

Kudelski Group
Financial statements 2002



Kudelski Group
Financial statements 2002

Table of contents

Consolidated financial statements of Kudelski Group	3
Consolidated balance sheets at December 31, 2002 and 2001	
Consolidated income statements for the years ended December 31, 2002 and 2001	
Consolidated statements of cash flows for the years ended December 31, 2002 and 2001	
Notes to the consolidated financial statements at December 31, 2002 and 2001	
Report of the Group auditors	
Financial statements of Kudelski SA	37
Balance sheets at December 31, 2002 and 2001	
Income statements for the years ended December 31, 2002 and 2001	
Proposal for appropriation of available earnings for the year 2002	
Notes to the financial statements at December 31, 2002 and 2001	
Report of the statutory auditors	

Consolidated financial statements of Kudelski Group

Consolidated balance sheets at December 31, 2002 and 2001

Assets

	Notes	31.12.02	31.12.01
in kCHF			
Fixed assets			
Intangible fixed assets	3.1	22 733	24 757
Financial fixed assets	3.2	10 882	15 113
Tangible fixed assets			
Land and buildings	3.3	32 318	35 622
Fixtures and fittings	3.4	25 983	24 278
Total fixed assets		91 916	99 770
Current assets			
Inventories	3.5	49 107	54 129
Work in progress	3.6	8 981	412
Trade accounts receivable	3.7	212 836	292 279
Other trade accounts receivable	3.20	—	30 857
Other receivables	3.8	33 662	28 469
Cash and cash equivalents	3.9	753 082	415 857
Total current assets		1 057 668	822 003
Total assets		1 149 584	921 773

Shareholders' equity and liabilities

	Notes	31.12.02	31.12.01
in kCHF			
Shareholders' equity			
Share capital		513 599	512 941
Share premium and reserves		46 709	47 989
Total shareholders' equity, Group's interest		560 308	560 930
Minority interests			
Total shareholders' equity	3.10	580 910	580 851
Long-term liabilities			
Convertible bond	3.11	319 191	—
Provisions	3.12	22 548	41 276
Other long-term debt		10 852	3 800
Total long-term liabilities		352 591	45 076
Current liabilities			
Bank overdrafts		36 470	51 743
Trade accounts payable	3.13	101 283	111 445
Advances received from clients		9 377	13 600
Short-term provisions	3.14	21 900	31 645
Accrued liabilities and other payables	3.15	47 053	87 413
Total current liabilities		216 083	295 846
Total Shareholders' equity and liabilities		1 149 584	921 773

Consolidated financial statements of Kudelski Group

Consolidated income statements for the years ended December 31, 2002 and 2001

in kCHF	Notes	2002	2001
Sales	4.1	342 326	339 860
Sales on long-term contracts	4.1	42 340	99 969
Capitalized new product development	4.2	17 689	15 616
Total income		402 355	455 445
Cost of material and components sold	4.3	-152 322	-185 651
Gross margin		250 033	269 794
Salaries and wages	4.4	-120 385	-86 609
Operating expenses	4.5	-39 956	-44 207
Sales and administration costs	4.6	-43 610	-36 731
Non recurring charges (reorganization)	4.7	-22 535	—
Change in provisions		-14 939	-3 075
EBITDA, Operating income before interest, taxes, depreciation and amortization		8 608	99 172
Depreciation and amortization		-20 722	-16 199
Impairment (reorganization)		-19 908	—
EBIT, Operating income		-32 022	82 973
Financial income	4.8	85 952	17 105
Financial expenses	4.9	-42 246	-3 094
Extraordinary income	4.10	3 606	17 909
Extraordinary expenses	4.10	—	-34 243
Net income before tax and minority interests		15 290	80 650
Income tax	4.11	-2 271	-9 056
Net income of the Group		13 019	71 594
Minority interests		-2 988	492
Net income		10 031	72 086
As a percentage of income			
Operating income		-8%	18%
Net income		2%	16%
Earnings per share (in CHF)			
Basic earnings per share	4.12	0.20	1.42

Consolidated statements of cash flows for the years ended December 31, 2002 and 2001

in kCHF	Notes	2002	2001
Operating cash flow	5.1	47 371	25 490
Interest paid		-13 446	-1 973
Interest received		13 730	13 572
Tax paid		-10 011	-13 332
Net cash from operating activities		37 644	23 757
Net investment in intangible fixed assets		-23 850	-20 684
Net investment in tangible fixed assets		-14 331	-14 707
Net investment in financial fixed assets	3.20	-233	-11 271
Realized gain on financial investment		—	17 909
Sale/acquisition of subsidiaries, cash inflow/outflow	5.2	480	-124 127
Net cash used in investing activities		-37 934	-152 880
Change in long-term loans		-7 491	-9 968
Convertible bond issue net of issuance costs		545 522	—
Redemption of convertible bond		-83 097	—
Interest paid on convertible bond		-5 685	—
Payments from minority interests		—	931
Dividends paid to minority interests		-1 000	-1 000
Net cash from/used in financing activities		448 249	-10 037
Effect of exchange rate changes on cash and cash equivalents		-110 734	622
Movement in cash and cash equivalents		337 225	-138 538
Cash and cash equivalents at January 1		415 857	554 395
Cash and cash equivalents at December 31		753 082	415 857
Movement in cash and cash equivalents		337 225	-138 538

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

1. General comments and principles of consolidation

The consolidated financial statements for the years ended December 31, 2002 and 2001 are prepared in accordance with Swiss GAAP FER and give a true and fair view of the financial position and results of the Group.

The consolidated financial statements have been prepared under the historical cost convention and on an accruals basis. All companies integrated into the scope of consolidation have a December 31 accounting year. The prior year financial statements have been restated for comparison purpose.

The consolidated financial statements comprise those of Kudelski SA and of its affiliated companies including joint ventures and associates (the Group).

Subsidiaries

All the companies in which Kudelski SA exercises an exclusive or majority control either directly or indirectly are consolidated according to the global integration method.

Assets, liabilities, as well as income and expenses are fully consolidated in the financial statements. The shares in net income and equity attributable to minority shareholders in certain Group companies are stated separately in the consolidated income statement and balance sheet. Under the unity principle, minority interests are stated in the shareholders' equity.

The assets and liabilities and the related income and expenses within the Group have been eliminated on consolidation.

Newly acquired companies are consolidated from the effective date of acquisition, using the purchase method.

In view of its relative immateriality, Nagra Travel Sàrl is not consolidated.

Joint ventures

Full consolidation has been applied to the joint ventures in which Kudelski SA holds 50% of the capital, as the Group has significant influence and direct management control.

Associates

Companies where the Group has a participation of 20% or more and a significant influence but does not exercise management control are accounted for by the equity method. The net assets and results are recognized on the basis of the associates' own accounting policies, where it is impractical to make adjustments to the Group accounting policy.

