unit are expected to lead to a sustained increase in profitability in this area. We aim to further improve the quality of earnings in the Mobile Security business unit by enhancing the portfolio mix with sophisticated solutions and services alongside high-quality card products. Plans are also in place to industrialize service provision in the Solutions & Services area and significantly reduce costs. The P100 program should start to have a positive impact on earnings in 2015, although further restructuring costs will be incurred. Overall, we expect EBIT to rise slightly above the adjusted level (excluding restructuring costs) achieved in fiscal 2014. The bulk of the improvement in earnings due to restructuring is expected in fiscal 2016, once the P100 program has been implemented in full.

In line with operational improvements, G&D anticipates a moderate increase in both EVA and EBITDA.

To improve the Group’s financial situation, we are aiming to reduce working capital, which increased again in 2014. A number of measures have been defined in order to make progress towards this objective in 2015. Achieving the planned increase in sales will result in a slight decrease in working capital intensity. Utilizing the provisions created for restructuring will put free cash flow under strain in 2015. Our planning envisages positive free cash flow at the same level as in 2014.

Capital expenditure in 2015 is again set to be in the lower three-digit million euro range. In the Mobile Security business unit, investment will be targeted at maintaining, expanding, and relocating production and personalization capacity. In the Banknote business unit, the focus will be on expanding and improving capacity for manufacturing security paper and producing security features at our sites in Leipzig and Gmund. Further roll-out of SAP systems as part of the Change project will remain a priority across all units.

The P100 cost reduction program will involve a slight decrease in the number of employees worldwide by the end of 2015.

Actual results may, of course, vary from expected performance.

IFRS CONSOLIDATED FINANCIAL STATEMENTS

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037	Consolidated Statement of Comprehensive Income
038	Consolidated Balance Sheet
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042	Consolidated Statement of Cash Flows
044	Notes to Consolidated Financial Statements

AUDITORS’ REPORT

We have audited the consolidated financial statements prepared by Giesecke & Devrient Gesellschaft mit beschränkter Haftung, comprising a balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB are the responsibility of the company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company’s management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

With the exception of the following qualification our audit has not led to any reservations: The required disclosures regarding the remuneration of the key management personnel pursuant to IAS 24.16 and IAS 24.17 (a) and (b) have not been made as far as they exceed the required disclosures pursuant to § 314 Para. 1 no. 6 (a) and (b) HGB.

In our opinion, based on the findings of our audit, the consolidated financial statements comply, except for the above-mentioned qualification, with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, March 26, 2015
KPMG AG
Wirtschaftsprüfungsgesellschaft
Original German version signed by

Huber	Paulus
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

in millions of EUR	Note	Before restructuring 2014	Restructuring ¹ 2014	After restructuring 2014	2013
Net sales	[15]	1,833.1	-	1,833.1	1,753.6
Cost of goods sold		(1,336.8)	(35.5)	(1,372.3)	(1,248.8)
Gross profit		496.3	(35.5)	460.8	504.8
Selling expenses		(188.4)	(13.2)	(201.6)	(188.6)
Research and development expenses		(119.7)	(11.5)	(131.2)	(128.2)
General and administrative expenses		(132.0)	(13.6)	(145.6)	(136.2)
Other operating income/(expenses), net		6.4	-	6.4	9.5
Operating profit		62.6	(73.8)	(11.2)	61.3
Share in earnings from equity investments	[6]	(1.5)	-	(1.5)	(2.3)
Other financial income/(expenses), net	[17]	0.9	-	0.9	(2.8)
Earnings before interest and income taxes		62.0	(73.8)	(11.8)	56.2
Interest income	[18]			1.9	1.8
Interest expense	[18]			(30.4)	(27.5)
Earnings before income taxes				(40.3)	30.5
Income taxes	[19]			(33.0)	(27.9)
Net (loss)/income				(73.3)	2.6
thereof apportioned to minority interests				2.2	4.4
thereof apportioned to the shareholders of Giesecke & Devrient GmbH				(75.5)	(1.8)
				(73.3)	2.6

¹ Refer to the explanations in Note 29 “Restructuring Costs”.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

in millions of EUR	2014	2013
Net (loss)/income	(73.3)	2.6
Other comprehensive income		
Items that will never be reclassified to the income statement		
Actuarial gains and losses	(117.6)	(10.7)
Deferred taxes on actuarial gains and losses	36.3	3.3
	(81.3)	(7.4)
Items that are or may be reclassified to the income statement		
Currency effects from the translation of foreign operations	16.9	(19.0)
Effective part of fair value changes in cash flow hedges	(0.3)	3.1
Fair value changes in cash flow hedges which were recorded in the income statement	(1.7)	(1.0)
Share of income and expenses recognized directly in equity resulting from the use of the equity method of accounting	0.9	(0.6)
Deferred taxes on fair value changes in cash flow hedges	0.1	-
	15.9	(17.5)
Total other comprehensive income	(65.4)	(24.9)
Total comprehensive income	(138.7)	(22.3)
thereof apportioned to minority interests	1.4	3.9
thereof apportioned to the shareholders of Giesecke & Devrient GmbH	(140.1)	(26.2)
	(138.7)	(22.3)

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2014 AND 2013

ASSETS in millions of EUR	Note	Dec. 31, 2014	Dec. 31, 2013
Current assets			
Cash and cash equivalents		186.4	171.2
Financial assets	[2]	81.9	75.9
Accounts receivable trade and other receivables, net	[3]	325.3	302.6
Inventories, net	[4]	409.3	383.4
Income tax receivable		22.3	19.2
Non-current assets held for sale	[6]	2.3	-
Other current assets	[5]	39.4	37.2
Total current assets		1,066.9	989.5
Non-current assets			
Investments accounted for under the equity method	[6]	29.9	33.7
Financial assets	[2]	18.1	17.4
Accounts receivable trade and other receivables, net	[3]	5.8	3.6
Intangible assets	[7]	144.8	151.9
Property, plant and equipment	[8]	505.6	522.0
Deferred tax assets	[19]	146.2	107.0
Income tax receivable		0.5	11.2
Other non-current assets		4.4	4.2
Total non-current assets		855.3	851.0
Total assets		1,922.2	1,840.5

LIABILITIES AND EQUITY in millions of EUR	Note	Dec. 31, 2014	Dec. 31, 2013
Current liabilities			
Accounts payable trade and other accounts payable	[10]	326.0	308.4
Current portion of provisions	[11]	149.7	87.4
Financial liabilities	[13]	138.5	175.4
Finance lease obligations	[9]	2.2	2.0
Accrual for income taxes and income taxes payable		29.3	25.1
Other current liabilities	[12]	99.6	87.5
Total current liabilities		745.3	685.8
Non-current liabilities			
Accounts payable trade and other accounts payable	[10]	19.3	27.5
Non-current portion of provisions	[11]	12.7	11.6
Financial liabilities	[13]	281.5	245.6
Finance lease obligations	[9]	8.1	8.9
Pension and related liabilities	[14]	555.9	417.5
Deferred tax liabilities	[19]	6.5	8.0
Other non-current liabilities		5.3	-
Total non-current liabilities		889.3	719.1
Equity			
Capital stock	[20]	25.8	25.8
Additional paid-in capital	[20]	29.5	29.5
Retained earnings	[20]	252.8	417.3
Other comprehensive income		17.7	0.8
Treasury stock	[20]	(60.1)	(60.1)
Minority interest		21.9	22.3
Total equity		287.6	435.6
Total liabilities and equity		1,922.2	1,840.5

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

in millions of EUR	Capital stock	Additional paid-in capital	Retained earnings	Reserves resulting from currency translations	Reserves resulting from cash flow hedges	Treasury stock	Subtotal	Minority interest	Total
Balance as of January 1, 2013	25.8	29.5	433.8	18.1	(0.5)	(60.1)	446.6	18.7	465.3
Net income	-	-	(1.8)	-	-	-	(1.8)	4.4	2.6
Other comprehensive income	-	-	(7.6)	(18.9)	2.1	-	(24.4)	(0.5)	(24.9)
Total income and expenses for the period	-	-	(9.4)	(18.9)	2.1	-	(26.2)	3.9	(22.3)
Cash received from minority interests	-	-	-	-	-	-	-	0.4	0.4
Dividends paid	-	-	(7.1)	-	-	-	(7.1)	(0.7)	(7.8)
Balance as of December 31, 2013	25.8	29.5	417.3	(0.8)	1.6	(60.1)	413.3	22.3	435.6
Net loss	-	-	(75.5)	-	-	-	(75.5)	2.2	(73.3)
Other comprehensive income	-	-	(81.5)	18.8	(1.9)	-	(64.6)	(0.8)	(65.4)
Total income and expenses for the period	-	-	(157.0)	18.8	(1.9)	-	(140.1)	1.4	(138.7)
Dividends paid	-	-	(7.5)	-	-	-	(7.5)	(1.8)	(9.3)
Balance as of December 31, 2014	25.8	29.5	252.8	18.0	(0.3)	(60.1)	265.7	21.9	287.6

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

in millions of EUR	2014	2013
Cash flows from operating activities		
Earnings before interest and income taxes	(11.8)	56.2
Adjustments to reconcile income before interest and taxes to cash provided by operations		
Depreciation, amortization and impairment/recoveries	103.9	97.8
(Gain)/loss on sale and disposal of intangible assets and property, plant and equipment	(0.2)	(1.5)
Undistributed earnings in associated companies and joint ventures	1.5	2.3
Dividends received from associated companies and joint ventures	1.5	4.5
Change in operating assets and liabilities		
(Increase)/decrease in investments in trading securities	(3.0)	(5.4)
(Increase)/decrease in accounts receivable trade and other accounts receivable, net	(21.6)	7.7
(Increase)/decrease in prepaid expenses and other assets	(4.2)	(8.9)
(Increase)/decrease in inventories, net	(11.6)	(44.2)
Increase/(decrease) in accounts payable trade and other accounts payable	(0.1)	(34.2)
Increase/(decrease) in provisions	62.2	(7.6)
Increase/(decrease) in pension and related liabilities	5.0	1.6
Increase/(decrease) in other liabilities	15.1	(2.3)
Income taxes paid, net	(24.9)	(35.7)
Interest received	1.9	1.8
Interest paid	(15.1)	(12.3)
Net cash provided by operating activities	98.6	19.8

in millions of EUR	2014	2013
Cash flows from investing activities		
(Increase)/decrease in short-term investments	1.1	-
Additions to and prepayments on intangible assets	(20.3)	(15.0)
Additions to and prepayments on property, plant and equipment	(57.9)	(86.8)
Proceeds from investment grants, net	2.4	1.2
Capital increase in and founding of associated companies and joint ventures	-	(3.3)
Capital repayment from associated companies	-	2.3
Acquisitions, net of cash acquired	-	(0.5)
Proceeds from the sale/purchase of available-for-sale securities	(0.9)	-
Loans to associated companies	(1.9)	-
Proceeds from sale of intangible assets	0.2	-
Proceeds from sale of property, plant and equipment	1.9	4.1
Net cash used in investing activities	(75.4)	(98.0)
Free Cashflow¹	23.2	(78.2)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	129.1	74.3
Proceeds from issuance of long-term debt from the Giesecke & Devrient Foundation	2.7	0.5
Proceeds from issuance of short-term debt from MC Familiengesellschaft mbH	8.2	5.5
Repayment of long-term debt	(77.6)	(61.7)
Repayment of long-term debt from the Giesecke & Devrient Foundation	(0.8)	-
Repayment of long-term debt from MC Familiengesellschaft mbH	(5.5)	-
Payments on capital lease obligations	(2.1)	(2.3)
Net (decrease)/increase in short-term debt and borrowings	(60.8)	91.8
Payment to shareholders	(7.5)	(7.1)
Cash received from minority interests	-	0.4
Payments/dividends paid to minority interests	(2.0)	(0.7)
Net cash provided by financing activities	(16.3)	100.7
Effect of exchange rates on cash and cash equivalents	8.3	(8.4)
Net increase/(decrease) in cash and cash equivalents	15.2	14.1
Cash and cash equivalents at beginning of the year	171.2	157.1
Cash and cash equivalents at end of the year	186.4	171.2

¹ Free cash flow consists of net cash provided by operating activities less net cash used in investing activities.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) DESCRIPTION OF BUSINESS

Giesecke & Devrient Gesellschaft mit beschränkter Haftung and subsidiaries (“G&D” or “Giesecke & Devrient”) is in the business of printing banknotes and securities, as well as the development and production of security paper and currency automation equipment. Giesecke & Devrient also develops and manufactures magnetic stripe cards and smartcards mainly for the telecommunications, banking, and health services industries. A further field of business includes security-related solutions for governments and public authorities, ranging from ID cards and travel documents to e-government solutions. New technologies comprise network solutions and secure mobile transaction solutions as well as a software system for mobile devices.

Giesecke & Devrient, headquartered in Prinzregentenstraße 159, 81677 Munich, Germany, has a strong international orientation. One of G&D’s major markets is in Germany, and other key markets include the United States, Canada, Great Britain, and China. As of December 31, 2014, G&D had subsidiaries in 31 countries and 11,453 employees worldwide, including 7,391 outside Germany.

The consolidated financial statements were approved by the Management Board on March 26, 2015.

(B) BASIS OF PRESENTATION

The consolidated financial statements as of December 31, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

MC Familiengesellschaft mbH was founded in 2012. MC Familiengesellschaft mbH became the group parent company and prepared statutory consolidated financial statements in accordance with IFRS as of December 31, 2014.

It is possible that some figures do not precisely sum up to the totals due to rounding differences.

(C) CONSOLIDATED GROUP AND PRINCIPLES OF CONSOLIDATION

Consolidated Group

All material G&D subsidiaries, joint ventures, and associates are included in the consolidated financial statements.

Affiliated companies are companies that are controlled by the group. The group controls a company if it is exposed to or has rights to variable returns from its involvement in the company and has the ability to affect the amount of these returns by exercising its power. Financial statements of subsidiaries are included from the time the group obtains control and ceases when the group loses control. Non-controlling interests are to be valued at the respective share of the net assets of the company acquired that can be identified at the date of acquisition. Changes in the ownership interest in a subsidiary that do not result in losing control are to be accounted for as equity transactions.

Interests of the group that are accounted for in accordance with the equity method comprise interests in associated companies and joint ventures. Associated companies are companies in which the group has significant influence, but which the group does not control or jointly control in respect of financial and business policies. A joint venture is an arrangement whereby the group has joint control of the arrangement and has rights to the net assets but does not have rights in assets and obligations for the liabilities of the arrangement.

The consolidated Group comprises seven domestic and 46 foreign subsidiaries which are fully consolidated. Additionally, four joint ventures and/or associated companies are accounted for using the equity method of accounting. The consolidated financial statements include all material companies which are presented in the schedule of shareholdings (see Note 38 “Shareholdings”).

Principles of consolidation

The financial statements of the companies included in the consolidated financial statements are prepared using uniform accounting policies in accordance with IFRS.

Income and expenses, receivables, payables and provisions, as well as intragroup profits between companies included in the consolidated financial statements are eliminated.

A subsidiary is deconsolidated from the date it is no longer controlled by G&D.

Investments in joint ventures and associates accounted for using the equity method are initially recognized at cost and adjusted accordingly in subsequent periods. Intragroup profits from transactions with these companies are eliminated in proportion to the acquirer’s interest.

Under IFRS, all business combinations are accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree’s identifiable assets, liabilities, and contingent liabilities that satisfy the recognition criteria at their fair value on the date control over the entity is obtained (acquisition date). The full amounts of identifiable assets and liabilities and contingent liabilities irrespective of the company’s ownership interest are recognized at their fair values. Any excess of the purchase price over the fair value of the identifiable assets, liabilities, and contingent liabilities less any minority interests is recognized as goodwill. Where the fair value exceeds the purchase price, the resulting amount is recorded in the income statement.

Minority interests are measured at the fair value of the proportionate identifiable net assets. In a business combination achieved in stages, interests held at the time of transfer of control are revalued and the resulting gain or loss is recognized in profit or loss. An adjustment of conditional purchase price components that were reported as liability at the acquisition date is recognized in profit or loss for business combinations. Transaction costs are recognized as expenses at the time they are incurred.

Upon acquisition of additional ownership in less than 100%-owned subsidiaries, the difference between the purchase price and the proportionate share of the subsidiary’s equity is charged against retained earnings. Transactions which do not result in loss of control have no impact on the income statement and are recorded as equity transactions.

Remaining interests are measured at fair value at the time of loss of control. In the case of minority interests, the reporting of negative balances is permitted, i.e. future losses are allocated in proportion to the participation without restriction.