Scope of consolidation

Company	Location	Activity	Percentage held		Consolidation method	
			2002	2001	2002	2001
Kudelski SA	CH Cheseaux	Holding	—	—	—	—
Nagravision SA	CH Cheseaux	Solutions for digital TV and audio products	100	100	FC	FC
NagraCard SA	CH Cheseaux	Secure smartcards	100	100	FC	FC
Nagra Public Access AG	CH Zug	Holding for physical access activities	100	—	FC	—
Nagra Trading SA	CH Cheseaux	Trading	100	100	FC	FC
Nagravision Iberica SL	ES Madrid	Digital TV sales and support	100	100	FC	FC
Nagra France Sàrl	FR Paris	Sales and support	100	100	FC	FC
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	100	100	FC	FC
Nagra Italia SRL	IT Rome	Sales	—	100	—	FC
Nagra Kudelski GmbH	DE Munich	Sales and support	100	100	FC	FC
Nagra USA, Inc.	US Nashville	Sales and support	100	100	FC	FC
NagraStar LLC	US Englewood	Smartcards and digital TV support	50	50	FC	FC
Nagra Plus	CH Cheseaux	Analog TV	50	50	FC	FC
Nagra-Futuris SA	CH Neuchâtel	Digital broadcasting solutions	50	50	FC	FC
NagraID SA	CH Chaux-de-Fonds	Smartcard production	100	100	FC	FC
Thermoplex F. Droz SA	CH Chaux-de-Fonds	Smartcard production	M	100	M	FC
Logiways	CH Cheseaux	Digital TV software solutions	51	—	FC	—
Soft Technology SA	FR Brive	Development and sale of software for digital TV	51	—	FC	—
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	100	—	FC	—
Kudelski Luxembourg Sàrl	LU Luxembourg	Finance	100	—	FC	—
Kud Sàrl	LU Luxembourg	Finance	100	—	FC	—
MediaCrypt AG	CH Zurich	Fundamental encryption technology	50	50	FC	FC
Précision Electronique						
Precel SA	CH Neuchâtel	Electronics and mechanics	—	100	—	FC
SportAccess SA						
(form. SportAccess Holding SA)	CH Sion	Holding and multi-functional solutions	78	78	FC	FC
SportAccess Kudelski SA	CH Sion	Physical access control	84	55	FC	FC
SportAccess Kudelski AG	AT Bregenz	Physical access control	84	55	FC	FC
Systems Ticketsysteme						
Vertriebs GmbH	DE Kaufbeuren	Physical access control	84	55	FC	FC
Systems Produktion AG	LI Mauren	Physical access control	84	55	FC	FC
Systems Ticketing AG	CH Muri	Physical access control	84	55	FC	FC

(FC: Full consolidation)

(M: Merged)

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

Scope of consolidation (continued)

Company	Location	Activity	Percentage held		Consolidation method	
			2002	2001	2002	2001
Political Rights SA (Polirights) in liquidation	CH Geneva	No activity	66	66	FC	FC
e-prica AG	CH Lyss	Health sector cards	50	50	FC	FC
Livewire						
Communications Inc.	US Gainesville	Software for decoders	100	100	FC	FC
Leman Consulting SA	CH Nyon	Advice on intellectual property	100	100	FC	FC
Ticketcorner AG	CH Rümlang	Event distribution and ticketing	100	100	FC	FC
Ticketcorner GmbH	DE Bad Homburg	Software development and ticketing	100	—	FC	—
Lysis International SA	CH Lausanne	Holding	M	100	M	FC
Lysis SA	CH Lausanne	Digital TV software	M	100	M	FC
Lysis Trading SA	CH Lausanne	Sales	100	100	FC	FC
Lysis America Ltd	US Atlanta	Sales	100	100	FC	FC
Lysis UK Ltd	GB London	Digital TV software	100	100	FC	FC
Lysis Asia Pte Ltd	SG Singapore	Sales	—	100	—	FC
SkiData AG	AT Gartenau	Holding and physical access control	100	100	FC	FC
SkiData Benelux BV	NL Capelle	Physical access control	100	100	FC	FC
Lepanto Technologie AG	AT Gartenau	Physical access control	100	100	FC	FC
SkiData SRL	IT Bolzen	Physical access control	100	100	FC	FC
SkiData Scandinavia AB	SE Kil	Physical access control	100	100	FC	FC
SkiData (Schweiz) AG	CH Diepoldsau	Physical access control	100	100	FC	FC
SkiData Computer GmbH	DE Landshut	Physical access control	100	100	FC	FC
SkiData France Sàrl	FR Argenteuil	Physical access control	100	100	FC	FC
SkiData France SA	FR Meylan	Physical access control	100	100	FC	FC
Medatec Computer GmbH	AT Hard	Physical access control	85	85	FC	FC
SkiData of America, Inc.	US Los Angeles	Physical access control	100	100	FC	FC
SkiData Parking Services USA, LLC	US Bound Brook	Physical access control	M	100	M	FC
SkiData Nippon Co. Ltd	JP Tokyo	Physical access control	100	100	FC	FC

(FC : Full consolidation)

(M: Merged)

Scope of consolidation (continued)

Company	Location	Activity	Percentage held		Consolidation method	
			2002	2001	2002	2001
AccessArena AG	CH Rümlang	Destination management	41	41	EM	EM
SwissAccessGroup AG	CH St. Gallen	Ticketing and access control for Expo.02	25	25	EM	EM
Digital Elektronik GmbH	AT Gartenau	Physical access control	25	25	EM	EM
APT-SkiData Limited	GB Middlesex	Physical access control	26	26	EM	EM
SkiData Parking Systems Ltd	HK Hong Kong	Physical access control	26	26	EM	EM
Kabushiki Laisha Skidata	JP Tokyo	Physical access control	25	25	EM	EM

(EM: Equity Method)

In addition to the companies in the scope of consolidation, Kudelski SA also has a 100% interest in Nagra Travel Sàrl as well as minority holdings of immaterial value in different companies.

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

Changes in scope of consolidation

In 2002 the consolidation scope has been modified by the inclusion of the following entities:

– Kudelski Financial Services Holding SCA, Kudelski Luxembourg Sàrl and Kud Sàrl, all based in Luxembourg, were established in January 2002. These entities were created within the framework of the convertible loan issue. Kudelski Financial Services Holding SCA is also the issuing company of this convertible loan. They are all 100% subsidiaries.

– Ticketcorner GmbH, Bad Homburg, is a company established in June 2002 and a 100% subsidiary of Ticketcorner SA. This company is active in the development of software and the sale of ticketing in Germany.

– The companies Logiways, Cheseaux and Soft Technology SA, Brive, are 51% owned. These companies develop and market complete real-time software solutions in the field of digital television as well as software testing tools in the same field.

– Nagra Public Access AG, Zug, created in December 2002, is a 100% subsidiary. This holding company groups together the entities that are active in the field of public access.

The scope of consolidation has been changed due to the mergers between NagralD and Thermoplex F. Droz SA and between Nagravision SA, Lysis International SA and Lysis SA.

Nagra Italia SRL, Précision Electronique Precel SA and Lysis Asia Pte Ltd left the consolidation scope of the Group on 31 December 2002.

In 2001 the consolidation scope was modified by the inclusion of the following entities:

– e-prica AG, Lyss, was established as a joint venture with the Swiss pharmaceutical group Galenica Holding SA. e-prica's activities are the development and marketing of secured database integrated on smartcards designed to guarantee the protection of sensitive health data.

– Livewire Communications Inc., Gainesville, is a software engineering company. 100% was acquired in April 2001. It produces in particular set-top box software, conditional access software and provides systems engineering and integration services for the US cable and satellite television markets.

– Leman Consulting SA, Nyon, in which a 100% interest is held, was established in May 2001. This company provides consulting in intellectual property.

– Ticketcorner AG, Rümlang. This company provides ticketing and event organization services. 100% was bought in Mai 2001.

– Lysis International SA, Lausanne. This company owns 100% of Lysis SA, Lausanne, Lysis Trading SA, Lausanne, Lysis America Ltd, Atlanta, Lysis UK Ltd, London and Lysis Asia Pte Ltd, Singapore. This Group of companies is fully consolidated from April 2001. The company is active in the field of digital TV and audio-visual rights management and provides related software to network operators, broadcasters and content owners.

– NagralD SA and Thermoplex F. Droz SA, La Chaux-de-Fonds: the Group has increased its percentage holding in NagralD SA from 50% to 100% and 100% of Thermoplex F. Droz SA was acquired in October 2001. These entities are active in identification security systems, particularly in contactless chips and transponders.

– SkiData Group, Gartenau, in the area of Salzburg, is a Group comprising 16 entities providing access control systems. This Group is fully integrated into the scope of consolidation at 100% since September 2001.

– AccessArena AG, Rümlang. This company, in which a 41% interest is held, was established in December 2001 for the creation of a digital platform that will link together providers and operators in the tourism industry of a given region.

Consolidation of capital/Treatment of goodwill

The book value of investments has been eliminated against the share in the net assets of the companies, valued at the time of their acquisition or creation. The purchase method is applied.

The difference between the acquisition cost and the fair value of net assets acquired is booked directly against shareholders' equity in the year of acquisition. Each element is detailed in note 5.2.

In accordance with Swiss GAAP FER 9 relating to financial statement disclosures, the theoretical effect of the amortization of the goodwill over a specified period is explained in note 3.10.

Foreign currencies

Translation of financial statements

Financial statements of Group companies expressed in currencies other than Swiss francs (CHF) are translated at year-end exchange rates with respect to the balance sheet and at average exchange rates for the year with respect to the income statement. Translation adjustments are included in the translation reserve in the consolidated shareholders' equity.

Foreign currency transactions

Transactions in foreign currencies are accounted for at the exchange rates prevailing at the transaction date. Other receivables and payables in foreign currencies are accounted for at year-end rates. The resulting currency translation differences are included in net income.

Exchange rates	Average rates		Year-end rates	
	2002	2001	2002	2001
1 USD	1.56	1.69	1.39	1.68
1 GBP	2.33	2.43	2.23	2.42
1 EUR	1.47	1.51	1.46	1.48
100 JPY	1.24	1.39	1.17	1.28
100 SEK	16.00	16.14	15.90	15.81

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

2. Accounting policies and valuation methods

Intangible fixed assets

New developments created by the Group comprise directly attributable internal costs. Amortization is calculated on a straight-line basis over the estimated useful life of 4 to 5 years.

Patents and software are capitalized at acquisition costs. Amortization is calculated on a straight-line basis over the estimated useful life of 4 to 8 years.

Goodwill is booked directly against shareholders' equity in the year of acquisition and the theoretical effects of accounting for goodwill as an asset are mentioned in the notes to the financial statements. The theoretical amortization period of goodwill is defined at the time of acquisition and generally varies between 10 and 20 years. A value adjustment test (impairment) is also performed in accordance with the Swiss GAAP RPC 20 standard.

Financial fixed assets

Financial fixed assets primarily comprise long-term loans as well as other financial instruments such as equity interests and investments in companies over which the Group exercises neither control nor a determining influence.

These financial investments are recorded at their acquisition value after allowing for valuation adjustments necessitated by particular circumstances.

Certain adjustments have been booked against reserves; these valuation adjustments will be recorded in the income statement when they are realized.

Tangible fixed assets

Land and buildings are stated in the balance sheet at acquisition cost less depreciation. Buildings are depreciated on a straight-line basis over 20 to 33 years. Building improvement costs are depreciated on a straight-line basis over 4 to 8 years.

Machinery and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the useful life of the assets.

	Useful life years
Technical equipment and machinery	
Machinery and measurement instruments	4-7
Digital material and equipment	4-5
Computers and information networks	4
Other equipment	
Office furniture and equipment	5-7
Vehicles	4

Leased tangible fixed assets

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

Inventories

Purchased goods are stated at the lower of cost and replacement value, while manufactured goods are stated at the lower of the manufacturing cost and net realizable value.

In the balance sheet inventory is primarily valued at standard cost, which approximates to historical cost determined on a first-in-first-out (FIFO) basis.

Goods no more part of production and sale plans are directly deducted from the gross value of inventories. Moreover appropriate provisions have been made for inventories with a lower market value or which are slow moving.

Work in progress

Work in progress for long-term contracts is accounted for in accordance with the percentage of completion method, but not in excess of net realizable value.

The percentage of completion is generally calculated based on the costs incurred and the effective hours worked up to the measurement date. It is determined from specific surveys of work performed.

Trade accounts receivable

Trade receivables are carried at anticipated realizable value. This heading also contains amounts due from customers on long-term contracts assessed in accordance with the percentage of completion method.

An estimate is made for doubtful receivables at year-end. A provision is established to this end.

Cash and cash equivalents

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

Financial derivative instruments

The Group uses derivative financial instruments to manage the foreign exchange exposure related to its operational activities. As a general principle the Group does not enter into speculative derivative transactions.

The instruments used during the year include forward foreign exchange contracts, currency swaps as well as zero cost option strategies with terms of between one and six months. The derivative financial instruments are mainly utilized to cover the currency exposure of existing and anticipated receivables or payables in foreign currency.

All currency derivatives are carried at fair value with changes in realized and/or unrealized gains or losses recognized in the income statement. The derivative financial instruments are entered into with high credit quality financial institutions, consistent with specific approval, limit and monitoring procedures.

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

Convertible bond

The convertible bond is reported at its nominal value less issuing costs and after allowing for the reconstitution of the redemption value. The difference between the issue value and the redemption value, as well as the costs of issue, are amortized over the term of the loan.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

Restructuring provisions are accounted for in case of necessary reorganization of activity sectors or new subsidiaries acquired.

Deferred taxes

Some restatements made to the statutory accounts in order to bring them in line with the accounting principles of the Group create temporary differences arising between the tax basis and the result stated for financial reporting purposes. These differences give rise to deferred taxes in the consolidated financial statements, which are recorded using the liability method based on the expected taxes at the time of the materialization of the debt or the liability. All changes in tax rate are accounted for in the income statement.

A deferred tax asset is recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized. The tax rate applied corresponds to the current tax rate of the company.