(D) USE OF ESTIMATES

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

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

- Note 1 (j) “Goodwill and Other Intangible Assets”
- Note 1 (n) “Provisions”

(E) FOREIGN CURRENCY TRANSLATION

Transactions in foreign currency are translated into euros using the exchange rate on the date of the transaction. At the balance sheet date, monetary assets and liabilities are remeasured using the closing rate. Any differences upon remeasurement are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currency are translated using the historical exchange rate as of the date of the transaction.

The individual functional currency of each of the Group companies is the currency of the primary economic environment in which the entity operates. The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous periods are included in cumulative translation adjustment and reported as a separate component of equity.

The average and closing rates for the fiscal years ended December 31 are as follows:

1 euro equals X units of foreign currency	Rates – December 31, 2014	
	Average	Closing
US dollar – USD	1.3288	1.2141
Australian dollar – AUD	1.4724	1.4829
British pound – GBP	0.8063	0.7789
Canadian dollar – CAD	1.4669	1.4063
Chinese renminbi – RMB	8.1883	7.5358
Swedish krona – SEK	9.0969	9.3930

1 euro equals X units of foreign currency	Rates – December 31, 2013	
	Average	Closing
US dollar – USD	1.3281	1.3791
Australian dollar – AUD	1.3770	1.5423
British pound – GBP	0.8493	0.8337
Canadian dollar – CAD	1.3684	1.4671
Chinese renminbi – RMB	8.1655	8.3491
Swedish krona – SEK	8.6505	8.8591

(F) FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets include, in particular, cash and cash equivalents, accounts receivable trade, loans, other receivables, marketable securities, and derivative instruments.

For regular-way purchases and sales of all categories of financial assets, with the exception of derivative financial instruments, the date of initial recognition in the balance sheet or of derecognition is the settlement date, i.e. the date on which an asset is delivered to or by an entity. The trade date is determinant for derivative financial instruments.

Financial liabilities include accounts payable trade, liabilities to banks, finance lease obligations, and derivative financial liabilities.

Financial assets and liabilities are generally measured at fair value on initial recognition. Financial assets, which are not valued at fair value through profit or loss, include the direct acquisition costs. The fair value is the estimate of the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price).

A financial asset is derecognized when the contractual rights to the cash flows relating to the financial asset expire, that is, when the asset is realized or forfeited or is no longer under the control of the company. Up to now, G&D has not exercised the right to record financial assets as financial assets measured at fair value through profit or loss at the time of initial recognition. The measurement category “held-to-maturity investments” is also not used. Interest income was not recorded on impaired financial assets.

Cash and cash equivalents/Short-term investments

Giesecke & Devrient considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. These are valued at amortized cost.

Highly liquid commercial paper with an original maturity up to three months is also classified as cash and is measured at fair value.

Short-term investments with durations between three months and one year are classified as current financial assets.

Accounts receivable trade and other receivables, net

Accounts receivable trade and other receivables, net are allocated to the category “loans and receivables”. They are measured at fair value at the time of initial recognition, which represents the acquisition costs at the date of acquisition. The valuation at subsequent balance sheet dates is at amortized cost. At the same time, credit risk impairments in the form of specific allowances for doubtful accounts are carried out. Specific defaults lead to derecognition of the receivables affected. In addition, lump-sum specific allowances are also recorded. The indication of a possible impairment begins when the agreed payment terms are exceeded, moreover when the start of insolvency proceedings or similar becomes known. Allowances on accounts receivable trade and other receivables are recorded in separate allowance accounts.

Income and expenses in connection with the recognition and reversal of specific allowances, lump-sum specific allowances, as well as direct derecognitions of receivables are recorded in selling expenses. Non- and low-interest-bearing non-current receivables are recorded at the present value of the expected future cash flows when the interest effect is material. For such amounts, the subsequent valuation is made using the effective interest method. Assets are classified as non-current when the remaining duration at the balance sheet date exceeds 12 months.

Marketable securities and investments

G&D’s marketable securities are classified as trading or available-for-sale securities and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. The trading securities contain shares in a closed and fully consolidated special fund, which invests in publicly traded equity and debt securities. The available-for-sale securities are shares in investment funds, which serve as insolvency insurance to cover the provision for pre-retirement part-time working arrangements. Highly liquid commercial paper with an original maturity of up to three months is classified as cash and is measured at fair value.

Unrealized gains and losses on trading securities are included in income on a current basis.

Unrealized gains and losses on available-for-sale securities are included in accumulated income and expenses recognized directly in equity. Impairments are recognized through profit and loss on other than temporary declines in value. An impairment is recorded on equity securities when there is a permanent or significant reduction in the fair value below the original acquisition costs. For debt securities, an impairment is recorded when there is a considerable decline in the creditworthiness of the debtor. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed in the income statement (for equity securities the reversal is recognized directly in equity).

Equity investments in other related companies are recognized at cost, since an active market price does not exist and their fair market value cannot be reliably determined.

Other financial assets

With the exception of derivative financial instruments, other financial assets recognized as assets are allocated to the measurement category “loans and receivables”. The valuation is in accordance with the explanation provided for accounts receivable trade and other receivables, net. If there are indications of an impairment for financial assets which are valued at amortized cost, an impairment is carried out to the extent of the lowest possible realizable amount. Irrecoverable financial assets are derecognized. An impairment is reversed when the reasons for the impairment recorded no longer prevail.

Financial liabilities

With the exception of derivative financial instruments, financial liabilities recorded as liabilities are allocated to the measurement category “financial liabilities measured at amortized cost”. The initial valuation of these financial liabilities is at fair value and in subsequent periods at amortized cost using the effective interest method. Transaction costs are deducted from the acquisition costs, in as much as they are directly attributable. Liabilities are classified as non-current when the remaining maturity as of the balance sheet date exceeds 12 months.

The valuation of accounts payable trade is in accordance with the procedures noted previously for financial liabilities.

A financial liability is derecognized when the underlying obligation relating to the liability is fulfilled, terminated or extinguished.

Giesecke & Devrient has not made use of the option to designate financial liabilities as financial liabilities measured at fair value through profit or loss at the time of initial recognition in the balance sheet.

Derivative financial instruments

Derivative financial instruments are used to manage the foreign currency exposure incurred in the normal course of business in the form of forward exchange contracts.

Currency risks from contracts with a nominal volume exceeding USD 10 million are generally secured via forward exchange contracts within the scope of a micro hedge and presented as fair value hedges in the balance sheet. If the conditions for hedge accounting in accordance with IAS 39 are fulfilled, Giesecke & Devrient classifies and documents the hedge as a fair value hedge during the period. A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment. Documentation of the hedging relationship includes the objectives and strategy of the company’s risk management, the nature of the hedging activity, the risk covered by the hedge, a description of the hedge instrument and the hedged item, as well as a description of the method used in measuring its effectiveness. The hedge is expected to be highly effective in offsetting changes in fair value attributable to the hedged risk and is assessed on an ongoing basis throughout the financial period for which the hedge was designated. Changes in fair value of the derivatives, as well as changes in the market values of their corresponding hedged items, are recognized in net financial income. The fair values of the hedged items are recognized as current financial assets and current financial liabilities. If derivative financial instruments no longer meet the criteria for hedge accounting, they are classified as held for trading.

USD cash flows are forecasted on a rolling basis over a twelve month period. If the net exposure between USD cash inflows and outflows is above USD 15 million for more than 3 months, hedge accounting via a foreign currency forward contract with matched maturities is entered into. Macro hedges are recorded as cash flow hedges in the financial statements. Forecasted cash flows are hedged by means of a cash flow hedge. The documentation for hedge accounting includes the goals and the strategy of risk management, the nature of the hedging activity, the hedged risk, the designation of the hedging instrument and the underlying transactions, as well as a description of the method to measure its effectiveness. In terms of achieving compensation of risks from fair value changes relating to the hedged risk, the hedged relationships are considered as highly effective. They are regularly reviewed to check whether they were highly effective for the reporting period for which they were designated. The portion of the changes in the fair value of derivatives which qualify as effective hedges is recognized in changes in income directly in equity. The ineffective portion is recognized in the income statement in financial result, net. The fair values of the underlying transactions are recorded as current financial assets and current financial liabilities in the balance sheet. The amounts recognized as changes in income directly in equity are reclassified from equity to the profit and loss statement in the period in which the hedged forecasted cash flows have an impact on the income statement. If the requirements for hedge accounting are no longer fulfilled, the derivative financial instruments are no longer treated as hedge accounting and are classified as held for trading.

Otherwise, G&D does not apply hedge accounting in managing foreign currency exposure. These derivative financial instruments therefore qualify as “held-for-trading” and are recorded at fair value at the balance sheet date as either an asset or a liability. Changes in fair value are recognized in the income statement as financial income or expense. The fair market values of forward exchange contracts are calculated on the basis of the applicable spot market rates as well as the forward contract premium or discount compared to the contracted forward contract rate. The fair values of the embedded foreign currency derivatives are recognized as current financial assets and current financial liabilities.

Giesecke & Devrient identifies derivative instruments embedded in host contracts and accounts for them separately according to the provisions of IAS 39 “Financial Instruments: Recognition and Measurement”. These derivatives consist solely of foreign currency derivatives embedded in certain firm sales and purchase contracts denominated in a currency that is neither the functional currency of G&D nor of the contractual counterparty and which is also not a currency in which transactions are commonly denominated in the jurisdiction in which the transaction is to occur.

The fair values of the external and embedded foreign currency derivates are recorded as current financial assets and liabilities in the balance sheet.

In fiscal year 2011, derivative financial instruments were used for the purpose of hedging interest rate risks the first time. Effective January 1, 2012, G&D applies hedge accounting for derivative financial instruments for the purpose of hedging interest rate risks. Giesecke & Devrient applies hedge accounting in the form of a cash flow hedge for an interest rate swap and a cross currency swap to secure interest and currency exchange rate risks. A cash flow hedge secures expected future cash flows. Documentation of the hedge relationship includes the objectives and strategy of the company’s risk management, the nature of the hedging activity, the risk covered by the hedge, a description of the hedge instrument and the hedged item, as well as a description of the method used in measuring its effectiveness. With regard to the hedged risk, the hedging relationships are expected to be highly effective in offsetting risks arising from changes in the fair value and are regularly assessed to determine whether they have been highly effective throughout the financial reporting periods for which they were designated. Changes in the fair value of these derivatives that qualify as an effective hedge are recognized as other earnings with no effect in the profit and loss. The ineffective portion is recognized as financial or interest income (net) in the profit and loss. The fair values of the underlying transactions are recognized as current and non-current financial assets and as current and non-current other liabilities in the balance sheet. The amounts which were recognized in other comprehensive income are reclassified from equity to the profit and loss in the period in which the expected hedged cash flows influence the profit and loss. If derivative financial instruments no longer meet the criteria for hedge accounting, they are classified as held for trading. The market value of the hedge is calculated based on PAR FX-Forward rates at the balance sheet date within an effective interest rate model.

G&D invests in derivative financial instruments to hedge risks on cotton prices. In that context, swap and cap derivatives are carried out. G&D does not apply hedge accounting. As a result, these derivative financial instruments qualify as held for trading and are recognized either as a financial asset or financial liability at fair value as of the balance sheet date. Fair value changes are recognized in the income statement in other financial result, net. The fair value of forward exchange contracts is calculated on the basis of the cotton prices valid at the balance sheet date.

The relevant classes of financial instruments used by G&D include the measurement categories in accordance with IAS 39, cash and cash equivalents, short-term investments, receivables and payables from construction contracts, as well as finance lease obligations, financial guarantees and derivative financial instruments that are eligible for hedge accounting.

(G) RISK MANAGEMENT AND FOREIGN CURRENCY EXPOSURE POLICIES

Risk management for the entire Group is coordinated centrally. Policies for risk management, foreign currency exposure, and documentation requirements are set forth in guidelines and procedures issued by the corporate treasury department. These guidelines are examined and updated on a regular basis. The approval of the guidelines is the responsibility of management.

Derivative financial instruments are used by G&D solely to reduce the risks inherent within its worldwide business. As such, Giesecke & Devrient does not hold or issue derivative instruments for speculative purposes.

Refer to Note 22 “Financial risks”, for additional related disclosures.

(H) INVENTORIES

Inventories are carried at cost. Cost is determined using the weighted average, FIFO (first-in first-out) or standard cost method. Finished goods and work-in-progress inventories include direct material, labor, and manufacturing overhead costs, which are based on the normal capacity of the production facilities. Items in inventory are written down at the balance sheet date if their net realizable value is lower than their carrying amount.

(I) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if they are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of such assets and their sale is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

(J) GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of purchased intangible assets, such as standard software, licenses, patents, water rights, know-how, goodwill, and internally developed intangible assets.

Intangible assets with definite useful lives are valued at cost and are amortized on a straight-line basis over their estimated economic useful lives.

Development costs are capitalized when the requirements of IAS 38, “Intangible Assets”, are fulfilled. Capitalized development costs recognized include production costs less accumulated depreciation and impairments. Production costs comprise direct material and personnel costs as well as directly attributable material and manufacturing overhead costs and production-related depreciation. Borrowing costs that are directly attributable to a qualifying asset are capitalized. Such costs are amortized on a straight-line basis over the estimated economic useful lives. Research costs are expensed in the period in which they are incurred.

The useful lives of intangible assets with definite useful lives are generally as follows:

	Years
Development costs/Technology	3 – 10
Software, rights, customer base etc.	3 – 15

Goodwill is not amortized but rather tested at least annually for impairment. Reversals of impairments on goodwill are not permitted.

At least once a year, Giesecke & Devrient evaluates the recoverability of goodwill at the cash-generating unit (CGU) level or group of CGUs applying a one-step impairment test. Where the recoverable amount (value in use equal to the present value of future cash flows) of the CGU or group of CGUs, to which the goodwill was allocated, is less than the carrying amount, an impairment loss is recognized. If the impairment loss exceeds the goodwill of the CGU, the excess is allocated to the other assets (generally property, plant and equipment and intangible assets) of the CGU or group of CGUs pro rata on the basis of the carrying amount of each asset.

The most critical assumptions in the calculation of the fair value less costs to sell and the calculation of the value in use are based on include estimated growth rates, weighted average capital costs and tax rates. Such premises, as well as the underlying methodology, can materially influence the respective values and therefore impact the determination of a potential impairment of the goodwill. As far as property, plant and equipment, as well as intangible assets, are tested for impairment, the determination of the recoverable amount is based on estimates of the management.

(K) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at cost less accumulated depreciation. Depreciation of property, plant and equipment is calculated on the straight-line method over the estimated economic useful lives of the assets. Depreciation on an asset commences once it has been placed in service.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials and direct manufacturing expenses, plus appropriate allocations of material and manufacturing overheads as well as production and output-related general and administrative costs. Borrowing costs that are directly attributable to a qualifying asset are capitalized.

The acquisition or manufacturing costs also include estimated dismantling and removal costs as well as costs relating to the restoration of the location to its original state.

Any investment allowances or grants received reduce the acquisition or manufacturing costs of the assets for which they were granted.

If an item of property, plant and equipment is comprised of several components with differing useful lives, the separate components are depreciated over the individual useful lives. Expenses for the day-to-day repair and maintenance of property, plant and equipment are normally charged against income.

Estimated economic useful lives of G&D’s property, plant and equipment are as follows:

	Years
Buildings	up to 50
Technical equipment and machinery	3 – 18
Other plant and office equipment	3 – 23

(L) IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Impairment of other intangible assets and items of property, plant and equipment is identified by comparing the carrying amount with the recoverable amount (the higher of fair value less costs to sell and value in use). If no future cash flows generated independently of other assets can be allocated to the individual assets, recoverability is tested on the basis of the cash-generating unit to which the assets can be allocated. Impairment losses are reversed, with the exception of goodwill, if the reasons for recognizing the original impairment loss no longer apply.

(M) LEASING

Beneficial ownership of leased assets is attributed to the contracting party in the lease, to which substantially all risks and rewards incidental to ownership of the asset are transferred.

If substantially all the risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized by the lessor. Measurement of the leased asset is then governed by the accounting policies applicable to that asset. During the term of the lease, the operating lease payments are recognized in the income statement by the lessor and the lessee.

If substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee (finance lease), the lessee must recognize the leased asset. At the commencement of the lease term, the leased asset is measured at fair value or the lower present value of the future lease payments and depreciated over the shorter of the estimated economic useful life and the lease term. The lessee recognizes a lease liability at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly.