Pension scheme

The liability in respect of defined benefit pension plans is in all material cases the defined benefit obligation calculated annually by independent actuaries using the "projected unit credit method". The defined benefit obligation is measured at the present value of the estimated future cash flows. As permitted by Swiss GAAP FER, the Group has decided not to activate the surplus of the pension funds. The theoretical charge for such pension plans, representing the net periodic pension cost less employee contributions, is shown in note 3.17.

Sales

Sales comprise goods and services sold to third parties, net of sales taxes and discounts. The Group generates revenue from integrated hardware and software solutions in the fields of pay TV and physical access. Sales of goods are recorded in the profit and loss account upon transfer of risks and important advantages of ownership to the buyer. Revenues are recognized under the percentage of completion method for solutions sold under license including integration services as well as software development.

Sales on long-term contracts correspond to sales of pay TV integrated solutions where contract duration is more than one year. The revenue recognition method applied is the percentage of completion.

3. Notes to the consolidated balance sheet

3.1 Intangible fixed assets

Years ended December 31 in kCHF	Know-how	Development of new products	Patents, software and other	2002	2001
Gross values at January 1	20 450	42 257	9 221	71 928	52 607
Additions	—	17 689	6 161	23 850	20 684
Disposals and retirements	-15 450	-11 642	—	-27 092	-2 342
Changes in the scope of consolidation	—	—	—	—	3 269
Currency translation and other adjustments	—	-1 152	1 989	837	-2 290
At December 31	5 000	47 152	17 371	69 523	71 928
Accumulated depreciation at January 1	20 450	22 787	3 934	47 171	40 442
Systematic amortization	—	5 880	1 410	7 290	6 237
Impairment	—	19 152	—	19 152	—
Amortization on disposals and retirements	-15 450	-11 642	—	-27 092	-2 342
Changes in the scope of consolidation	—	—	—	—	1 241
Currency translation and other adjustments	—	-1 223	1 492	269	1 593
At December 31	5 000	34 954	6 836	46 790	47 171
Net values at December 31	—	12 198	10 535	22 733	24 757
Useful life in years		4-5	4-8		

Impairment relates to developments of new capitalized products for which a decision was taken in the restructuring process that the resources required to bring these projects to completion would not be made available.

3.2 Financial fixed assets

in kCHF	31.12.02	31.12.01
Investment	3 750	8 214
Associates	4 693	3 203
Non consolidated investments	379	183
Loans	1 510	3 409
Other financial fixed assets	550	104
	10 882	15 113

Valuation adjustments on investment of kCHF 4 464 in 2002 and kCHF 1 786 in 2001 have been charged against reserves.

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.3 Land and buildings

Years ended December 31 in kCHF	Land	Building		2002	2001
		Buildings	improvements		
Gross values at January 1	10 583	29 177	9 204	48 964	27 904
Additions	23	1 093	857	1 973	5 482
Disposals and retirements	—	—	-1 197	-1 197	—
Changes in the scope of consolidation	-800	-1 034	—	-1 834	15 862
Currency translation and other adjustments	—	60	-50	10	-284
At December 31	9 806	29 296	8 814	47 916	48 964
Accumulated depreciation at January 1	—	8 740	4 602	13 342	3 940
Systematic depreciation	—	906	1 877	2 783	2 460
Impairment	—	730	—	730	—
Recovery of amortization on disposals and retirements	—	—	-857	-857	—
Changes in the scope of consolidation	—	-136	—	-136	7 049
Currency translation adjustment	—	-82	-182	-264	-107
At December 31	—	10 158	5 440	15 598	13 342
Net values at December 31	9 806	19 138	3 374	32 318	35 622
Useful life in years		20-33	4-8		

Land and buildings included in the table above, where the Group is a lessee under a finance lease, comprise:

in kCHF	31.12.02	31.12.01
Land and buildings capitalized finance leases	8 230	8 343
Accumulated depreciation	-5 212	-4 856
Net book value	3 018	3 487
Land and buildings pledged	—	1 010
Fire insurance values	49 527	53 027
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 437	4 482

3.4 Fixtures and fittings

Years ended December 31 in kCHF	Technical equipment and machinery		Other equipment	
	2002	2001	2002	2001
Gross values at January 1	51 588	7 308	58 896	22 084
Additions	12 229	1 796	14 025	9 225
Disposals and retirements	-3 065	—	-3 065	—
Changes in the scope of consolidation	-2 285	-263	-2 548	27 563
Currency translation and other adjustments	-562	-208	-770	24
At December 31	57 905	8 633	66 538	58 896
Accumulated depreciation at January 1	31 104	3 514	34 618	10 376
Systematic depreciation	9 275	1 522	10 797	7 502
Recovery of amortization on disposals and retirements	-2 236	—	-2 236	—
Changes in the scope of consolidation	-1 396	-413	-1 809	16 635
Currency translation and other adjustments	-690	-125	-815	105
At December 31	36 057	4 498	40 555	34 618
Net values at December 31	21 848	4 135	25 983	24 278
Useful life in years	4-7	4-7		

Fire insurance value

in kCHF	31.12.02	31.12.01
Other fixed assets	30 686	34 259

Leased assets included in the table above, where the Group is a lessee under a finance lease, comprise:

in kCHF	31.12.02	31.12.01
Fixtures and fittings capitalized finance leases	—	863
Accumulated depreciation	—	-32
Net book value	—	831

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.5 Inventories

	31.12.02	31.12.01
in kCHF		
Raw material and components	13 947	18 786
Devices in production	5 247	10 208
Finished goods, smart cards and digital material	38 717	32 555
	57 911	61 549
Less: Amortization	-8 804	-7 420
	49 107	54 129

3.6 Work in progress

	31.12.02	31.12.01
in kCHF		
Work in progress on long-term contracts	8 981	412

3.7 Trade accounts receivable

	31.12.02	31.12.01
in kCHF		
Trade accounts receivable	175 093	228 458
Due from customers on long-term contracts	64 637	76 955
./. provision for bad debts	-26 894	-13 134
	212 836	292 279

3.8 Other receivables

	31.12.02	31.12.01
in kCHF		
Other receivables	12 448	9 930
Accruals	7 220	5 965
Deferred tax asset	13 994	12 574
	33 662	28 469

3.9 Cash and cash equivalents

	31.12.02	31.12.01
in kCHF		
Cash at bank and in hand	72 367	47 630
Short-term deposits	680 715	368 227
	753 082	415 857

Derivative financial instruments

The following table presents the contract or notional amount and the carrying values of derivative financial instruments at December 31, 2002 and 2001, analyzed by contract type. The contract amount or notional amount shows the volume of the underlying transaction at balance sheet date and not the total amount exposed to the risk. The carrying value shows the profit or loss, which these contracts could generate at the expiration date on the basis of the market value at December 31, 2002 and 2001.