(N) PROVISIONS

Pension provisions and similar obligations

Obligations for pensions and other postretirement benefits and related expenses and income are determined in accordance with actuarial measurements. These measurements are based on key assumptions, including discount rates, salary trends, pension trends, biometric probabilities and assumptions about the trend of health insurance benefits. The discount factors applied reflect the interest rates achieved at the balance sheet date for senior, fixed-interest bonds with commensurate maturities. As a result of a fluctuating market and economic situation, the underlying assumptions may deviate from the actual development, which can have a significant impact on the obligations for pensions and other postretirement benefits.

Pension provisions under defined benefit plans are measured in accordance with the projected unit credit method. Thereby, not only the pensions and acquired expectancies known about at the reporting date but also increases in compensation and pensions expected in the future are taken into account. Actuarial gains or losses and other re-measurements of the net obligation are determined at the reporting date and recorded through other comprehensive income (changes in equity not affecting profit or loss for the period).

In order to determine the discount rate for the measurement of the pension provisions and similar obligations, Giesecke & Devrient uses the Mercer Pension Discount Yield Curve Method. This is a method for determining the interest rate that conforms with IAS 19. The new method is based on a selection of AA-rated corporate bonds in accordance with Bloomberg analyses. Net interest expense, i.e. the interest portion of the allocation to the provision less the expected return on plan assets, is reported in interest expense. The amount payable in conjunction with defined contribution plans is reported as an expense.

Pre-retirement part-time work agreements

An obligation under pre-retirement part-time work is recognized from the point in time at which the employee is entitled under an individual agreement to the premature termination of his employment. For pre-retirement part-time work agreements in conjunction with the block model, the continuously accruing settlement arrears and the obligation to pay top-up amounts are measured separately. Both obligations are recorded in installments applying actuarial principles from the start of the active phase until the end of the employment phase. In the passive phase, the present value of the future payments is provided. The net interest portion included in the pre-retirement part-time work expenses is reported as interest expense.

Product warranties

A provision for the expected warranty-related costs is established when the product is sold. Estimates for accrued warranty costs are primarily based on historical experience.

Provision for restructuring costs

A provision for restructuring costs is recorded where a legal or constructive obligation exists. A constructive obligation for restructuring costs arises only when there is a detailed formal plan identifying key features of the plan and its implementation and a valid expectation on the part of those affected, either by starting to implement the plan or announcing its main features to those affected by it. A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both necessarily entailed by the restructuring and not associated with the ongoing activities of G&D.

Provision for onerous contracts

The calculation of provisions for onerous contracts is to a significant extent based on estimates. Such estimates are mainly related to the status of the projects, the fulfillment of the services requested, changes regarding the volume of the projects, the update of budgeted costs as well as applied customized and runtime-specific discount rates.

Giesecke & Devrient records a provision for onerous contracts on contracts where the unavoidable costs of meeting the obligations exceed the expected benefits. The unavoidable costs under a contract reflect the minimum net costs of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. Before a separate provision for an onerous contract is established, any impairment loss that has occurred on assets dedicated to that contract is recognized.

Other provisions

Other provisions are recognized where there are legal or constructive obligations to third parties on the basis of past transactions or events that will probably require an outflow of resources to settle, and this outflow can be reliably measured. They are carried at their expected settlement amount, taking into account all identifiable risks, and may not be offset against potential reimbursements, for example, via insurance claims. The settlement amount is calculated on the basis of a best estimate. Provisions are discounted where the effect of the time value of money is material.

Changes in estimates of the amount and timing of payments or changes in the discount rate applied in measuring provisions for decommissioning, restoration, and similar obligations are recognized in the same amount for the related asset. Where the decrease in the amount of a provision is greater than the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

(O) RECOGNITION OF REVENUE, INTEREST AND DIVIDENDS

Revenue is generally recognized when a product is shipped and title is transferred to the customer or services are performed. If product sales require customer acceptance, revenues are recognized generally upon acceptance by the customer. For arrangements requiring installation of a product at the customer location, where installation is essential to the functionality of the product, revenue is recognized when the product is delivered and installed at the customer location.

In certain instances, G&D is the general contractor concerning the construction of paper mills, special facilities (e.g. production of security products), and personalization centers. The fulfillment of these types of contracts usually extends over a long period and can last up to several years until final completion. For construction contracts, the percentage-of-completion method is applied, provided that the revenue and expenses can be estimated reliably. The percentage of completion is generally determined using the output method (e.g. agreed milestones) or the cost-to-cost method. Profit recognized in the period is calculated by multiplying the contract revenues and costs by the percentage of completion less the results recognized in prior periods. For long-term customer contracts in which the major components consist of the production, modification, or customizing of software, the percentage-of-completion method is also used for revenue recognition.

Giesecke & Devrient has contractual arrangements in which it performs multiple revenue-generating activities, mainly for cards, passports and ID documents. For arrangements involving multiple revenue-generating activities (e.g. the delivery of card bodies and personalization services) the immediate recognition of revenue is only possible under certain circumstances. In these cases, the revenue allocation is based upon the relative fair values of the individual components of the total arrangement. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements.

Interest is recognized using the effective interest method. Dividends are recognized when the shareholder’s right to receive payment is established.

(P) GRANTS

Where grants are received for certain assets, they are offset against the acquisition or manufacturing costs of the related assets and therefore reduce the acquisition costs. The grants/allowances are released to the income statement in installments in the form of a reduction in depreciation expense.

Other types of grants are recorded in the income statement in the period in which the entitlement arises.

(Q) DEFERRED TAXES

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the consolidated balance sheet and the tax base, as well as for tax loss carryforwards that are expected to reduce tax expense in future periods.

(R) STATEMENT OF CASH FLOWS

The statement of cash flows is prepared in accordance with IAS 7 and shows the cash inflows and outflows during the fiscal year classified by cash flows from operating activities, investing activities and financing activities. The cash flows from operating activities are presented using the indirect method, in which earnings are adjusted for non-cash transactions. Moreover, items attributable to cash flows from investing activities and financing activities are eliminated. Cash flows from interest received and interest paid, as well as dividends received, are allocated to cash flows from operating activities. Cash outflows for the acquisition of additional shares in affiliated companies under common control are classified as cash flows from financing activities.

The cash flow funds comprise the balance sheet line item “cash and cash equivalents”. Cash and cash equivalents include cash on hand and cash at banks, as well as cash from funds and investments with an original maturity of up to three months.

(S) CHANGE IN ACCOUNTING AND VALUATION POLICIES

IFRS 10 supersedes the requirements relating to consolidated financial statements in IAS 27 “Consolidated and Separate Financial Statements (amended 2008)”, and also supersedes SIC-12 “Consolidation – Special Purpose Entities”. IFRS 11 supersedes IAS 31 “Interests in Joint Ventures (amended 2008)” and SIC-13 “Jointly Controlled Entities – Non-monetary Contributions by Venturers”. IFRS 12 replaces disclosure requirements in IAS 27 “Consolidated and Separate Financial Statements (amended 2008)”, IAS 28 “Investments in Associates” und IAS 31 “Interests in Joint Ventures (amended 2008)”.

IFRS 10 builds on existing principles by identifying a comprehensive concept of control as the determining factor as to whether an entity should be included in the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Major changes in relation to current guidance might relate to the assessment of control in situations whether the investor holds less than a majority of voting rights, but has the practical ability to direct the relevant activities of the investee unilaterally by other means. In accordance with the transitional provisions of IFRS 10, G&D has reassessed the control of its subsidiaries as of January 1, 2014. This reassessment did not result in a change of control in G&D’s subsidiaries.

IFRS 11 provides guidance for the accounting of joint arrangements by focussing on the rights and obligations of the arrangement rather than on its legal form. IFRS 11 classifies joint arrangements into two types: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers), have rights to the net assets of the arrangement. IFRS 11 requires a joint operator to recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement applicable to the particular assets, liabilities, revenues and expenses. A joint venturer is required to recognise an investment and to account for that investment using the equity method. The first adoption of IFRS 11 in relation to IAS 28 did not result in a change in the group income statement as G&D had already recorded joint ventures in accordance with the equity method in the group financial statements in the past.

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and off balance sheet vehicles. The standard requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its net assets, financial position, and results of operations. IAS 27 (amended 2011) now only contains requirements relating to separate financial statements as a result of the issuance of the new standard IFRS 10. According to the amendment of IAS 28, an entity shall account for an investment, or a portion of an investment, in an associate or a joint venture as held for sale if it meets the relevant criteria. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. G&D fulfilled the extended disclosure requirements.

IFRS 10, 11, 12 and the consequential amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. The new or amended standards may be adopted earlier, but must be adopted as a package, i.e. all as of the same date, except that an entity may early adopt the disclosure requirements for IFRS 12 (without adopting the other standards). The standards are to be adopted on a retrospective basis. IFRS 10, 11, 12 and the consequential amendments to IAS 27 and IAS 28 have been endorsed by the European Union. In accordance with EU law, the new standards will apply to fiscal years beginning on or after January 1, 2014. The application of these changes did not have a material impact on the net assets, financial position and result of operations.

In June 2012, the IASB published a transition guidance in “Amendments to IFRS 10, IFRS 11 and IFRS 12” which must be adopted for the first time for reporting periods beginning on or after January 1, 2014. In the transition phase to IFRS 10, IFRS 11 and IFRS 12, the adjusted comparative information is only required for the previous comparative period. Furthermore, no comparative information is required to be provided in relation to non-consolidated structured companies for periods before the first time adoption of IFRS 12.

In December 2011, the IASB published “Amendments to IAS 32 – Offsetting Financial Instruments and Financial Liabilities”. The amendments to IAS 32 clarify the prerequisites for netting financial instruments. The significance of the present legal claim regarding offsetting defines and clarifies which methods are to be considered for gross settlement and net settlement in accordance with the standard. The amendments to IAS 32 were endorsed as part of the EU law. The change to IAS 32 applies to fiscal years beginning on or after January 1, 2014. Applying these changes did not have a material impact on the net assets, financial position and result of operations.

The IASB has published a number of further announcements. The recently implemented standards, as well as those yet to be implemented, have had no major impact on the consolidated financial statements of G&D.

(T) NEW AND CHANGED ACCOUNTING PRONOUNCEMENTS

IFRIC 21 “Levies” is an interpretation of IAS 37 which will above all clarify the question as to when a present obligation relating to government-imposed levies exists and a liability is to be recognized. Not included in the scope of this interpretation are, in particular, penalties and levies resulting from contracts subject to public laws or those which are regulated by other IFRS, for example, IAS 12 “Income Taxes”. In accordance with IFRIC 21, a liability for levies is to be recognized when the activity that triggers payment occurs. The triggering event which justifies the liability is defined in turn by the wording of the underlying standard. Its formulation is a critical accounting factor. These changes become effective for the first time beginning with financial years which commence on or after June 17, 2014. The standard was endorsed by the European Union. G&D is currently examining the effects of IFRIC 21 on the consolidated financial statements.

In connection with the “Annual Improvement” Project, changes to numerous standards were made. The adjustments in the wording of individual IFRS should result in clarification of the existing regulations. The standards affected are IFRS 3 and IFRS 13. The changes become effective for the first time in fiscal years which begin on or after January 1, 2015. The standard was endorsed by the European Union. G&D is currently examining the effects of its application on the consolidated financial statements.

The respective standards will be adopted when they become obligatory.

2 FINANCIAL ASSETS

Financial assets are comprised of the following as of December 31, 2014 and 2013:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Current		
Short-term investments (> 3 months and < 1 year)	0.1	1.3
Trading securities	68.7	65.6
Available-for-sale securities	6.6	5.7
Derivative financial instruments	4.6	3.3
Loans receivable from associated companies	1.9	-
	81.9	75.9
Non-current		
Cash surrender value of insurance policies	18.1	17.4
	18.1	17.4

Available-for-sale securities have been recorded at fair value in the amount of EUR 6.6 million as of December 31, 2014 and EUR 5.7 million as of December 31, 2013. The fair value represents the fair market value.

3 ACCOUNTS RECEIVABLE TRADE AND OTHER ACCOUNTS RECEIVABLE, NET

Accounts receivable trade and other accounts receivable, net are comprised of the following as of December 31, 2014 and 2013:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Current		
Accounts receivable trade	299.7	265.1
Accounts receivable from joint ventures and associated companies	2.0	6.7
Accounts receivable from related parties	0.3	-
Other	11.4	10.4
Prepayments	19.4	29.8
	332.8	312.0
Allowance for doubtful accounts	(7.5)	(9.4)
	325.3	302.6
Non-current		
Accounts receivable trade	3.9	1.4
Prepayments on property, plant and equipment	1.9	2.0
Prepayments on intangible assets	-	0.2
	5.8	3.6

Aging structure of accounts receivable trade and other accounts receivable (excluding prepayments) as of December 31, 2014 and 2013:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Receivables past due between 1 – 30 days, but not impaired	33.2	46.5
Receivables past due between 31 – 90 days, but not impaired	15.9	18.4
Receivables past due between 91 – 180 days, but not impaired	5.2	7.5
Receivables past due between 181 – 360 days, but not impaired	3.9	4.7
Receivables past due more than 360 days, but not impaired	1.8	0.9
Total receivables past due, but not impaired	60.0	78.0
Impaired or not past due accounts receivable trade and other receivables	257.3	205.6
Total accounts receivable trade and other receivables, gross	317.3	283.6

The following table serves as a summary of the development of the specific allowances for doubtful accounts:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Opening balance	9.4	8.8
Additions (through profit or loss)	1.6	4.9
Recoveries (through profit or loss)	(1.4)	(3.0)
Utilization	(2.5)	(1.0)
Transfers	(0.2)	-
Currency effects	0.6	(0.3)
	7.5	9.4

The specific allowances for doubtful accounts relate to gross receivables in the amount of EUR 7.5 million and EUR 17.2 million as of December 31, 2014 and 2013, respectively.

Relating to accounts receivable trade and other receivables in the amount of EUR 249.8 million and EUR 188.4 million as of December 31, 2014 and 2013, which have neither been provided for nor are past due as of the balance sheet date, there is no indication that the debtors will not be able to meet their payment obligations.

Allowances for doubtful accounts on accounts receivable from joint ventures, associated companies, related parties, as well as other receivables were not recorded.

4 INVENTORIES, NET

Inventories are comprised of the following as of December 31, 2014 and 2013:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Raw materials	104.4	101.5
Work in process	194.7	173.0
Finished goods	60.4	58.0
Merchandise	13.4	10.6
Spare parts, modules, sensors – banknote processing	36.4	40.3
	409.3	383.4

In fiscal years 2014 and 2013, write-downs on inventory amounted to EUR 17.0 million and EUR 15.4 million, respectively.

In connection with the change in the internal software in 2012, a new account group was introduced since the “spare parts, modules sensors – banknote processing” could not be clearly allocated to one of the other inventory categories.

The carrying value of inventory which serves as collateral on financial liabilities (see Note 13 “Financial Liabilities”) amounted to EUR 7.2 million and EUR 10.2 million as of December 31, 2014 and 2013, respectively.

5 OTHER CURRENT ASSETS

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Taxes receivable (other than income taxes)	22.1	24.3
Restricted cash	4.7	7.3
Gross amount due from customers for contract work (see Note 23 “Construction Contracts”)	-	1.5
Other	12.6	4.1
	39.4	37.2

6 INVESTMENTS

Investments include the following:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Investments accounted for under the equity method	29.9	33.7
	29.9	33.7

The following investments (see Note 1c “Consolidated Group and Principles of Consolidation”) are accounted for using the equity method of accounting:

Name of the associated company/joint venture	Interest in the company
E-Kart Elektronik Kart Sistemleri Sanayi ve Ticaret Anonim Sirketi, Turkey	50.00%
Shenzhen G&D Currency Automation Systems Co. Ltd., China	50.00%
CI Tech Components AG, Switzerland	50.00%
EPC Electronic Payment Cards, Gesellschaft für Kartenmanagement mbH, Germany	49.00%

E-Kart Elektronik Kart Sistemleri Sanayi ve Ticaret Anonim Sirketi manufactures and sells cards, card systems, and card-based solutions.

Shenzhen G&D Currency Automation Systems Co. Ltd. sells and installs banknote processing systems.

CI Tech Components AG develops, produces and markets compact sensors for the reliable authentication and feature recognition of bank notes worldwide.

The main activity of EPC Electronic Payment Cards, Gesellschaft für Kartenmanagement mbH is the production and sale of cards and card systems.