Years ended December 31 in kCHF	Forwards and swaps		Options	
			2002	2001
Contract notional amount	3 563	93 460	97 023	73 150
Positive replacement value	86	3 110	3 196	214
Negative replacement value	—	—	—	-584
Carrying value of assets liabilities	86	3 110	3 196	-370

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.10 Change in shareholders' equity

in kCHF	Share capital	Share premium	Other reserves	Goodwill	Consolidated shareholders' equity, Group's interest	Minority interests	Total shareholders' equity
At January 1, 2001	499 310	49 798	145 984	-21 119	673 973	19 183	693 156
Shares issued for employees	617				617		617
Change in scope of consolidation	13 014			-196 426	-183 412	1 842	-181 570
Dividends paid to minority interests					—	-1 000	-1 000
Currency translation adjustment			-548		-548	388	-160
Write down of financial fixed asset			-1 786		-1 786		-1 786
Net income			72 086		72 086	-492	71 594
At December 31, 2001	512 941	49 798	215 736	-217 545	560 930	19 921	580 851
Shares issued for employees	658				658		658
Change in scope of consolidation				770	770	1 855	2 625
Adjustment on goodwill at acquisition				7 456	7 456		7 456
Dividends paid to minority interests					—	-1 000	-1 000
Currency translation adjustment			-15 073		-15 073	-3 162	-18 235
Write down of financial fixed asset			-4 464		-4 464		-4 464
Net income			10 031		10 031	2 988	13 019
At December 31, 2002	513 599	49 798	206 230	-209 319	560 308	20 602	580 910

Theoretical effect of the amortization of goodwill

The total value of goodwill has been charged directly against reserves in conformity with the principles of the Group.

Capitalization of goodwill over the defined periods would have resulted in an additional amortization of kCHF 10 877 in the income statement for 2002 (2001: kCHF 5 634) as well as an unscheduled amortization (impairment) of kCHF 91 277, while shareholders' equity as well as the balance sheet total would have increased by kCHF 101 015 (2001: kCHF 211 236). No impairment test was performed in 2001, in application of the directives contained in the Swiss GAAP RPC 20 standard.

Composition of share capital

	31.12.02	31.12.01
in kCHF		
46 729 868/46 664 068 bearer shares of CHF 10 each	467 299	466 641
46 300 000/46 300 000 registered shares of CHF 1 each	46 300	46 300
	513 599	512 941

Conditional share capital

	2002	2001
in kCHF		
Conditional share capital as at January 1	10 392	11 009
Share capital increase as per amended statutes of January 25, 2002	60 000	—
Shares allotted to employees	-658	-617
Conditional share capital as at December 31	69 734	10 392

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an Extraordinary General Meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000 by means of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by Kudelski Group at the end of January 2002 are explained in note 3.11.

Authorized share capital

	2002	2001
in kCHF		
3 828 632 bearer shares of CHF 10 each	38 286	38 286
3 200 000 registered shares of CHF 1 each	3 200	3 200
Authorized share capital as at December 31	41 486	41 486
Change in authorized share capital is as follows:		
Authorized share capital as at January 1	41 486	54 500
Shares allotted for acquisition purpose	—	-13 014
Authorized share capital as at December 31	41 486	41 486

Major shareholders

	Voting rights		Shareholdings	
	31.12.02	31.12.01	31.12.02	31.12.01
Kudelski Family	64%	64%	34%	34%
Dassault Group	2%	4%	3%	6%

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.11 Convertible bond

		2002	2001
in kCHF			
Issue	kUSD 325 000	557 296	—
Redemption and partial cancellation	kUSD -92 347	-143 600	—
Exchange rate effects		-90 308	—
Convertible bond on December 31	kUSD 232 653	323 388	—
Allocated issuing costs	kUSD -4 671	-6 493	—
Reconstitution of the redemption value	kUSD 1 652	2 296	—
Status on December 31	kUSD 229 634	319 191	—

At the end of January 2002, Kudelski Financial Services Holding S.C.A., a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of kUSD 325 000. The conversion price was fixed at CHF 127.50 per ordinary bearer share of Kudelski SA. Kudelski SA guarantees this issuance unconditionally and irrevocably.

Each bond has a nominal value of USD 1 000 and the issue price was 100%; the interest rate is 2.25% per annum, calculated on the nominal amount of the bonds and payable semi-annually (on January 31 and July 31), commencing on July 31, 2002. The yield to maturity is 3% per annum on a semi-annual basis.

At the January 31, 2009 maturity date, the issuer will redeem the bonds at 105.79% of their nominal amount. The issuer may redeem all of the bonds at any time after January 31, 2005 and until January 31, 2007.

3.12 Provisions	Legal fees lawsuits and risks on contracts	Litigation provision	Deferred taxes liability	Other	2002	2001
Years ended December 31						
in kCHF						
At January 1	30 036	10 000	662	578	41 276	4 319
Additional provisions	—	—	2 145	3 624	5 769	30 528
Change in scope of consolidation	—	—	—	—	—	10 054
Reintegration into goodwill	—	-10 000	—	—	-10 000	—
Reversed amounts and utilization	-13 268	—	—	—	-13 268	-3 625
Conversion difference	-1 229	—	—	—	-1 229	—
At December 31	15 539	—	2 807	4 202	22 548	41 276

The provision for legal fees and contractual risks covers all the costs relating to the legal actions taken against Group companies, mainly in the United States. Comments on the legal and arbitration proceedings under way are set out in note 3.19. The provision for litigation of kCHF 10 000 was dissolved by reintegration into the goodwill at acquisition, since it has been established that the litigation risk no longer existed.

Deferred tax liability		
in kCHF	31.12.02	31.12.01
Tax liabilities by temporary differences category:		
Investments	2 670	536
Tangible fixed assets	137	126
	2 807	662

3.13 Trade accounts payable

in kCHF	31.12.02	31.12.01
Trade accounts payable	84 039	80 644
Due to suppliers on long-term contracts	17 244	30 801
	101 283	111 445

3.14 Short-term provisions	Restructuring provision and benefit plan for employees	Currency risk	Other provisions		
Years ended December 31				2002	2001
in kCHF					
At January 1	30 157	1 488	—	31 645	3 914
Additional provision	6 212	—	4 366	10 578	57 471
Reversed amounts and utilization	-18 835	-1 488	—	-20 323	-29 740
At December 31	17 534	—	4 366	21 900	31 645

The use of the restructuring provision covered mainly costs relating to personnel and other charges connected with the ongoing restructuring.

3.15 Accrued liabilities and other payables

in kCHF	31.12.02	31.12.01
Income tax liabilities	6 387	13 938
Taxes other than income tax liabilities	—	927
Accrued liabilities	23 087	37 077
Deferred income	875	1 779
Other payables	16 704	33 692
	47 053	87 413

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.16 Other information

	31.12.02	31.12.01
in kCHF		
Guarantees in favor of third-parties	13 556	10 754
Current assets pledged to secure own commitments	2 440	536
Pension fund liability	354	1 018
Off balance sheet lease commitments:		
Less than 1 year	156	223
More than 1 year and less than 5 years	192	361
Employees	1 220	1 173

3.17 Retirement benefit plan

Apart from the social security plans required by law, the Kudelski Group in Switzerland sponsors three independent pension plans.

All employees in Switzerland are covered by these plans, which are defined benefit plans under Swiss GAAP FER 16. Liabilities and assets are reviewed periodically by an independent actuary.

According to Swiss GAAP FER 16, plan assets have been estimated at fair market value and liabilities have been calculated according to the "Projected Unit Credit" method.

The following table sets forth the financial position of the defined benefit pension plan at December 31, 2002 respectively 2001, based on actual assumptions, in accordance with Swiss GAAP FER 16:

	2002	2001
in kCHF		
Fair value of plan assets	37 883	38 385
Projected benefit obligation	-43 359	-46 560
Funded status	-5 476	-8 175
Unrecognized transition asset	-426	-460
Unrecognized net losses	6 553	9 591
Prepaid pension cost	651	956

The prepaid pension cost that would be recognized in the balance sheet at December 31, 2002 amounts to kCHF 651 (2001: kCHF 956). However, the Group has decided not to capitalize any asset arising from pension funds.

Abroad, the Group has no significant commitments arising from defined benefit plans.

The main assumptions used for the calculation of the pension cost and the projected benefit obligation for the years 2002 respectively 2001 are the following:

	2002	2001
Discount rate	4.5%	5.5%
Rate of future increase in compensation	2.0%	4.0%
Rate of future increase in current pensions	1.0%	2.0%
Interest rate credited on savings accounts	3.25%	5.5%
Expected long-term rate of return on plan assets	5.0%	6.0%
Retirement age: males/female	65 years	65 years
Turnover (on average)	5.0%	5.0%

According to Swiss GAAP FER 16, if the surplus had been capitalized, the following amount should have been recorded as net pension cost in the income statement of the financial year 2002, respectively 2001:

	2002	2001
in kCHF		
Expected return on plan assets	2 252	2 156
Service cost	-4 817	-3 358
Interest cost	-2 535	-2 138
Amortization of losses	-342	-7
Amortization of transition asset	34	34
Employees' contributions	2 326	1 804
Net pension cost	-3 082	-1 509
Employer contributions (cost)	-2 777	-1 976

As the Group has decided not to capitalize assets arising from pension funds, the net pension cost for the financial year 2002 amounts to kCHF 2 777 (2001: kCHF 1 976).

3.18 Related parties

	2002	2001
in kCHF		
Sale of services:		
SwissAccessGroup AG	264	1 834
Purchases of goods and components:		
Digital Elektronik GmbH	31 205	27 890

These transactions have been recorded with related parties in conformity with the stipulations contained in Swiss GAAP RPC 15. Digital Elektronik GmbH is the principal supplier of access control material for the SkiData group. The transactions are effected under normal market conditions, i.e. "at arm's length".

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

3.19 Legal and arbitration proceedings

The Group is subject to three lawsuits – relating to the alleged infringement of intellectual property rights – before the American and German courts. The necessary provisions for legal proceedings are recorded.

Nagravision SA and NagraStar LLC are subject to a pending lawsuit before the Federal Tribunal of the District of Delaware. The claimants are IPPV Entreprise, LLC and MAAST Inc., and the Defendants are EchoStar Communication Corp., Nagravision SA and NagraStar LLC. The Claimants say that EchoStar Communication Corp., Nagravision SA and NagraStar LLC have breached several of their patents, which is denied by the Defendants. In April 2002, the judge gave verdicts clearing Nagravision SA and NagraStar LLC. A final and absolute judgment has not yet been given.

3.20 Restatement of the 2001 financial statements

Following the unanticipated premature repayment of a client loan, and in agreement with the SWX, we amended the 2001 cash flow statement and the 2001 balance sheet with regard to the above client loan.

After the consolidated balance sheet for 2001 had been published, the rationale for presenting a client loan of CHF 30.9 million as a long-term financial investment changed. It was not possible to make use of the loan as predicted, and its repayment already occurred in the course of the 2002 financial year. Against this background, the balance sheet and the cash flow statement were adjusted with retroactive effect to December 31, 2001. In agreement with the SWX, the operating cash flow for 2001 was reduced by CHF 30.9 million to CHF 25.5 million. The client loan was reclassified and transferred from fixed assets to current assets. The loan was repaid in 2002, with a positive effect on the 2002 operating cash flow of CHF 30.9 million (increase in the operating cash flow). These adjustments have no influence either on the profit shown in 2001 nor on the global change of the cash flow statement. They solely reflect the fact that, at the time the balance sheet was prepared, i.e. in March 2002, the early repayment in 2002 of a client loan had not been anticipated.

4. Notes to the consolidated income statement

4.1 Segment analysis

The distribution by geographical area and by product category of sales, including sales within the scope of long-term contracts, is as follows:

	Europe	America	Asia and Oceania	Africa	Total
in kCHF					
Pay television and broadband internet	62 611	116 468	39 696	2 031	220 806
Physical access control and data access	147 723	10 987	4 920	230	163 860
	210 334	127 455	44 616	2 261	384 666

4.2 Capitalization of new product development

This balance represents internally developed products, which were capitalized in 2002 and 2001. The change in this balance is detailed in note 3.1 of the present document.

Internally developed generic projects of kCHF 11 570 (2001: kCHF 5 174) were capitalized; the remaining balance of kCHF 6 119 (2001: kCHF 10 442) represents work done by third parties.

4.3 Cost of goods and components sold

	2002	2001
in kCHF		
Purchase of goods and components	-147 300	-173 410
Change in inventories	-5 022	-12 241
	-152 322	-185 651

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

4.4 Salaries and wages

	2002	2001
in kCHF		
Salaries and wages	-120 385	-86 609

The global amount of salaries and wages for the Group is kCHF 137 526 for the year 2002 (2001: kCHF 101 731) including departure indemnities from restructuring.

4.5 Operating expenses

	2002	2001
in kCHF		
Expenses on projects – external fees	-15 277	-15 892
Capital and other taxes	-2 202	-1 433
Other operating expenses	-22 477	-26 882
	-39 956	-44 207

4.6 Sales and administration costs

	2002	2001
in kCHF		
Administration costs	-12 955	-8 308
Promotion and sales costs	-21 661	-15 500
Third-party fees and other	-8 994	-12 923
	-43 610	-36 731

4.7 Non-recurring operating costs (reorganization)

	2002	2001
in kCHF		
Non-recurring personnel expenses	-9 688	—
Non-recurring operating costs	-5 976	—
Costs of cessation of activities and projects, reorganization	-4 141	—
Other restructuring costs	-2 730	—
	-22 535	—

4.8 Financial income

	2002	2001
in kCHF		
Interest income	13 980	14 840
Exchange gains	11 469	2 265
Gains on redemption of the convertible bond	60 503	—
	85 952	17 105

4.9 Financial expenses

	2002	2001
in kCHF		
Interest expense	-15 663	-2 063
Exchange losses	-18 902	-578
Other financial expenses	-2 671	-344
Share of results of associated companies	64	-109
Costs of issuance of the convertible bond	-5 074	—
	-42 246	-3 094

4.10 Extraordinary items

	2002	2001
in kCHF		
Extraordinary profit	3 606	17 909
Extraordinary expenses	—	-34 243
	3 606	-16 334

In 2002, the extraordinary profit represents a partial dissolution of provisions relating to proceedings under way in the United States. The extraordinary profit for 2001 represents a realized gain on the sale of Kudelski SA shares during the financial year.