The investment in Trustonic Ltd., Cambridge, Great Britain is available for sale as of December 31, 2014 and meets the criteria of IFRS 5. As of December 31, 2014, the investment has been recorded under current assets as non-current assets held for sale at its carrying value in accordance with the equity method as the probable selling price is above that value.

Considering the respective ownership, the aggregate summarized financial information for all associated companies and joint ventures as of and for the years ended December 31, 2014 and 2013 is as follows:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Current assets	29.8	30.3
thereof cash and cash equivalents	9.7	9.2
Non-current assets	35.4	39.2
Current liabilities	19.8	15.2
Non-current liabilities	11.7	9.5
Net sales¹	70.7	67.8
Gross profit¹	19.2	19.3
(Net loss)/Net income¹	(1.5)	(2.3)
Other comprehensive income	0.6	(0.6)
Comrehensive Income¹	(0.9)	(2.9)
Dividends	1.5	4.5

¹ These items include amounts for an investment which was reclassified as non current asset held for sale.

An investment is in the process of being liquidated as of December 31, 2014 and as of December 31, 2013. The carrying value in the amount of EUR 2.8 million has been fully impaired in 2012. In 2012, the impairment has been recorded in other financial income/expenses, net.

7 INTANGIBLE ASSETS

A summary of the activity for goodwill and other intangible assets is as follows:

in millions of EUR	Customer base/Rights	Development costs/Technology	Software	Goodwill	Total
Costs					
January 1, 2013	39.7	51.4	129.4	41.8	262.3
Additions	0.6	2.0	11.7	-	14.3
Transfers	-	-	0.8	-	0.8
Additions due to changes in consolidation structure	0.9	-	-	-	0.9
Disposals	(0.9)	-	(2.5)	-	(3.4)
Foreign currency effects	(2.4)	(1.2)	(0.9)	(1.3)	(5.8)
December 31, 2013	37.9	52.2	138.5	40.5	269.1
January 1, 2014	37.9	52.2	138.5	40.5	269.1
Additions	-	9.5	10.8	-	20.3
Transfers	(0.4)	-	0.3	-	(0.1)
Disposals due to changes in consolidation structure	-	-	(0.1)	-	(0.1)
Disposals	(2.3)	(2.0)	(2.1)	-	(6.4)
Foreign currency effects	1.9	(0.7)	0.2	(1.8)	(0.4)
December 31, 2014	37.1	59.0	147.6	38.7	282.4

The additions in 2014 and 2013 comprise self constructed intangible assets in the amount of EUR 9.5 million and EUR 2.0 million, respectively.

in millions of EUR	Customer base/Rights	Development costs/Technology	Software	Goodwill	Total
Accumulated amortization					
January 1, 2013	36.0	24.8	39.5	-	100.3
Additions	1.0	6.2	15.4	-	22.6
Transfers	-	-	0.1	-	0.1
Impairment losses	0.1	-	1.1	-	1.2
Disposals	(0.9)	-	(2.4)	-	(3.3)
Foreign currency effects	(2.3)	(0.9)	(0.5)	-	(3.7)
December 31, 2013	33.9	30.1	53.2	-	117.2
January 1, 2014	33.9	30.1	53.2	-	117.2
Additions	0.7	5.9	17.6	-	24.2
Transfers	(0.2)	-	-	-	(0.2)
Disposals due to changes in consolidation structure	-	-	(0.1)	-	(0.1)
Impairment losses	-	1.0	0.3	-	1.3
Disposals	(2.3)	(2.0)	(2.0)	-	(6.3)
Foreign currency effects	1.8	(0.5)	0.2	-	1.5
December 31, 2014	33.9	34.5	69.2	-	137.6
Carrying value					
January 1, 2013	3.7	26.6	89.9	41.8	162.0
December 31, 2013	4.0	22.1	85.3	40.5	151.9
December 31, 2014	3.2	24.5	78.4	38.7	144.8

The amounts of amortization of intangible assets recorded in the functional areas of the income statement are as follows:

in millions of EUR	2014	2013
Cost of goods sold	7.6	8.0
Selling expenses	0.1	0.1
Research and development expenses	0.3	0.2
General and administrative expenses	16.2	14.3
	24.2	22.6

In fiscal years 2014 and 2013, impairment losses in the amount of EUR 0.0 million and EUR 0.1 million were recorded on concessions and rights, in the amount of EUR 1.0 million and EUR 0.0 million on capitalized development costs and in the amount of EUR 0.3 million and EUR 1.1 million on software which will no longer be used. The impairment losses in the amount of EUR 1.3 million in 2014 and EUR 1.2 million in 2013 were recorded in cost of goods sold (EUR 1.0 million and EUR 0.1 million) and in general and administrative expenses (EUR 0.3 million and EUR 1.1 million).

The goodwill of a Canadian subsidiary in the amount of EUR 2.1 million was allocated to the “Banknote Printing” CGU (EUR 0.6 million) and to the “Banknote Paper” CGU (EUR 1.5 million) according to the relative fair values of future cash flows. This was performed in accordance with IFRS 8, “Operating segments”. The goodwill from secunet AG in the amount of EUR 3.4 million was assigned to the “secunet” CGU. Sensitivity analyses are not required since the recoverability of these goodwills is not deemed to be critical.

The goodwill from Giesecke & Devrient Matsoukis, Security Printing, S.A. in the amount of EUR 2.1 million was allocated to the “Government” CGU. The goodwill from Giesecke & Devrient 3S AB (formerly SmartTrust AB) in the amount of EUR 31.1 million was assigned to the “Server Software and Services” CGU (formerly CGU “SmartTrust”). The new divisional structure for “Mobile Security” becomes effective as of January 1, 2015. From this date, “Mobile Security” contains the three divisions “Financial Institutions”, “Telecommunication Industry” and “Enterprise Security OEM”. The present value of the future cash flows of the CGU “Server Software and Services” was calculated based on the divisional structure as of December 31, 2014. The goodwill will be reallocated according to the new divisional structure as of January 1, 2015.

In performing the annual impairment testing for goodwill, the recoverable amount of the CGU or group of CGUs is based on the value in use. The value in use is the present value of the future cash flows expected to be derived from the CGU or a group of CGUs. The cash flow projections are based upon G&D’s forecasts for the next five years. Until 2013, with the exception of “Server Software and Services”, the cash flow projections were based upon the forecasts for the next three years. In discounting the cash flows of the “secunet” CGU, pre-tax interest rate of 9.8% was used in 2014 and 2013. For the CGU “Banknote Printing” pre-tax interest rate of 8.5% was applied for 2014 and 2013. In discounting the cash flows of the “Banknote Paper” CGU, pre-tax interest rate of 8.9% was used in 2014 and 2013. In discounting the cash flows of the “Government” CGU, pre-tax interest rates of 11.9% and 9.9% were used in 2014 and 2013. In discounting the cash flows of the “Server Software and Services” CGU, pre-tax interest rates of 11.3% and 11.8% were used in 2014 and 2013. No goodwill impairments were recorded in fiscal years 2014 and 2013.

A sensitivity analysis was carried out for the goodwill in the CGU “Server Software and Services”. An increase in the interest rate as of December 31, 2014, ceteris paribus, from 11.3% to 15.3% would result in a first-time impairment loss. A reduction in the cash flows for the terminal value as of December 31, 2014, ceteris paribus, from EUR 17.6 million to EUR 11.3 million would result in a first-time impairment loss.

A sensitivity analysis was performed for the goodwill in the CGU “Government”. An increase in the interest rate as of December 31, 2014, ceteris paribus, from 11.9% to 15.6% would result in a first-time impairment loss. A reduction in the cash flows for the terminal value as of December 31, 2014, ceteris paribus, from EUR 13.2 million to EUR 7.9 million would result in a first-time impairment loss.

The carrying value of intangible assets which serve as collateral on financial liabilities (see Note 13 “Financial Liabilities”) amounted to EUR 0.6 million and EUR 0.7 million as of December 31, 2014 and 2013, respectively.

8 PROPERTY, PLANT AND EQUIPMENT

A summary of the activity for property, plant and equipment¹ is as follows:

in millions of EUR	Land and buildings ¹	Technical equipment and machinery ¹	Other plant and office equipment ¹	Construction in process	Total
Costs					
January 1, 2013	401.3	629.8	198.0	42.6	1,271.7
Additions	4.0	43.2	21.6	12.4	81.2
Transfers	22.1	23.7	0.7	(40.6)	5.9
Additions due to changes in consolidation structure	-	-	0.1	0.1	0.2
Disposals	(4.7)	(22.6)	(13.6)	(0.7)	(41.6)
Foreign currency effects	(2.2)	(14.4)	(3.1)	(0.5)	(20.2)
December 31, 2013	420.5	659.7	203.7	13.3	1,297.2
January 1, 2014	420.5	659.7	203.7	13.3	1,297.2
Additions	4.8	28.7	13.1	9.5	56.1
Transfers	1.9	15.2	2.3	(13.2)	6.2
Disposals due to changes in consolidation structure	-	-	(0.1)	-	(0.1)
Disposals	(2.2)	(16.2)	(12.9)	-	(31.3)
Foreign currency effects	3.0	8.0	6.3	0.3	17.6
December 31, 2014	428.0	695.4	212.4	9.9	1,345.7

¹ Including assets under finance leases (see Note 9 “Leasing”)

in millions of EUR	Land and buildings ¹	Technical equipment and machinery ¹	Other plant and office equipment ¹	Construction in process	Total
Accumulated depreciation					
January 1, 2013	187.6	423.7	140.6	-	751.9
Additions	10.8	43.3	19.3	-	73.4
Transfers	0.4	-	(0.5)	-	(0.1)
Impairment losses	0.2	0.2	0.1	-	0.5
Disposals	(4.7)	(21.2)	(13.1)	-	(39.0)
Foreign currency effects	(1.1)	(8.4)	(2.0)	-	(11.5)
December 31, 2013	193.2	437.6	144.4	-	775.2
January 1, 2014	193.2	437.6	144.4	-	775.2
Additions	11.3	45.2	20.2	-	76.7
Transfers	0.9	3.3	0.9	-	5.1
Disposals due to changes in consolidation structure	-	-	(0.1)	-	(0.1)
Impairment losses	-	1.7	-	-	1.7
Disposals	(2.3)	(15.2)	(12.2)	-	(29.7)
Foreign currency effects	1.4	5.5	4.3	-	11.2
December 31, 2014	204.5	478.1	157.5	-	840.1
Carrying value					
January 1, 2013	213.7	206.1	57.4	42.6	519.8
December 31, 2013	227.3	222.1	59.3	13.3	522.0
December 31, 2014	223.5	217.3	54.9	9.9	505.6

¹ Including assets under finance leases (see Note 9 “Leasing”)

In fiscal years 2014 and 2013, Giesecke & Devrient recorded impairments amounting to EUR 1.7 million and EUR 0.5 million on property, plant and equipment in cost of goods sold. The full amount of impairments recorded by Giesecke & Devrient in 2014 is comprised of leasehold improvements relating to the early cancellation of a lease contract. Impairments on fixed assets relating to the restructuring project “Breakthrough” in the amount of EUR 0.5 million were recorded in 2013. These impairments were recorded as restructuring expenses within the functional areas cost of goods sold (EUR 0.2 million), selling expenses (EUR 0.1 million) and general and administrative expenses (EUR 0.2 million).

The carrying value of property, plant and equipment which serves as collateral on financial liabilities (see Note 13 “Financial Liabilities”) amounted to EUR 116.9 million and EUR 193.9 million as of December 31, 2014 and 2013, respectively.

Commitments for the purchase of property, plant and equipment amounted to EUR 5.3 million and EUR 11.3 million as of December 31, 2014 and 2013, respectively.

Borrowing costs relating to buildings in the amount of EUR 0.0 million and EUR 0.4 million were capitalized in fiscal years 2014 and 2013. The interest rate on these borrowings amounted to 0.00% and 4.96% in 2014 and 2013, respectively.

9 LEASING

Giesecke & Devrient has obligations under finance leases covering buildings and certain machinery and equipment that expire at various dates over the next five years.

As of December 31, 2014 and 2013, the carrying values of buildings, machinery and equipment recorded under finance leases were as follows:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Buildings	13.3	14.4
Machinery and equipment	0.3	2.7
	13.6	17.1

Depreciation on assets held under finance leases is included in depreciation expense.

Giesecke & Devrient also has several non-cancelable operating leases, primarily for buildings, electronic data processing equipment, motor vehicles, and other office equipment, which expire over the next 14 years. Rental expenses for operating leases during 2014 and 2013 amounted to EUR 26.6 million and EUR 26.2 million, respectively.

Future minimum lease payments under non-cancelable operating leases and future minimum finance lease payments are:

in millions of EUR	Finance leases	Operating leases
Less than one year	2.6	19.7
Between one and five years	9.0	39.9
More than five years	-	16.7
Total minimum lease payments	11.6	76.3
Less amount representing interest (at rates up to 7.8%)	(1.3)	
Present value of net minimum finance lease payments	10.3	
Less current installments of obligations under finance leases	(2.2)	
Non-current obligations under finance leases	8.1	

The present value of net minimum finance lease liabilities is as follows:

in millions of EUR	Finance leases
Less than one year	2.2
Between one and five years	8.1
Present value of net minimum finance lease payments	10.3

10 ACCOUNTS PAYABLE TRADE AND OTHER ACCOUNTS PAYABLE

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Current		
Accounts payable trade due to third parties	185.1	161.0
Accounts payable due to associated companies and undertakings in which G&D has a participating interest	2.7	3.4
Amounts payable to minority interests	0.1	0.1
Other similar liabilities	1.5	13.6
Deposits received/deferred income	136.6	130.3
	326.0	308.4
Non-current		
Deposits received/deferred income	19.3	27.5
	19.3	27.5

11 PROVISIONS

in millions of EUR	Warranties	Personnel and social costs	Licenses and patent infringements	Onerous contracts	Restructuring	Other	Total
January 1, 2014	53.4	10.0	0.3	2.7	9.5	23.1	99.0
Additions	17.6	5.2	9.0	3.3	65.5	17.1	117.7
Transfers	(0.1)	0.2	(0.1)	-	1.4	(2.4)	(1.0)
Interest component	-	0.3	-	-	-	-	0.3
Utilization	(5.8)	(2.5)	(0.2)	(1.1)	(8.3)	(6.6)	(24.5)
Release	(13.7)	(0.1)	(4.5)	(2.8)	(1.8)	(7.4)	(30.3)
Foreign currency effects	0.5	-	-	-	0.1	0.6	1.2
December 31, 2014	51.9	13.1	4.5	2.1	66.4	24.4	162.4
thereof current	51.9	7.2	4.5	1.3	66.4	18.4	149.7
thereof non-current	-	5.9	-	0.8	-	6.0	12.7

Personnel-related provisions include provisions for pre-retirement part-time working arrangements and long-service awards. The interest component of pre-retirement part time working arrangements and the interest component of long-service awards are included in interest expenses.

Other provisions include, in particular, provisions for asset retirement obligations, price risks from sales agreements, litigation, and archive storage costs.

Provisions for restructuring costs contain provisions relating to the project “P100” as well as the project “Breakthrough”. Refer to section 2. “Business Performance” in the group management report.

12 OTHER CURRENT LIABILITIES

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Payroll and social security taxes	72.0	66.5
Sales and other taxes	18.8	15.9
Gross amount due to customers for contract work (see Note 23 “Construction Contracts”)	-	0.1
Other liabilities	8.8	5.0
	99.6	87.5

13 FINANCIAL LIABILITIES

Financial liabilities as of December 31, 2014 and 2013 consist of the following:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Current		
Short-term borrowings due to financial institutions	38.1	95.1
Short-term debt to MC Familiengesellschaft mbH	8.2	5.5
Current portion of long-term debt due to financial institutions	68.1	67.4
Current portion of long-term debt due to Giesecke & Devrient Foundation	17.2	0.7
Accrued interest of long-term debt to financial institutions	0.6	0.8
Derivative financial instruments	6.3	5.9
Total current portion of financial liabilities	138.5	175.4
Non-current		
Unsecured notes payable to financial institutions, rates 1.32% to 3.50%, due through August 31, 2020	262.2	203.0
Unsecured notes payable to the Giesecke & Devrient Foundation, rates 2.00% to 3.50%, due through March 25, 2018	1.8	17.0
Unsecured notes payable to other third parties, rate 0.44%, indefinite maturity date	0.3	0.3
Mortgage notes payable to financial institutions, rates 1.55% to 3.15%, due through March 31, 2023	45.2	59.1
Secured notes payable to financial institutions, rate 4.96%, due through January 4, 2017	14.6	34.3
Derivative financial instruments	0.4	-
Total	324.5	313.7
Less current portion of non-current financial liabilities	(43.0)	(68.1)
Total non-current portion of financial liabilities	281.5	245.6
Total financial liabilities	420.0	421.0

The aggregate maturities of financial liabilities for each of the following years are as follows:

in millions of EUR	
2015	138.5
2016	46.5
2017	54.1
2018	156.2
2019	9.8
Thereafter	14.9
	420.0

Lines of credit

Giesecke & Devrient maintains global credit facilities in the amount of EUR 709.0 million (as of December 31, 2013 EUR 564.7 million). As of December 31, 2014, G&D used EUR 256.5 million (as of December 31, 2013 EUR 254.2 million) of these facilities for bank guarantee purposes and EUR 51.1 million (as of December 31, 2013 EUR 94.7 million) for credit orders. Thus, EUR 401.4 million (as of December 31, 2013 EUR 215.8 million) in credit lines were not used as of the reporting date.

14 PENSION AND RELATED LIABILITIES

Description of the plans

Giesecke & Devrient maintains defined benefit pension plans for a considerable number of its employees in Germany and at a few subsidiaries abroad.

In addition to the number of years of service, the defined benefit pension plans are based on the current salary received or are dependent on the final salary. For most of the employees who had employment contracts from January 1, 2002 onwards with a German group company, the pension plan is based on pension components whose benefits are adjusted each year by 1%. Furthermore, employees in German group companies are granted the right to use particular salary elements for future pension payments.

The measurement date for the calculation of the DBO for the main pension plans and the other substantial benefits is December 31.

Payment obligations continue to exist for contribution-oriented state pension plans in Germany and abroad.

Due to the continued low interest period and the changes in the legal and economic environment, the defined benefit pension plans were amended in Germany. The amendments become effective as of January 1, 2014. With these amendments, the benefit level of the present defined benefit pension plan will be reduced. For new employees joining G&D after January 1, 2014, the existing defined contribution plan was terminated. For employees joining the company from January 1, 2014 on, an externally financed pension obligation is planned.

Total provisions for pension and related liabilities

The obligations under the pension plans and other postretirement benefit plans of Giesecke & Devrient are comprised of the following:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Pension benefits	554.5	416.5
Other postretirement benefits	0.9	0.6
Other	0.5	0.4
Total provision for pension and related liabilities	555.9	417.5

Pension and other postretirement benefits

Details of the changes in the defined benefit obligation, the current value of plan assets and the other postretirement benefits are summarized in the following tables:

in millions of EUR	Pension benefit plans		Other postretirement benefit plans	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	428.7	402.8	0.6	0.7
Foreign currency exchange rate differences	0.4	(0.9)	0.1	-
Service cost	15.9	18.0	0.1	0.1
Interest cost	16.1	15.7	-	-
Settlement/curtailment	0.2	0.3	-	-
Plan participants' contributions	-	0.1	-	-
Plan amendments	(0.1)	(6.0)	-	-
Additions/(disposals)	(0.3)	(0.3)	-	-
Actuarial (gains)/losses	117.4	10.9	0.1	(0.2)
from demographic parameter changes	1.2	(0.4)	-	-
from financial paramter changes	110.7	14.8	0.1	(0.2)
from experience adjustments	5.5	(3.5)	-	-
Benefits paid	(10.0)	(11.9)	-	-
Defined benefit obligation at end of year	568.3	428.7	0.9	0.6
Change in plan assets				
Fair value of plan assets at beginning of year	12.2	13.3	-	-
Foreign currency exchange rate differences	0.3	(0.8)	-	-
Actual return on plan assets (excluding expected interest income)	0.1	0.3	-	-
Expected interest income	0.5	0.4	-	-
Employer contribution	1.0	1.7	-	-
Plan participants' contributions	-	0.1	-	-
Benefits paid	(0.3)	(2.8)	-	-
Fair value of plan assets at end of year	13.8	12.2	-	-
Net amount recognized at end of year	554.5	416.5	0.9	0.6

Net liability recorded

The development of the net liability recorded in the fiscal years ended December 31, 2014 and 2013 is as follows:

in millions of EUR	Pension benefit plans		Other postretirement benefit plans	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Net liability at beginning of year	416.5	389.5	0.6	0.7
Service cost	15.9	18.0	0.1	0.1
Plan amendments	(0.1)	(6.0)	-	-
Settlement/curtailment	0.2	0.3	-	-
Interest expense/(income)	15.6	15.3	-	-
Additions/(disposals)	(0.3)	(0.3)	-	-
Actuarial (gains)/losses	117.4	10.9	0.1	(0.2)
from demographic parameter changes	1.2	(0.4)	-	-
from financial parameter changes	110.7	14.8	0.1	(0.2)
from experience adjustments	5.5	(3.5)	-	-
Actual return on plan assets (excluding expected interest income)	(0.1)	(0.3)	-	-
Benefits paid (excluding plan settlements)	(9.7)	(9.1)	-	-
Employer contributions	(1.0)	(1.7)	-	-
Foreign currency exchange rate changes	0.1	(0.1)	0.1	-
Net liability at end of year	554.5	416.5	0.9	0.6

Plan assets

The plan assets were invested in the following classes of assets:

information as % of plan assets	Dec. 31, 2014	Dec. 31, 2013
Equity securities	21.9	19.0
Fixed interest debt securities	9.5	8.0
Cash surrender value of reinsurance	46.6	47.0
Money market funds	17.7	22.0
Other	4.3	4.0
	100.0	100.0

The majority of the plan assets are invested in money market funds and equity securities and, for the German companies, in the form of cash surrender value of reinsurance policies and shares in mutual funds. Thereby, stronger weighting in favour of money market funds is assumed for the coming year. Plan assets are furthermore invested in shares and fixed interest debt securities. The management and also the re-investment are controlled by defined investment policies, which foresee investment in high quality and diversified investment classes.

Allocations of EUR 0.5 million to the plan assets are planned for the financial year 2015. There are no minimum funding requirements.

Actuarial assumptions

The discount rates and percentages for salary and pension increases assumed in the determination of the future pension obligations fluctuate in accordance with the economic situation in the countries, in which pension plans exist. The weighted average assumptions for the calculation of the actuarial amounts are as follows:

in %	Pension benefit plans		Other postretirement benefit plans	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Discount rate/expected return on plan assets	2.2	3.8	8.3	8.2
Rate of compensation increase	2.5	3.0	8.0	7.8
Rate of pension progression	1.5	2.0	0.0	0.0
Mortality tables:				
Germany	RT Heubeck 2005 G	RT Heubeck 2005 G		
Canada	UP 1994 (modifiziert)	UP 1994 (modifiziert)		

The rate for the expected long-term return on plan assets corresponds with the discount rate. The weighted average term for pension obligations amounts to 20.3 years (previous year 19.5) and 13.3 years for other benefit obligations (previous year 14.4).

Sensitivity analysis

The results of the sensitivity analyses of the significant actuarial assumptions as of December 31, 2014 and December 31, 2013 in the case of the pension obligations are as follows:

Change of Defined Benefit Obligation	Dec. 31, 2014	Dec. 31, 2013
Discount rate + 50 basis points	(52.5)	(35.7)
Discount rate - 50 basis points	61.0	40.9
Rate of pension progression + 25 basis points	14.6	10.1
Rate of pension progression - 25 basis points	(13.3)	(9.6)
Increase of 2 years in life expectancy	24.0	16.4

The assumptions for all sensitivity calculations were not performed jointly, but rather individually for each calculation assumption investigated.

Contributions to pension plans

Contributions to state pension plans in the amount of EUR 26.2 million and EUR 28.3 million were recorded in 2014 and 2013, respectively. In 2014, payments amounting to EUR 0.1 million were made for the newly established company pension plans.

15 REVENUE

Revenue is comprised of the following categories:

in millions of EUR	2014	2013
Sales of goods	1,582.3	1,523.8
Rendering of services	238.1	206.5
Royalties	12.7	23.3
	1,833.1	1,753.6

16 INCOME AND EXPENSES RELATING TO OTHER PERIODS

in millions of EUR	2014	2013
Income relating to other periods	27.6	38.0
Expenses relating to other periods	(4.3)	(3.7)
	23.3	34.3

Income relating to other periods consists primarily of releases of warranty provisions that are included in cost of goods sold. Aside from that, the income relating to other periods includes the non-cash reversal of a contingent purchase price obligation in the amount of EUR 0.0 million as of December 31, 2014 and EUR 5.0 million as of December 31, 2013 (see Note 24 “Business Combinations”). Expenses relating to other periods mainly comprise tax expenses for prior periods.

17 OTHER FINANCIAL INCOME, NET

in millions of EUR	2014	2013
Gains/(losses) from trading securities, net	1.8	6.3
Foreign currency exchange gains/(losses), net	(31.0)	(14.2)
Gains/(losses) from derivative financial instruments, net	30.1	5.1
	0.9	(2.8)

The changes in net unrealized gains and (losses) on trading securities included in earnings during the fiscal periods ending December 31, 2014 and 2013 were EUR (1.9) million and EUR 3.2 million, respectively.

18 INTEREST INCOME AND INTEREST EXPENSE

in millions of EUR	2014	2013
Interest income		
Loans and receivables	-	0.1
Cash and cash equivalents/short-term investments	0.2	0.7
Trading securities	0.9	0.9
Tax receivables	0.1	0.1
Other	0.7	-
	1.9	1.8
Interest expense		
Loans and receivables	0.8	-
Financial liabilities and finance lease obligations	9.5	12.0
Interest derivatives	(0.2)	(0.5)
Other provisions	0.3	0.7
Provisions for pensions	15.5	15.3
Tax payables	1.0	-
Other	3.5	-
	30.4	27.5

Interest income and expense relating to financial assets and financial liabilities that are not valued at fair value are as follows:

in millions of EUR	2014	2013
Interest income		
Loans and receivables	-	0.1
Cash and cash equivalents/short-term investments	0.2	0.7
	0.2	0.8
Interest expense		
Loans and receivables	0.8	-
Financial liabilities measured at amortized cost	9.5	12.0
	10.3	12.0

19 INCOME TAXES

Income tax expense

The income tax expense for the 2014 and 2013 fiscal years is comprised of:

in millions of EUR	2014	2013
Current income tax		
Current year income tax payments	(32.8)	(34.9)
Income tax payments for prior periods	(3.4)	(1.7)
	(36.2)	(36.6)
Deferred income tax		
Gross income from origination and reversal of temporary differences and tax loss carryforwards	41.1	23.7
Deferred income tax expense from changes in tax rates and introduction of new taxes	0.7	(0.2)
Change in usability of tax loss carryforwards	(38.6)	(14.8)
	3.2	8.7
Income tax expense, net	(33.0)	(27.9)

For the fiscal year ended December 31, 2014, G&D was subject to German federal corporation tax at a base rate of the parent company of 15% plus a solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate consisted of a federal corporate tax rate of 15.83% and trade tax of 15.99%, resulting in a combined tax rate of 31.82%.

Reconciliation between the expected and actual income tax expense

Following is a reconciliation of the expected income tax expense to the actual income tax expense which was recorded. The calculation of the expected income tax expense is based on the multiplication of income before income tax with the German corporate combined statutory rate of 31.82% and 31.83% in 2014 and 2013, respectively.

in millions of EUR	2014	2013
Expected income tax income/(expense)	12.8	(9.7)
Foreign taxation differential	8.2	3.4
Non-deductible expenses	(7.8)	(5.4)
Change in tax rate	0.7	(0.2)
Tax-free income	(2.7)	4.8
Additions due to tax risks and tax payments (refunds) for prior periods	(0.9)	(0.1)
Trade tax add-backs	(0.5)	(0.4)
Change in tax loss carryforwards	(38.6)	(14.8)
Withholding tax	(5.2)	(5.4)
Other	1.0	(0.1)
Actual income tax expense	(33.0)	(27.9)

Deferred tax assets and liabilities

The gross values of deferred tax assets and liabilities as of December 31, 2014 and 2013 are attributable to the following balance sheet line items:

in millions of EUR	Assets		Liabilities		Net	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Financial assets	0.7	1.0	(3.6)	(1.5)	(2.9)	(0.5)
Accounts receivable and other receivables, net	1.1	0.7	(0.4)	(0.4)	0.7	0.3
Inventories, net	14.4	13.4	-	-	14.4	13.4
Other assets	1.0	0.3	(0.3)	(0.6)	0.7	(0.3)
Intangible assets	3.4	0.7	(9.2)	(6.8)	(5.8)	(6.1)
Property, plant and equipment	6.1	8.2	(19.9)	(20.9)	(13.8)	(12.7)
Accounts payable trade and other accounts payable	1.7	0.8	(1.0)	(1.3)	0.7	(0.5)
Provisions	16.5	13.6	-	(2.6)	16.5	11.0
Financial liabilities	3.1	1.3	(0.1)	-	3.0	1.3
Finance lease obligations	0.4	-	-	-	0.4	-
Deposits received/deferred income	0.5	0.2	(2.2)	-	(1.7)	0.2
Pension and related liabilities	93.4	53.0	(0.2)	-	93.2	53.0
Other liabilities	3.1	2.5	-	(0.8)	3.1	1.7
Tax loss carryforwards	31.2	38.2	-	-	31.2	38.2
Deferred tax assets (liabilities), gross	176.6	133.9	(36.9)	(34.9)	139.7	99.0
Set-off of tax	(30.4)	(26.9)	30.4	26.9	-	-
Deferred tax assets (liabilities), net	146.2	107.0	(6.5)	(8.0)	139.7	99.0

The changes in deferred tax assets, net for fiscal years 2014 and 2013 are included in the following summary:

in millions of EUR	2014	2013
Deferred tax assets, net as of January 1	99.0	88.0
Changes affecting net income	3.3	8.7
Changes in net deferred tax assets not affecting net income resulting from deferred tax assets on actuarial gains and losses	36.3	3.3
Changes in net deferred tax assets not affecting net income resulting from deferred tax assets on cash flow hedges	0.1	-
Changes in net deferred tax assets not affecting net income resulting from deferred tax assets on foreign currency translations	1.0	(1.0)
Deferred tax assets, net as of December 31	139.7	99.0

Deferred tax assets not recorded in the balance sheet

The amount of deductible timing differences and tax loss carryforwards, for which deferred tax assets were not recorded, are as follows:

in millions of EUR	2014	2013
Deductible temporary differences, gross	7.0	7.6
Unused tax losses, gross	234.1	154.3
	241.1	161.9

Unused tax loss carryforwards in the amount of EUR 2.4 million can be carried forward for limited periods. The remaining EUR 231.7 million is available indefinitely.

Furthermore, deferred tax assets in the amount of EUR 31.2 million and EUR 38.2 million on tax loss carryforwards in the amount of EUR 105.8 million and EUR 128.5 million were recorded as of December 31, 2014 and 2013, respectively.

The determining factor in the recognition of deferred tax assets is the probability of the reversal of the temporary differences which resulted in the recognition of the deferred tax assets and future taxable profit against which the unused tax losses can be utilized. Based upon the level of historical taxable income and projections for future taxable income, G&D believes that it is not probable that the benefits of deductible timing differences and carryforward tax losses in the amount of EUR 241.1 million and EUR 161.9 million will be realized and therefore has not recognized deferred tax assets for these amounts in 2014 and 2013.

Income tax on dividends

As of December 31, 2014 and 2013, G&D recorded deferred tax liabilities on cumulative earnings in subsidiaries and investments that are intended for distribution. Furthermore, deferred taxes were recorded on the taxable temporary differences relating to investments in associated companies and joint ventures. As of December 31, 2014 and 2013, the amount of these liabilities was EUR 0.2 million and EUR 0.4 million, respectively.

The temporary differences relating to investments in subsidiaries, for which deferred tax liabilities were not recorded, amounted to EUR 4.2 million and EUR 11.1 million as of December 31, 2014 and 2013, respectively.

The “Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerrechtlicher Vorschriften” (SEStEG – Act on Fiscal Measures Accompanying the Introduction of the Societas Europaea and on Amending Further Tax Provisions) published in the Federal Law Gazette on December 12, 2006 revised the treatment of corporation tax credits. As the law previously stood, the annual realization of these tax credits was linked to dividend payments and thus to future events. The SEStEG stipulates that the corporation tax credit will be refunded irrespective of dividend payments. The recoverable amounts will thus be paid out in ten equal annual amounts between 2008 and 2017. The full amount of the refund became recoverable as of December 31, 2006 and does not bear interest. The unconditional claim for refund not linked to any dividend payments was recognized as a current tax asset within the definition of IAS 1.68 (m) and in the income statement in 2006. In fiscal year 2014, tax claims receivable amounting to EUR 10.6 million were sold. The fair value of the income tax claims amounted to EUR 0.2 million and EUR 14.1 million as of December 31, 2014 and 2013, respectively.