The extraordinary expenses 2001 are comprised of expenses and advanced payment of legal fees related to the lawsuits in the United States, kCHF 4 207, and the allocation to the provision for legal fees for lawsuits and risks on contracts of kCHF 30 036.

4.11 Income tax

	2002	2001
in kCHF		
Income tax	-9 195	-14 768
Change in deferred taxes	6 924	5 712
	-2 271	-9 056

Capital taxes disclosed under operating expenses amount to kCHF 2 202 (2001: kCHF 1 433).

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

4.12 Earnings per share (EPS)

	2002	2001
Basic earnings per share (in CHF)	0.20	1.42
Net income (in kCHF)	10 031	72 086
Weighted average number of bearer shares (pro rata temporis)	46 729 868	46 097 704
Weighted average number of diluted bearer shares (pro rata temporis)	50 257 055	46 097 704

The basic earnings per share is determined by dividing the net income attributable to shareholders owning shares of a nominal value of CHF 10 by the weighted average number of bearer shares in circulation during the period.

The diluted earnings per share is determined by dividing the net income attributable to shareholders owning shares of a nominal value of CHF 10, adjusted for the interest and amortization costs of the convertible bond, by the weighted average number of shares, including all potential bearer shares which could have a diluting effect. In 2002, the earnings per share would be CHF 0.50 and would not thus have any diluting effect.

5. Notes to the consolidated statement of cash flows

5.1 Operating cash-flow

	2002	2001
in kCHF		
Net income, Group's interest	10 031	72 086
Financial income	-25 449	-17 105
Financial expenses	42 310	2 985
Gain realized on financial investment	—	-17 909
Profit on redemption of convertible bond	-60 503	—
Amortization of costs and redemption value of convertible bond	7 643	—
Income tax	2 271	9 056
Shares allotted to employees	658	617
Depreciation and amortization	20 870	16 199
Impairment	19 882	—
Change in long-term provisions	-9 423	27 400
Change in deferred tax liability	2 145	-5 635
Use of provision for restructuring	-18 835	-29 740
Minority interest in net income	2 988	-492
Cash-flow	-5 412	57 462
Change in inventories	4 279	12 486
Change in work in progress	-7 380	3 443
Change in trade accounts receivable	79 074	-58 679
Change in other payables	30 857	-30 857
Change in other assets	-975	15 842
Change in trade accounts payable	-8 388	-6 511
Change in other liabilities	-53 773	27 330
Change in short-term provisions	9 089	4 974
Operating cash-flow	47 371	25 490

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2002 and 2001

5.2 Sale/acquisition of subsidiaries, cash outflow

The Group sold two companies in the course of the 2002 financial year for a total sum of kCHF 480 and bought six companies or groups of companies during the 2001 financial year for a total of kCHF 285 104; this amount was settled partly in cash, with the balance being paid in the form of bearer shares, i.e. 1 301 368 shares having an average market value of CHF 104. The fair value of the assets sold/acquired and debts transferred/taken in charge on the acquisition date are as follows:

	2002	2001
in kCHF		
Intangible fixed assets	—	2 028
Tangible fixed assets	-2 437	19 741
Financial fixed assets	—	2 969
Net working capital	1 997	-5 932
Restructuring provision	—	-55 983
Long term provisions	—	-10 000
Long term liabilities	730	-12 108
Cash and cash equivalents	—	25 635
Fair value of net assets sold/acquired	290	-33 650
Goodwill	-770	196 426
Total sales proceeds/acquisition costs	-480	162 776
Minus:		
Cash and cash equivalents acquired	—	-25 635
Shares allotted	—	-13 014
Sale/acquisition of subsidiaries, cash outflow/inflow	-480	124 127
Detail of acquisition cost:		
Acquisition of subsidiaries, net of cash acquired	—	124 127
Cash and cash equivalents acquired	—	25 635
Liquidity	—	149 762
Shares allotted (at nominal value)	—	13 014
Total	—	162 776
Average market value of shares allotted	—	135 342

Report of the Group auditors

Report of the Group auditors to the General Meeting of Shareholders of Kudelski SA, Cheseaux-sur-Lausanne

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) of Kudelski SA for the year ended December 31, 2002.

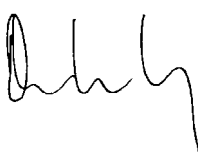
These consolidated financial statements are the responsibility of the Board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

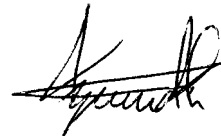
In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss GAAP FER and comply with Swiss law.

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

PRICEWATERHOUSECOOPERS 



D. Lustenberger



Ph. Tzaud

Lausanne, March 26, 2003

Financial statements of Kudelski SA

Balance sheets at December 31, 2002 and 2001

Assets

	Notes	31.12.02	31.12.01
in kCHF			
Fixed assets			
Intangible fixed assets	3.1	240	—
Financial fixed assets			
Investments	3.2	245 592	190 357
Other long-term investments	3.3	3 750	8 081
Loans to Group companies		44 237	53 750
Total fixed assets		293 819	252 188
Current assets			
Accounts receivable from Group companies		295 245	170 454
Other accounts receivable	3.4	3 372	1 821
Cash and cash equivalents	3.5	201 635	309 507
Total current assets		500 252	481 782
Total assets		794 071	733 970

Shareholders' equity and liabilities

	Notes	31.12.02	31.12.01
in kCHF			
Shareholders' equity			
Share capital		513 599	512 941
General reserve		57 719	53 589
Retained earnings		135 910	57 466
Net income		25 055	82 574
Total shareholders' equity	3.6	732 283	706 570
Long-term liabilities			
Provisions	3.7	1 856	1 856
Loans from Group companies		40 093	—
Total long-term liabilities		41 949	1 856
Current liabilities			
Short-term loans	3.8	8 465	—
Short-term loans from Group companies		3 933	9 449
Other liabilities		5 108	4 769
Accrued liabilities		2 333	11 326
Total current liabilities		19 839	25 544
Total Shareholders' equity and liabilities		794 071	733 970

Financial statements of Kudelski SA

Income statements and proposal for appropriation of available earnings

Income statements for the years ended December 31, 2002 and 2001

in kCHF	Notes	2002	2001
Financial income	4.1	62 008	92 229
Total income		62 008	92 229
Administrative and other expenses	4.2	-5 179	-3 166
Financial expenses	4.3	-1 058	-1 243
Impairment of financial fixed assets	4.4	-20 339	-2 754
Loss on sale of investments	4.5	-7 501	—
Exceptional charge	4.6	-2 876	—
Net income before tax		25 055	85 066
Income tax	4.7	—	-2 492
Net income		25 055	82 574

Proposal for appropriation of available earnings for the year 2002

in kCHF	2002
Balance brought forward from previous year	135 910
Net income	25 055
Total available earnings	160 965
Proposal by the Board of directors:	
General reserve allocation	1 281
Balance to be carried forward	159 684
Total available earnings	160 965

Notes to the financial statements at December 31, 2002 and 2001

1. General comments

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies. The financial statements are presented in accordance with the requirements of the Swiss Code of Obligations. They are also prepared under the historical cost convention and on an accruals basis. The prior year financial statements have been restated for comparison purposes.