20 EQUITY

As of December 31, 2014 and 2013, the nominal value of the treasury stock amounted to EUR 4.8 million, respectively.

Unappropriated reserves amounted to EUR 204.7 million and EUR 381.0 million as of December 31, 2014 and 2013, respectively.

With respect to capital management, the main objective of Giesecke & Devrient is to secure its continuation as well as generate shareholder value, i.e. in the form of dividend payments. As of December 31, 2014 and 2013, the equity ratio amounted to 15.0% and 23.7%, respectively. G&D is not subject to external minimum capital requirements.

In addition, refer to the corresponding explanations in section 2.1.6. “Return on Capital and Economic Value Added” in the Group management report.

21 FINANCIAL INSTRUMENTS

The following table incorporates the carrying amounts and fair values of G&D’s financial instruments. The fair value of a financial instrument is the estimate of the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price).

The table does not contain information relating to the fair value of financial assets or liabilities that are not valued at fair value if the carrying amount represents a suitable approximation of the fair value.

in millions of EUR	Dec. 31, 2014		Dec. 31, 2013	
	Carrying value	Fair Value	Carrying value	Fair Value
Cash and cash equivalents	186.4	-	171.2	-
Short-term investments	0.1	-	1.3	-
Financial assets ¹				
Trading securities	68.7	68.7	65.6	65.6
Available-for-sale securities	6.6	6.6	5.7	5.7
Derivative financial assets	4.6	4.6	3.3	3.3
Loans	1.9	-	-	-
Total	81.8	79.9	74.6	74.6
Accounts receivable trade and other receivables, net ²	309.7	-	274.2	-
Other assets ³	-	-	1.5	-
Non-current assets held for sale	2.3	2.3	-	-
Total financial assets	580.3	82.2	522.8	74.6

¹ Amount does not include the cash surrender value of insurance policies in the amount of EUR 18.1 million and EUR 17.4 million as of December 31, 2014 and 2013, respectively, as this is not included in the scope of IFRS 7.
² Amount does not include prepayments in the amount of EUR 21.3 million and EUR 32.0 million as of December 31, 2014 and 2013, respectively, as these are not included in the scope of IFRS 7.
³ Amount consists solely of receivables from construction contracts. Other current assets in the amount of EUR 43.8 million and EUR 39.9 million as of December 31, 2014 and 2013, respectively, are not included in the scope of IFRS 7.

in millions of EUR	Dec. 31, 2014		Dec. 31, 2013	
	Carrying value	Fair Value	Carrying value	Fair Value
Accounts payable trade and other accounts payable ⁴	189.4	-	178.0	-
Other current liabilities ⁵	-	-	0.1	-
Financial liabilities				
Financial liabilities measured at amortized cost	413.7	418.1	415.1	419.2
Derivative financial liabilities	6.3	6.3	5.9	5.9
Total	420.0	424.4	421.0	425.1
Finance lease obligations	10.3	7.9	10.9	10.9
Total financial liabilities	619.7	432.3	610.0	436.0

⁴ Amount does not include deposits received in the amount of EUR 155.9 million and EUR 157.8 million as of December 31, 2014 and 2013, respectively, as these are not included in the scope of IFRS 7.
⁵ Amount includes gross amount due to customers for contract work.

The carrying values represent cost or amortized cost. The carrying values of financial assets and financial liabilities summarized by the individual classes are as follows:

in millions of EUR	Dec. 31, 2014		Dec. 31, 2013	
	Carrying value	Fair Value	Carrying value	Fair Value
Loans and receivables	311.6	-	274.2	-
Financial assets held for trading				
Derivative financial assets	4.6	4.6	3.3	3.3
Trading securities	68.7	68.7	65.6	65.6
Total	73.3	73.3	68.9	68.9
Available-for-sale securities	6.6	6.6	5.7	5.7
Special classes				
Cash and cash equivalents	186.4	-	171.2	-
Short-term investments	0.1	-	1.3	-
Gross amount due from customers for contract work	-	-	1.5	-
Non-current assets held for sale	2.3	2.3	-	-
Financial assets	580.3	82.2	522.8	74.6
Financial liabilities measured at amortized cost				
Financial liabilities	413.7	418.1	415.1	419.2
Gross amount due to customers for contract work	-	-	0.1	-
Accounts payable	189.4	-	178.0	-
Total	603.1	418.1	593.2	419.2
Financial liabilities held for trading	5.2	5.2	2.7	2.7
Derivative financial instruments included in hedge accounting	1.1	1.1	3.2	3.2
Special class				
Finance lease obligations	10.3	7.9	10.9	10.9
Financial liabilities	619.7	432.3	610.0	436.0

The fair value of G&D’s foreign currency forward contracts and embedded foreign currency derivatives is based on forward exchange rates. Derivative financial instruments are stated at fair value and recorded on the balance sheet under current financial assets in the amount of EUR 4.6 million and EUR 3.3 million and under current financial liabilities in the amount of EUR 6.3 million and EUR 5.9 million as of December 31, 2014 and 2013, respectively.

The nominal volume of foreign currency forward contracts entered into by Giesecke & Devrient as of December 31, 2014 amounted to:

in millions of foreign currency units	Purchase contracts	Sales contracts
US dollar	32.4	147.6
Australian dollar	6.4	3.1
British pound	2.0	1.0
Canadian dollar	6.0	11.8
Chinese renminbi	-	251.8
Japanese yen	-	85.1
Kuwaiti dinar	-	0.3
Malaysian ringgit (CC-Swap)	61.9	-
Mexican peso	-	41.7
South African rand	7.1	7.1
Swedish krona	82.6	20.0

FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE:

Cash, short-term investments as well as the current portion of receivables, other assets, trade accounts payable and other accounts payable, and other liabilities

The carrying amounts of these financial instruments are considered to approximate fair value because of the relatively short period of time between origination and their expected realization.

FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE:

The fair values of non-derivative financial instruments for the individual classes are as follows:

Marketable securities

Debt and equity securities are carried at fair value, which is based on quoted market prices at the balance sheet date.

Investments

If the fair value cannot be readily determined, investments are recorded at acquisition cost (“other related parties”). All investments in other related parties are presently recognized at the lower of their acquisition cost or recoverable amounts.

Non-current financial assets and financial liabilities as well as finance lease obligations

The fair value is determined based on the amortized cost using the effective interest method. Under this method, the expected future cash flows are discounted using the prevailing market rate as of the balance sheet date for similar maturities and contracts.

As of December 31, 2014 and 2013, there were no significant differences between the fair values and the carrying values of non-current financial assets.

Impairment losses and reversals of impairment losses during fiscal years 2014 and 2013 related solely to financial assets in the class “loans and receivables”.

in millions of EUR	2014	2013
Impairment losses	(2.1)	(4.1)
Reversals of impairment losses	1.4	3.0
	(0.7)	(1.1)

Net gains and losses from financial assets and liabilities by measurement category amounted to:

in millions of EUR	2014	2013
Loans and receivables	2,5	(2,9)
Financial assets and financial liabilities held for trading	(3,8)	11,6
Financial liabilities measured at amortized cost	0,6	(0,9)
	(0,7)	7,8

Net gains and losses on loans and receivables consist of results from impairments, reversals of impairments and foreign currency exchange effects.

Net gains and losses on financial assets and liabilities measured at their fair values contain results from changes in fair market values and adjustments on settlement of these financial instruments.

Net gains and losses from financial liabilities measured at amortized cost contain foreign currency exchange effects.

Derivative financial instruments within the scope of hedge accounting

Operating segments applied hedge accounting for specific material pending transactions in foreign currency. G&D used forward exchange contracts on pending transactions to manage the foreign currency exposure on future cash flows resulting from significant individual USD orders exceeding USD 10 million.

Fair value hedges

Since fiscal year 2009, pending transactions are hedged by using forward exchange contracts that are classified as foreign currency fair value hedges for future sales. Changes in market value of such transactions were recognized in financial income. Changes in derivatives were also recognized in financial income resulting in valuation effects in the amount of EUR (5.3) million and EUR 1.9 million on hedging instruments and EUR 5.3 and EUR (1.9) million on firm commitments in 2014 and 2013. The market value of the hedging instruments amounted EUR 1.7 million as of December 31, 2014.

Cash Flow Hedges

On April 4, 2012, the subsidiary Giesecke & Devrient Malaysia SDN BHD took out an interest free loan in the amount of MYR 110 million. Linear principal payments on the loan are made quarterly, whereby no principal payments are to be made in the first year. The residual value as of December 31, 2014 amounted to MYR 61.9 million. The last instalment is to be made on January 4, 2017. By means of a cross currency swap, the loan was swapped from MYR to Euro and simultaneously the variable interest rate was swapped for a fixed interest rate of 4.96%. The cross currency swap had a duration beginning in August 2011 and expiring on April 4, 2012.

The calculations of the retrospective effectiveness indicate that the hedging transaction is no longer effective as of December 31, 2014. Therefore, the hedging transaction is designated as of the last point in time at which it was still effective. As a result, the cross-currency swap is recorded on a stand-alone basis. The effects in equity not affecting net income arising from the hedging transaction as of January 1, 2014 in the amount of EUR 0.6 million were initially frozen and will be reversed pro rata temporis within the interest result over the remaining term of the underlying transaction until 2017. In 2014, this resulted in income in the amount of EUR 0.4 million.

The foreign currency loan was valued at the closing rate directly in the income statement. The market value amounted to EUR 14.6 million as of December 31, 2014 and EUR 18.5 million as of December 31, 2013.

In April 2012, all assets and liabilities were transferred from MC Vermögensverwaltung GmbH & Co. KG to Giesecke & Devrient Gesellschaft GmbH. In connection with the contribution, a variable interest loan in the amount of EUR 46.4 million and a related interest rate swap were assumed. Linear principal payments on the loan are made quarterly. The final installment is due on December 31, 2018. By means of an interest rate swap, the variable interest rate was swapped into a fixed interest rate of 3.15%. At the time of contribution, a hedge relationship was determined between the loan and the interest rate swap and recognized as a cash flow hedge. The cash flow hedge is effective. The market value of the interest rate swap amounted to EUR (1.1) million as of December 31, 2014. The fair value was determined using the market comparison method.

Calculation of the fair values of financial instruments

In the following table, financial instruments measured at fair value are allocated to the levels in accordance with IFRS 7, “Financial Instruments: Disclosures”. Thereby, the fair value measurement of a financial instrument is allocated in its entirety to the level for which inputs are material to determine its fair value. In level 1, fair values are mainly determined by using quoted prices in active markets for identical financial assets or liabilities. The basis to determine fair values of level 2 are mainly observable quoted prices for similar financial assets or liabilities. Fair value measurements of level 3 are mainly based on unobservable market data. In 2014 and 2013, Giesecke & Devrient determined fair values of financial instruments based on level 1 and level 2. The fair value measurement of level 3 was not used. In 2014 and 2013, no material reclassifications between the levels were recorded.

Allocation of the fair value measurement of classes of financial assets and liabilities to levels in accordance with IFRS 7 as of December 31, 2014:

Classes of financial instruments in millions of EUR	Dec. 31, 2014	thereof fair value measurement at the end of the reporting period using		
		Level 1	Level 2	Level 3
Financial assets				
Financial assets held for trading				
Derivative financial instruments	4.6	-	4.6	-
Trading securities	68.7	68.7	-	-
Available-for-sale securities	6.6	6.6	-	-
Financial liabilities				
Financial liabilities held for trading				
Derivative financial instruments	6.3	-	6.3	-
Financial liabilities measured at amortized cost				
Financial liabilities	418.1	-	418.1	-
Special class				
Finance lease obligations	7.9	-	7.9	-

Allocation of the fair value measurement classes of financial assets and liabilities to levels in accordance with IFRS 7 as of December 31, 2013:

Classes of financial instruments in millions of EUR	Dec. 31, 2013	thereof fair value measurement at the end of the reporting period using		
		Level 1	Level 2	Level 3
Financial assets				
Financial assets held for trading				
Derivative financial instruments	3.3	-	3.3	-
Trading securities	65.6	65.6	-	-
Available-for-sale securities	5.7	5.7	-	-
Financial liabilities				
Financial liabilities held for trading				
Derivative financial instruments	5.9	-	5.9	-
Financial liabilities measured at amortized cost				
Financial liabilities	419.2	-	419.2	-
Special class				
Finance lease obligations	10.9	-	10.9	-

22 FINANCIAL RISKS

G&D is subject to typical liquidity risk, counterparty credit risk and market risks stemming from changes in exchange rates, interest rates and share prices. On the procurement side, these risks are associated with price rises in raw materials (particularly semiconductors and cotton). These risks can adversely impact our net assets, financial position, and results of operations and are primarily managed as part of the Group’s ongoing business and financing activities. Additionally, financial risks affecting the G&D Group and its operating subsidiaries are identified centrally on the basis of written guidelines and their management is also largely handled by Giesecke & Devrient GmbH. Financial risk forms part of the monthly risk reports submitted to the Management Board and is also included in regular reporting to the Supervisory and Advisory Boards.

If necessary, derivative financial instruments are used in relation to foreign currency and interest rates to hedge underlying transactions. In accordance with risk management standards applying to international banks, all trading activity is subject to financial monitoring that is independent of the Group’s treasury department.

Risk Measurement Methods

Risk positions (relating to foreign currency, interest rates, financial investment, and procurement) are monitored regularly using sensitivity analysis. The modified duration risk measure is used for interest rate risks associated with bond investments. This measure indicates the percentage by which the price of the bond changes if market interest rates move by one percentage point. The Value-at-Risk (VaR) measure is used for equity investments. Total risk comprises equity risk and specific risk. This measure indicates the maximum loss not exceeded for a specific equity position with a given probability of 95% and a holding period of 10 days.

Liquidity Risk

Liquidity risk is managed centrally by Giesecke & Devrient GmbH based on annual planning for all Group companies. This is complemented by short-term liquidity planning for the main Group companies. Centralized cash management is based on a contractual agreement, which sees the main German and foreign Group companies participating in a cash pooling system.

In addition to the provision of sufficient cash, the agreement of predominantly long-term credit lines with blue chip banks assures appropriate liquidity to cover fluctuations in operating activities. These cash credit facilities were renegotiated by parent company Giesecke & Devrient GmbH in 2013, resulting in an increase to EUR 180 million and a longer, standardized maturity of five years. Group-wide cash credit lines thus increased to EUR 262.5 million. In addition, short and medium-term guaranteed credit lines of EUR 446.5 million are in place, based on bilateral agreements with the same circle of banks. At the balance sheet date of December 31, 2014, credit line facilities approved in writing were available to the amount of EUR 709.0 million. At the preceding balance sheet date of December 31, 2013, credit line facilities approved in writing amounted to EUR 564.7 million. The credit line was utilized in the form of guaranteed credit and bank loan agreements of EUR 307.6 million (previous year: EUR 349.0 million).

In addition, securities with a carrying and market value of EUR 75.2 million (previous year: EUR 71.3 million) were held within the G&D Group, most of them realizable within three months. Financial investments with a maturity of longer than three months totaled EUR 0.2 million (previous year: EUR 1.3 million). The following tables show the G&D Group’s contractually agreed (undiscounted) interest payments and repayments on the original financial liabilities, as well as derivative financial instruments with a negative fair value.

Information on Liquidity Risk at December 31, 2014

in millions of EUR	Car-rying value	Gross out-flows	Up to 1 year		1 – 2 years		2 – 3 years		3 – 4 years		4 – 5 years		over 5 years	
			Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest
Original financial liabilities														
Accounts payable trade, financial liabi-lities, and financial lease obligations	613.0	637.3	323.2	10.5	48.4	6.1	56.6	4.6	159.4	3.0	9.9	0.4	14.9	0.3
Derivative financial liabilities														
Derivative financial instruments	6.7	6.7	6.3	-	0.4	-	-	-	-	-	-	-	-	-
Total	619.7	644.0	329.5	10.5	48.8	6.1	56.6	4.6	159.4	3.0	9.9	0.4	14.9	0.3

Information on Liquidity Risk at December 31, 2013

in millions of EUR	Car-rying value	Gross out-flows	Up to 1 year		1 – 2 years		2 – 3 years		3 – 4 years		4 – 5 years		over 5 years	
			Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest
Original financial liabilities														
Accounts payable trade, financial liabi-lities, and financial lease obligations	604.1	627.0	348.9	10.1	84.6	6.0	53.7	3.7	50.6	2.2	36.9	1.0	28.6	0.7
Derivative financial liabilities														
Derivative financial instruments	5.9	5.9	5.9	-	-	-	-	-	-	-	-	-	-	-
Total	610.0	632.9	354.8	10.1	84.6	6.0	53.7	3.7	50.6	2.2	36.9	1.0	28.6	0.7

All financial instruments held as of December 31, 2014 and December 31, 2013 for which payments were already contractually agreed have been included. Target figures for future new liabilities are not included. Amounts in foreign currencies were translated at the closing rate applicable on the reporting date. Variable interest payments from financial instruments were determined by applying the last fixed interest rates before December 31, 2014 or December 31, 2013, respectively. Financial liabilities that are repayable at any time are always assigned to the earliest time period.

Default Risk

G&D protects itself against the risk of bad debts through an internal system of assessing customers with regard to their payment ability. Based on a rating process, customers are assigned the category A, B, or C. Doubtful positions are strictly limited and agreed payment terms are closely monitored. Where customer creditworthiness is an issue, measures to secure payment, such as confirmed and unconfirmed letters of credit, are requested where possible to minimize credit risk. To fulfil reporting requirements in accordance with IFRS 7, we wish to note that the maximum credit risk with regard to loans and receivables to customers corresponds to the carrying value of these financial assets. With regard to financial guarantees, the maximum credit risk is the maximum amount that the Group would have to pay.

Market Risk

a. Currency Risk

Due to its international focus, G&D has supply streams and cash flows in various currencies related to both import and export activities. Maintaining production locations worldwide is one response to foreign currency risk, as is netting imports and exports in the appropriate currency at Group level. Here, relevant currency risks and obligations (fixed contracts, orders) for the Group as a whole are identified centrally, aggregated, and netted as far as possible. The balance remaining from operations and financing activities within the Group as of the balance sheet date is fully covered on an ongoing basis using appropriate financial instruments, i.e. exclusively forward exchange contracts and swap transactions. In the main foreign currency, the US dollar, exports and imports virtually balance out over the year. Since fiscal 2011, therefore, US dollar risk has been identified based on rolling 12-month cash flow planning. Hedging would only take place if defined net threshold amounts were exceeded. Deviations between the import and export side in the course of the year are offset by currency swaps. Contracts with a value greater than USD 10 million will continue to be hedged separately using forward exchange contracts and accounted for as fair value hedges.

The net assets associated with Group companies located outside the eurozone and translation risks relating to the sales and earnings of these companies are not hedged against exchange rate fluctuations.

At the balance sheet date of December 31, 2014 (2013), G&D was exposed to the following material net risks in foreign currencies (net exposure/value of financial derivatives greater than EUR 5 million):

Net Currency Exposure at December 31, 2014 (December 31, 2013)												
Foreign currency risk in EUR million	BRL		INR		RMB		SEK		USD		ZAR	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net exposure	15.3	13.5	6.7	5.4	37.8	31.9	10.1	3.8	5.4	11.1	1.3	5.1
Financial derivatives	-	13.7	-	6.4	33.4	29.9	(6.7)	(0.3)	194.3	85.3	-	5.1

BRL = Brazilian real, INR = Indian rupee, RMB = Chinese renminbi, SEK = Swedish krona, USD = US dollar, ZAR = South African rand

Intercompany receivables and payables in foreign currencies are included in the net risks. The effects of valuation as of the balance sheet date influence the consolidated income statement and are not eliminated.

Sensitivity analysis is used to determine the impact of hypothetical changes to the respective risk variables on income and total equity as of the balance sheet date. Only the main foreign currencies are considered here.

Assuming that the euro had risen or fallen by 10 per cent against the specified foreign currencies as of December 31, 2014 (2013), the effect on total equity and the income statement (without consideration of tax effects) is shown below. Differences arising from translating the financial statements into the reporting currency are not considered here.

In the case of original financial instruments, effects exceeding EUR 2.0 million on total equity and the income statement only arise for the Chinese Renminbi with EUR (3.8) million in the case of a 10% rise of the euro and EUR 3.8 million in the case of a 10 per cent decline of the euro.

In the case of derivative financial instruments, effects exceeding EUR 2.0 million on total equity and the income statement likewise only arise with two currencies, the Chinese Renminbi again and additional the US dollar.

Derivative Financial Instruments (Impact > 2 EUR million)

in millions of EUR	Equity				Profit/Loss			
	2014	2014	2013	2013	2014	2014	2013	2013
	-10%	+10%	-10%	+10%	-10%	+10%	-10%	+10%
USD	(17.7)	21.6	(7.8)	9.5	(17.7)	21.6	(7.8)	9.5
RMB	(3.0)	3.7	(2.7)	3.3	(3.0)	3.7	(2.7)	3.3

b. Interest Rate Risk

The Group is primarily funded by way of bank loans and finance leases with interest rates that are fixed until the end of the respective term. In contrast, most interest-rate-sensitive financial assets are subject to a variable interest rate. Cash and cash equivalents are excluded here. Market interest rate changes therefore have an effect on Group earnings and equity. At the balance sheet date of December 31, 2014 (2013), the values were as follows:

Interest Rate Risk: Financial Instruments												
in millions of EUR	Effective rate of interest		Total amount		Up to 1 year		1 – 2 years		2 – 5 years		Over 5 years	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Fixed-interest financial instruments												
Financial liabilities (current and non-current) and financial lease obligations	2.5	2.4	386.3	400.8	97.1	146.5	48.4	84.6	225.9	141.2	14.9	28.5
Variable-interest financial instruments												
Financial liabilities	7.4	6.8	37.3	25.1	37.3	25.1	-	-	-	-	-	-

Risks from interest rate changes are identified at regular intervals and included in risk reporting. Derivative financial instruments (e.g. interest rate swaps) have been used to manage interest rate risk since fiscal 2011 for the two variable interest loans.

In the first case, this involves a cross-currency swap, which was concluded in 2011 and entailed a variable interest rate loan in local currency (Malaysian ringgit; MYR) being swapped for a fixed interest rate loan in euros. In fiscal 2012, a hedged relationship was designated between the loan and the cross-currency swap, which has since then been accounted for as a cash flow hedge.

In the second case, a variable interest rate loan and associated interest rate swap were contributed to Giesecke & Devrient Gesellschaft mit beschränkter Haftung in 2012. At the time of contribution, a hedged relationship was designated between the loan and the interest rate swap, which has since then been accounted for as a cash flow hedge.

Sensitivity analysis of interest rate risk shows the effect of a change in market interest rates of 100 basis points (one percentage point) on the income statement (without consideration of tax effects) and on total equity. All other variables are assumed to be constant. Within the sensitivity analysis prescribed by IFRS 7, however, only the impact on net income and total equity is considered and not the impact on future cash flows. Deferred interest payments recognized as liabilities are therefore restated using the hypothetical market interest rate as of the balance sheet date.

Assuming that the euro had risen or fallen by 10 per cent against the MYR as of December 31, 2014 (December 31, 2013), this would have resulted in changes affecting net income in the market value of the cross-currency swap of EUR (1.3) million (EUR (0.3) million) and EUR 1.6 million (EUR 0.3 million). Since there are offsetting currency effects of approximately EUR 1.3 million and (1.6) million respectively resulting from the revaluation of the MYR foreign currency loan, the net effect on the income statement would be almost balanced. The termination of the hedged relationship between the MYR-loan and the cross-currency swap does not impact equity on valuation date. The impact was already immaterial in the previous year.

An upward or downward change in market interest rates of 100 basis points would result in opposing changes in the market value of the variable interest rate loans and the relevant interest rate hedging instrument, so that in net terms this would have only a small impact and would result in an increase or a reduction of the net income of EUR 0.2 million. This effect results from the market-evaluation of the cross-currency swap. The evaluation of the cash flow hedge accounting designated interest swap would result in an increase or a reduction of the total equity of EUR 0.2 million. On December 31, 2013 this effect was EUR 0.7 million or EUR (0.8) million respectively when considering that the cross-currency swap was designated in hedge accounting at that time.

The effect of a 100-basis-point change in market interest rates on net income and total equity as of December 31, 2014 (2013) is below EUR 1.0 million for financial assets and the other financial liabilities, with the exception of bonds, and is therefore immaterial. For bonds, the following sensitivity analysis applies:

Modified Duration: Bonds

2014	Bond holdings	EUR million	40.4
	Return	%	0.5
	Duration	years	2.3
	Modified Duration	%	2.3
	Potential loss/gain	EUR million	(0.9)
2013	Bond holdings	EUR million	35.7
	Return	%	1.1
	Duration	years	2.1
	Modified Duration	%	2.1
	Potential loss/gain	EUR million	(0.8)

The modified duration table indicates the change in total income from bonds if the market interest rate falls or rises by one percentage point.

The effect of a one-percentage-point rise in the market interest rate on net income (without consideration of tax effects) and total equity as of December 31, 2014 is EUR (0.9) million (previous year: EUR (0.8) million). A corresponding one-percentage-point decline in the market interest rate would have an equal but opposite impact on pre-tax earnings and total equity, assuming all other variables remained constant.

c. Financial Investment Risk

Liquid cash is invested in overnight and time deposits and commercial paper. Decisions regarding duration are based on liquidity planning, sometimes favoring short-term deposits with a maturity of less than three months (cash and cash equivalents) and sometimes deposits with a maturity of longer than three months (current financial assets). We also invest in shares and bonds through special funds. For all forms of investment, emphasis is placed on ensuring that the counterparty is robust and that the price risk is as low as possible.

As well as bank deposits, a significant amount is invested in a special fund with an established German investment management company in order to achieve higher returns. This investment is in a portfolio of blue chip bonds (government and corporate bonds) and shares (blue chip companies). This mix minimizes the related risk. Shares comprise a maximum of 40 per cent of the total portfolio. The risk associated with this financial investment is stated monthly for shares using the Value-at-Risk (VaR) measure as provided by the investment management company responsible. As of December 31, 2014 (2013), the values were as follows:

Value-at-Risk: Equities

2014	Shareholdings	EUR million	28.2
	VAR	%	4.3
	Potential loss/gain	EUR million	(1.2)
2013	Shareholdings	EUR million	29.9
	VAR	%	4.2
	Potential loss/gain	EUR million	(1.3)

VaR analysis is based on the assumption of a 10-day holding period, a 95 per cent confidence interval, and a past observation period of 52 weeks. To calculate volatility and correlations, expected figures are used. These are dynamically derived from the relevant share/bond structure (interest rate structure).

In addition to the special fund, the Group holds securities, which are classified as available-for-sale securities. The carrying value as of December 31, 2014 was EUR 6.6 million (previous year: EUR 5.7 million). The majority of these securities are holdings in investment funds, which serve as insolvency insurance to cover the provision for pensions and pre-retirement part-time working arrangements. No sensitivity analysis was performed on these holdings due to the very minor fluctuations in their value. The Management Board has not identified any concentration of risk as defined in IFRS 7.34.

At an annual procurement volume of EUR 232.0 in semiconductors and an assumed fluctuation of 10% in procurement prices, there would be a EUR 23.2 increase or decrease in earnings before income taxes.

The information in this section is disclosed in accordance with IFRS 7, Financial Instruments: Disclosures.

23 CONSTRUCTION CONTRACTS

The details relating to construction contracts in progress are as follows:

in millions of EUR	Dec. 31, 2014	Dec. 31, 2013
Costs incurred to date	0.8	0.8
Recognized profits/(losses), net	2.1	5.6
	2.9	6.4
Progress billings	(2.9)	(5.0)
	-	1.4
Gross amount due from customers for contract work	-	1.5
Gross amount due to customers for contract work	-	(0.1)
	-	1.4

Receivables from and liabilities due to construction contracts are included under other current assets and under other current liabilities, respectively.

Contract revenues recognized in fiscal years 2014 and 2013 amounted to EUR 0.3 million and EUR 5.7 million, respectively.

24 BUSINESS COMBINATIONS

For business combinations, G&D includes the results of operations of the acquired business starting from the date of acquisition. The net assets acquired are recorded at their fair value at the date of acquisition. The excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired is recorded as goodwill in the accompanying consolidated balance sheet.

Effective January 1, 2015, a substantial portion of the division Government was transferred into a joint venture with the Bundesdruckerei. The partners combine their international business comprised of solutions for highly secure identification such as travel documents and ID systems in this new joint venture called Veridos GmbH. G&D holds 60% of the shares in the joint venture.

Effective August 1, 2013 (initial consolidation), G&D acquired 100% of the shares of Currency Tech, Ltd., Milton Keynes (Currency Tech) at a purchase price of EUR 0.5 million. The purchase price was paid in cash. No goodwill was recorded as a result of this purchase. Currency Tech operates in the field of cash processing machines for banknotes and coins. The purchase of Currency Tech was performed in order to take advantage of market potential in this area. In connection with this purchase, accounts receivables in the amount of EUR 0.6 million were acquired. Furthermore, customer base in the amount of EUR 0.8 million was acquired. In fiscal year 2013, the acquisition resulted in cash outflow in the amount of EUR 0.5 million.

The major balance sheet items of Currency Tech at the time of the initial consolidation were as follows:

	Carrying value	Fair value
in millions of EUR		
Current assets	1.1	1.1
Liabilities	1.4	1.4
Equity	(0.3)	(0.3)

The amounts presented above represent the carrying amounts and fair values of each balance sheet item determined in accordance with IFRS immediately before the combination.

In the period between the acquisition on August 1, 2013 and December 31, 2013, Currency Tech contributed to the Group result with a net loss of EUR 0.4 million. If the acquisition had taken place on January 1, 2013, the consolidated net income would have amounted to EUR 2.5 million. The consolidated net sales would have amounted to EUR 1,755.4 million.

As of December 31, 2009, a contingent purchase price obligation million was recorded as a result of the acquisition of additional shares in Giesecke & Devrient 3S OY, Helsinki in 2009. A new valuation of this purchase price obligation resulted in connection with the yearly planning process in the middle of 2013. The new valuation at fair value resulted in a release of the obligation in the amount of EUR 5.0 million in 2013 which was recorded in the income statement. The profit was recorded in the consolidated income statement in other operating (income)/expenses in 2013. The purchase price obligation amounted to EUR 0.0 million since December 31, 2013.

25 DISCLOSURES ON MATERIAL NON-CONTROLLING INTERESTS

The disclosures on material non-controlling interests (NCI) are as follows:

	G&D LOMO, ZAO, St. Petersburg		G&D Matsoukis, Security Printing, S.A., Athen		secunet Security Networks AG, Essen including subsidiaries		Giesecke & Devrient Kabushiki Kaisha, Tokyo		Giesecke & Devrient Malaysia SDN BHD, Kuala Lumpur	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Capital shares NCI	15.3%	15.3%	40.0%	40.0%	20.6%	20.6%	49.0%	49.0%	20.0%	20.0%
Voting rights NCI	15.3%	15.3%	40.0%	40.0%	20.6%	20.6%	49.0%	49.0%	20.0%	20.0%
Profit/Loss attributable to NCI	(0.1)	(0.3)	(0.1)	-	(0.9)	(0.5)	(0.3)	(2.3)	(0.7)	(1.2)
Dividend paid to NCI	(0.3)	(0.5)	-	-	(0.2)	-	(1.3)	(0.2)	-	-
Share of equity relating to NCI	0.9	1.3	1.8	1.7	7.3	6.8	3.2	4.1	8.7	8.3
Assets ¹	8.5	12.1	16.4	11.4	68.6	57.2	6.6	10.0	66.0	73.1
thereof cash and cash equivalents ¹	4.0	5.3	1.0	1.9	37.4	29.3	3.2	8.2	2.6	3.1
Liabilities ¹	2.3	3.6	11.9	7.3	32.9	24.1	2.1	3.5	20.2	29.4
Revenues ¹	23.4	25.0	12.7	9.2	82.2	63.9	9.6	19.0	33.3	24.7
Other comprehensive income ¹	(1.5)	(0.6)	-	-	-	-	(1.6)	(1.7)	0.4	2.1
Comprehensive income ¹	11.5	11.8	9.6	10.0	79.6	62.3	2.3	6.5	32.1	24.6

¹ before elimination of group transactions; aggregated (not proportional)

26 RELATED PARTY DISCLOSURES

Transactions with MC Familiengesellschaft mbH

Since 2012, MC Familiengesellschaft mbH is the group parent company of Giesecke & Devrient Gesellschaft mit beschränkter Haftung.

The company received a loan from MC Familiengesellschaft mbH in the amount of EUR 5.5 million in 2013. The duration of the loan was until January 2014 and was due at maturity. The interest rate was 1.5%. As of December 31, 2014 MC Familiengesellschaft invested EUR 8.2 million at G&D by means of the intercompany cash pool account. As of December 31, 2014 and as of December 31, 2013, no further material transactions involving receivables and liabilities or expenses and income with MC Familiengesellschaft mbH existed.

Giesecke & Devrient Gesellschaft mit beschränkter Haftung entered into service contract with MC Familiengesellschaft mbH. G&D renders accounting/taxes, finance and IT-system services.

Transaction with shareholders

In connection with the final liquidation of GDSFS, the minority shareholder Phison was entitled to an amount of EUR 0.2 million which was paid in full.

Transactions with Giesecke & Devrient Foundation

In fiscal year 2010, G&D established the Giesecke & Devrient Foundation. The grants amounted to EUR 0.3 million and EUR 0.3 million in fiscal years 2014 and 2013, respectively. In addition, the company holds a loan from the Giesecke & Devrient Foundation in the amount of EUR 19.0 million and EUR 17.0 million as of December 31, 2014 and December 31, 2013. Interest expense amounted to EUR 0.8 million and EUR 0.7 million in 2014 and 2013, respectively (see Note 13 “Financial Liabilities”).

Transactions between the affiliated companies and associated companies/joint ventures and other related parties

Transactions were carried out between the affiliated companies and associated companies/joint ventures and other related parties. The following summary presents these transactions from the viewpoint of the affiliated company:

in millions of EUR	Services rendered		Services received	
	2014	2013	2014	2013
Associated companies/joint ventures				
Goods and services	21.9	31.3	15.4	15.8
Financial transactions	3.3	4.6	-	-
	25.2	35.9	15.4	15.8
Other related parties				
Goods and services	0.1	0.1	0.8	0.7
Financial transactions	-	-	1.0	1.1
	0.1	0.1	1.8	1.8
	25.3	36.0	17.2	17.6

In fiscal years 2014 and 2013, other contractual commitments to related parties amounted to EUR 0.5 million and EUR 0.0 million, respectively.

Key management personnel compensation in accordance with § 314 Para. 1 no. 6 HGB

Members of key management personnel encompass members of the Management Board of Giesecke & Devrient GmbH as well as members of the Supervisory Board and the Advisory Board since these bodies are responsible for planning, managing and monitoring the Group activities.

Total personnel compensation for 2014 and 2013 amounted to EUR 3.6 million and EUR 2.7 million for the Management Board, EUR 0.4 million and EUR 0.4 million for the Supervisory Board and EUR 0.4 million and EUR 0.4 million for members of the Advisory Board.

In fiscal years 2014 and 2013, total personnel compensation for former members of the Management Board and their surviving dependents amounted to EUR 1.2 million and EUR 1.2 million, respectively.

Pension obligations to former members of the Management Board and their surviving dependents amounted to EUR 15.9 million as of December 31, 2014 and 2013, respectively (thereof EUR 17.1 million before offsetting against plan assets and EUR 1.2 Mio. plan assets, respectively).

No prepayments or loans to members of the Management Board, the Supervisory Board or the Advisory Board were granted in fiscal years 2014 and 2013.

27 NUMBER OF EMPLOYEES

The average number of full-time equivalent employees (excluding trainees, employees on maternity leave and employees doing national service) was:

	2014	2013
Production	7,495	7,625
Sales	1,352	1,281
Research and development	1,234	1,217
Administration	1,331	1,394
	11,412	11,517

28 PERSONNEL EXPENSES

in millions of EUR	2014	2013
Wages and salaries	509.9	496.8
Social security contributions	86.9	87.3
Other personnel expenses	16.6	13.1
	613.4	597.2

In 2014, restructuring expenses in the amount of EUR 68.3 million relating to the “P100” project were recognized as personnel expenses. These have been recorded in cost of goods sold, selling expenses, research and development expenses as well as general and administrative expenses in the amount of EUR 32.2 million, EUR 13.1 million, EUR 11.5 million and EUR 11.5 million. In 2013, personnel expenses include restructuring costs in the amount of EUR 9.1 million. These amounts include restructuring expenses in the amount of EUR 8.4 million relating to the project “Breakthrough”. These were recorded in cost of goods sold, selling expenses, research and development expenses as well as general and administrative expenses in the amount of EUR 4.0 million, EUR 1.4 million, EUR 1.4 million and EUR 1.6 million, respectively.

29 RESTRUCTURING EXPENSES

In fiscal year 2014 the restructuring expenses relating to the “P100” project were distributed among the types of expenses as follows:

	Personnel costs	Early termination of lease contracts	Fixed asset impairment	Other	Total
Production	32.2	1.6	1.7	-	35.5
Sales	13.1	-	-	0.1	13.2
Research and development	11.5	-	-	-	11.5
Administration	11.5	-	-	2.1	13.6
	68.3	1.6	1.7	2.2	73.8

The itemized restructuring expenses include additions to restructuring expenses (see Note 11 “Provisions”) as well as measures that have already taken place and paid in 2014. Refer to the section 2. “Business Performance” of the group management report for a more detailed explanation of the restructuring expenses.

30 DISCLOSURE IN ACCORDANCE WITH § 161 AKTG

The consolidated financial statements include the results of secunet AG, a publicly traded company. In accordance with § 161 AktG (German Stock Corporation Act), the management of secunet AG has filed the required declaration and has made it permanently available to the shareholders on their website (<http://www.secunet.com>).

31 EXEMPTION FROM THE DISCLOSURE OF THE ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH § 264 HGB

The following companies which have been included in the group financial statements will exercise their right not to disclose the annual financial statements as of December 31, 2014 in accordance with § 264 section 3 HGB:

Papierfabrik Louisenenthal GmbH, Gmund am Tegernsee
Giesecke & Devrient 3S GmbH, Munich

MC Holding GmbH & Co. KG will exercise the right not to disclose the annual financial statements as of December 31, 2014 in accordance with § 264b HGB.

32 COMMITMENTS AND CONTINGENT LIABILITIES

Legal proceedings/contingent liabilities

Giesecke & Devrient is involved in pending claims and legal proceedings arising in the ordinary course of business. Provisions have been made for the estimated liabilities for certain items. It is the opinion of management that the resolution of all such matters will not have a material impact on G&D’s net assets, results of operations and financial position.

Contingent liabilities in the amount of EUR 13.2 million (as of December 31, 2013 EUR 3.8 million) relating to tax risks outside Germany exist.

Guarantees

Giesecke & Devrient does not maintain substantial amounts of financial assets which serve as collateral for liabilities or contingent liabilities. Moreover, G&D does not hold collateral, which it would be permitted to sell or re-pledge in the absence of default by the owner of the collateral.

G&D has issued guarantees for deposits received in the amount of EUR 63.5 million as of December 31, 2014 and EUR 23.1 million as of December 31, 2013.

Guarantees for third-party liabilities exist representing guarantees of indebtedness of a joint venture concerning contractual performance by this company. These arrangements cover credit lines of the joint venture in the amount of up to EUR 10.0 million in 2014 and 2013, respectively. Amounts relating to interest charges are also guaranteed. In the event of default of the joint venture, G&D is required to repay the borrowings covered by these guarantees. The maximum exposure relating to these guarantees amounted to EUR 10.0 million as of December 31, 2014 and 2013, respectively.

Commitments

As of December 31, 2014, Giesecke & Devrient has material purchase commitments which mainly consist of short-term agreements for the purchase of raw materials, supplies, property, plant and equipment, and services that were entered into during the 2014 fiscal year.

The aggregate amount of required payments for commitments as of December 31, 2014 is as follows:

in millions of EUR	
2015	192.3
2016	18.6
2017	14.0
2018	0.1
2019	-
Thereafter	0.2
	225.2

33 GRANTS

Grants from fiscal authorities and from the Sächsische Aufbaubank are primarily received for non-current assets. The grants are given under the condition that G&D maintains the non-current assets for at least five years. In fiscal 2014 and 2013, Giesecke & Devrient recorded grants in the amount of EUR 2.4 million and EUR 1.2 million which were offset against the acquisition and manufacturing costs.

Furthermore, in fiscal 2014 and 2013 G&D received other miscellaneous grants for operational investments in the amount of EUR 1.7 million and EUR 1.0 million which were recognized in other operating income. At present, there is reasonable assurance that the attached conditions will be fulfilled.

34 RISKS

Refer to section 4 of the Group management report, “Risk and Compliance Management”, for the related disclosures.

35 AUDIT FEES IN ACCORDANCE WITH § 314 PARAGRAPH 1 NR. 9 HGB

The audit fees for KPMG AG for the financial year ended 2014 amounted to EUR 1.7 million. The break down into categories is as follows:
a) fees for audit services EUR 1.0 million, b) fees for audit-related services EUR 0.3 million, c) fees for tax-related services EUR 0.2 million and d) fees for all other services EUR 0.2 million.

36 GROUP TO WHICH THE COMPANY BELONGS

MC Familiengesellschaft mbH is the parent company of the Giesecke & Devrient Group (see Note 26 “Related Party Disclosures”). As of December 31, 2014, consolidated financial statements and a Group management report will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements of MC Familiengesellschaft mbH will be published electronically in the German Federal Gazette.

37 EVENTS AFTER THE BALANCE SHEET DATE

Refer to section 3 of the Group management report, “Subsequent Events”, for the related disclosures.

38 SHAREHOLDINGS

Direct and indirect investments held by Giesecke & Devrient in affiliated companies	Shareholding in %
MC Holding GmbH & Co. KG, Tutzing	100.00
Papierfabrik Louisenenthal GmbH, Gmund am Tegernsee	100.00
Giesecke & Devrient Cash Management Services GmbH i.L., Munich	100.00
Giesecke & Devrient International Finance S.A., Luxembourg	100.00
GyD Ibérica S.A., Barcelona	100.00
Giesecke & Devrient GB Ltd., Wembley/Middlesex	100.00
Currency Tech Ltd., Milton Keynes	100.00
Giesecke & Devrient Istanbul Ticaret ve Servis Ltd. Sirketi, Istanbul	100.00
Giesecke & Devrient Tecnologia, OOO, Moscow	100.00
Giesecke & Devrient FZE, Dubai	100.00
Giesecke & Devrient Egypt Ltd., Cairo	100.00
Giesecke & Devrient Holding FZE, Dubai	100.00
Giesecke & Devrient (Southern Africa) (Pty) Ltd., Johannesburg	100.00
Giesecke & Devrient Africa Ltd., Lagos	100.00
Giesecke & Devrient America, Inc., Dulles/Virginia	100.00
BA International, Inc., Ottawa/Ontario	100.00
Giesecke & Devrient Systems Canada, Inc., Toronto/Ontario	100.00
Giesecke y Devrient de México S.A. de C.V., Mexico City	100.00
Serviços Giesecke y Devrient De México S.A. de C.V., Mexico City	100.00
Giesecke & Devrient Brasil Ltda., São Paulo	100.00
GyD Latinoamericana S.A., Buenos Aires	100.00
Giesecke & Devrient Australasia Pty. Ltd., Knoxfield/Victoria	100.00
Giesecke & Devrient Asia Pte. Ltd., Singapore	100.00
Giesecke & Devrient (China) Information Technologies Co., Ltd., Nanchang/Jiangxi	100.00
Giesecke & Devrient India Private Limited, New Delhi	100.00
Giesecke & Devrient Slovakia, s.r.o., Nitra	100.00
Giesecke & Devrient Italia, S.R.L., Milan	100.00
Giesecke & Devrient France S.A.S., Paris	100.00
Giesecke & Devrient 3S AB, Stockholm	100.00
SmartTrust Systems Oy, Helsinki	100.00
Giesecke & Devrient Asia Pacific Ltd., Hong Kong	100.00
Giesecke & Devrient Asia Pacific Banking Systems (Shanghai) Co. Ltd., Shanghai	100.00
Giesecke & Devrient Asia Pacific (Korea), Seoul	100.00
Giesecke & Devrient 3S GmbH, Munich	100.00
Giesecke & Devrient 3S Oy, Helsinki	100.00
PT Giesecke & Devrient Indonesia, Jakarta	100.00
Huangshi G&D Wanda Security Card Co. Ltd., Huangshi/Hubei Province	100.00
G&D América do Sul Indústria e Comércio de Smart Cards Sociedade Anonima, São Paulo	100.00
Giesecke & Devrient International Government Solutions GmbH, Berlin (since January 1, 2015 Veridos GmbH)	100.00
Veridos Canada Ltd., Toronto/Ontario	100.00
Veridos FZE, Dubai	100.00

Veridos Brasil Comércio de Smart Cards e soluções para Identificação Segura e Autenticação Ltda., São Paulo	100.00
Veridos México S.A. de C.V., Mexico City	100.00
685796.Incorporated Ltd. i.L., Manchester	100.00
Giesecke & Devrient Egypt Services LLC, Cairo	99.00
G&D LOMO, ZAO, St. Petersburg	84.69
Giesecke & Devrient Malaysia SDN BHD, Kuala Lumpur	80.00
secunet Security Networks AG, Essen	79.43
secunet SwissIT AG, Solothurn	79.43
SECUNET s.r.o., Prague	79.43
secunet Inc., Austin (shell company) ¹	79.43
Giesecke & Devrient Matsoukis, Security Printing, S.A., Athens	60.00
Giesecke & Devrient Kabushiki Kaisha, Tokyo	51.00

¹ Not consolidated due to immateriality.

Investments held by Giesecke & Devrient in associated companies and joint ventures	Shareholding in %
E-Kart Elektronik Kart Sistemleri Sanayi ve Ticaret Anonim Sirketi, Gebze	50.00
Shenzhen G&D Currency Automation Systems Co. Ltd., Shenzhen	50.00
CI Tech Components AG, Burgdorf	50.00
EPC Electronic Payment Cards, Gesellschaft für Kartenmanagement mbH, Gmund am Tegernsee	49.00
Trustonic Ltd., Cambridge	30.00

Investments held by Giesecke & Devrient in non-consolidated companies	Shareholding in %
Original1 GmbH i.L., Frankfurt am Main	20.00


The companies Giesecke & Devrient S.A., Zaventem and Giesecke & Devrient Secure Flash Solutions GmbH, Munich were liquidated in 2014. These liquidations had no material impact on the consolidated financial statements.


Munich, March 26, 2015


Giesecke & Devrient GmbH
The Management Board


Dr. W. Schlebusch
Chairman


S. Auerbach


H. W. Kunz


R. Wintergerst


Dr. P. Zattler

CORPORATE BODIES

MANAGEMENT BOARD (from left to right)

Dr. Peter Zattler
Hans Wolfgang Kunz
Dr. Walter Schlebusch
(Chairman of the Management Board)
Ralf Wintergerst
Stefan Auerbach



SUPERVISORY BOARD

Dr. Peter-Alexander Wacker
(Chairman) Munich

Walter Bogner*
(Deputy Chairman) Dachau

Prof. Dr. Gabi Dreo Rodosek
(since April 8, 2014) Haar

Georg Fahrenschon
(since April 8, 2014) Munich

Stefan Fluri*
(since April 8, 2014) Fürstenfeldbruck

Ralf Gerlach*
Gilching

Peter Hanke*
(since April 8, 2014) Pirna

Dr. Dietrich Hoppenstedt
(until April 8, 2014) Burgwedel

Prof. Klaus Josef Lutz
(since April 8, 2014) Munich

Jens Müller*
(until April 8, 2014) Gerichshain

Michael Reinhard*
(until April 8, 2014) Moers

* Employee representatives

ADVISORY BOARD

Dr. Peter-Alexander Wacker
(Chairman) Munich

Verena von Mitschke-Collande
(Deputy Chairman) Tutzing

Prof. Dr. Gabi Dreo Rodosek
(since April 8, 2014) Haar

Georg Fahrenschon
(since April 8, 2014) Munich

Franz Markus Haniel
(until April 8, 2014) Munich

Dr. Dietrich Hoppenstedt
(Deputy Chairman)
(until April 8, 2014) Burgwedel

Prof. Klaus Josef Lutz
(since April 8, 2014) Munich

Prof. Dr.-Ing. Gunther Reinhart
(until April 8, 2014) Hebertshausen

Johannes Ignatius van der Velde
(until April 8, 2014) Amsterdam

Dr. Susanne Weiß
(until April 8, 2014) Munich

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(since April 8, 2014) Munich

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website under: About G&D > Services > Glossary



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