2. Accounting policies

Financial fixed assets

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

Cash and cash equivalents

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

Exchange rate differences

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates. Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement whilst a net gain is deferred.

Financial statements of Kudelski SA

Notes to the financial statements at December 31, 2002 and 2001

3. Notes to the balance sheet

3.1 Intangible fixed assets

This item includes brands registered by the Group.

3.2 Investments

Company	Location	Activity	Share capital	Percentage held	
				2002	2001
Nagravision SA	CH Cheseaux	Solutions for digital TV and audio products	kCHF 12 000	100	100
NagraCard SA	CH Cheseaux	Secure smartcards	kCHF 100	100	100
Nagra Trading SA	CH Cheseaux	Trading	kCHF 100	100	100
Nagravision Iberica SL	ES Madrid	Digital TV sales and support	kEUR 3	100	100
Nagra France Sàrl	FR Paris	Sales and support	kEUR 53	100	100
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	kGBP 1	100	100
Nagra Italia SRL	IT Rome	Sales	kEUR 10	—	100
Nagra Kudelski GmbH	DE Munich	Sales and support	kEUR 25	100	100
Nagra USA, Inc.	US Nashville	Sales and support	kUSD 10	100	100
Nagra Public Access AG	CH Zug	Holding for physical access activities	kCHF 15 000	100	—
Nagra Plus	CH Cheseaux	Analog TV	kCHF 2 000	50	50
Nagra-Futuris SA	CH Neuchâtel	Digital broadcasting solutions	kCHF 1 000	50	50
NagraID SA	CH Chaux-de-Fonds	Smartcard production	kCHF 4 000	100	100
MediaCrypt AG	CH Zurich	Fundamental encryption technology	kCHF 3 000	50	50
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	kUSD 32 500	100	—
Kudelski Luxembourg Sàrl	LU Luxembourg	Finance	kEUR 13	100	—
Précision Electronique Precel SA	CH Neuchâtel	Electronics and mechanics	kCHF 100	—	100
Political Rights SA (Polirights) in liquidation	CH Geneva	No activity	kCHF 450	66	66
e-prica AG	CH Lyss	Health sector cards	kCHF 500	50	50
Livewire Communications Inc.	US Gainesville	Software for decoders	kUSD 1	100	100
Leman Consulting SA	CH Nyon	Advice on intellectual property	kCHF 100	100	100
SportAccess SA (form. SportAccess Holding SA)	CH Sion	Holding and multi-functional solutions	kCHF 8 144	T	78
Ticketcorner AG	CH Rümlang	Event distribution and ticketing	kCHF 2 000	T	100
SkiData AG	AT Gartenau	Holding and physical access control	kEUR 3 634	T	100

Company	Location	Activity	Share capital	Percentage held	
				2002	2001
Lysis International SA	CH Lausanne	Holding	kCHF 3 360	M	100
Logiways	CH Cheseaux	Digital TV software solutions	kCHF 3 710	51	—
AccessArena AG	CH Rümlang	Destination management	kCHF 2 000	41	41
Pay TV SA	CH Lausanne	Pay television	kCHF 490	6	6
Nagra Travel Sàrl	CH Cheseaux	Travel agency	kCHF 50	100	100
A Novo Americas LLC	US Delaware	Services	kUSD 200	10	10
Société d'Exploitation du Stade de Genève SA	CH Geneva	Event organization	kCHF 117	7	—

(T: Transferred to Nagra Public Access AG)

(M: Merged with Nagravision SA)

3.3 Other long-term investments

Other long-term investments include an investment in equity.

3.4 Other accounts receivable

	31.12.02	31.12.01
in kCHF		
Other accounts receivable	3 257	55
Prepaid expenses	115	748
Withholding tax	—	1 018
	3 372	1 821

3.5 Cash and cash equivalents

	31.12.02	31.12.01
in kCHF		
Cash at bank and in hand	1 656	1 463
Short-term deposits	199 979	308 044
	201 635	309 507

Financial statements of Kudelski SA

Notes to the financial statements at December 31, 2002 and 2001

3.6 Change in shareholders' equity

	Share capital	General reserve	Available earnings	Total shareholders' equity
in kCHF				
At December 31, 2000	499 310	52 082	58 973	610 365
General reserve allocation		1 507	-1 507	—
Share capital increase	13 631			13 631
Net income			82 574	82 574
At December 31, 2001	512 941	53 589	140 040	706 570
General reserve allocation		4 130	-4 130	—
Share capital increase	658			658
Net income			25 055	25 055
At December 31, 2002	513 599	57 719	160 965	732 283

Composition of share capital

	2002	2001
in kCHF		
46 729 868/46 664 068 bearer shares of CHF 10 each	467 299	466 641
46 300 000 registered shares of CHF 1 each	46 300	46 300
	513 599	512 941

Conditional share capital (Article 6 of statutes)

	2002	2001
in kCHF		
Conditional share capital as at January 1	10 392	11 009
Share capital increase as per amended statutes of January 25, 2002 reserved for the convertible bond	60 000	—
Shares allocated to employees	-658	-617
Conditional share capital as at December 31	69 734	10 392

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an extraordinary General meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000 by the issuance of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by Kudelski Group at the end of January 2002 are explained in note 3.11 of the consolidated financial statements.

Authorized share capital (Article 7 of statutes)

	2002	2001
in kCHF		
3 828 632 bearer shares of CHF 10 each	38 286	38 286
3 200 000 registered shares of CHF 1 each	3 200	3 200
Authorized share capital as at December 31	41 486	41 486
The change in authorized share capital is as follows:		
Authorized share capital as at January 1	41 486	54 500
Shares allotted for acquisition purposes	—	-13 014
Authorized share capital as at December 31	41 486	41 486

Majors shareholders

	Voting rights		Shareholdings	
	31.12.02	31.12.01	31.12.02	31.12.01
Kudelski Family	64%	64%	34%	34%
Dassault Group	2%	4%	3%	6%

3.7 Provision

The provision on sale of an investment is a tax-free reserve arising from a gain realized on the transfer of the control of NagraStar LLC to Nagra USA Inc. as at January 1, 1999.

3.8 Short-term provisions

This item mainly records the unrealized exchange gains on loans from affiliated companies in foreign currency, kCHF 8 088 for 2002 (2001: kCHF 0).

4. Notes to income statement

4.1 Financial income

	2002	2001
in kCHF		
Dividends received from Group companies	56 000	61 000
Financial revenues	—	18 365
Interest income third-party	3 903	11 963
Interest on loans to Group companies	1 117	642
Net exchange gains	988	259
	62 008	92 229

4.2 Administrative and other expenses

	2002	2001
in kCHF		
Administrative expenses	-3 482	-1 924
Taxes other than income tax	-1 697	-1 242
	-5 179	-3 166

Financial statements of Kudelski SA

Notes to the financial statements at December 31, 2002 and 2001

4.3 Financial expenses

	2002	2001
in kCHF		
Interest on loans from Group companies	-837	-1 120
Interest expense	-221	-102
Other	—	-21
	-1 058	-1 243

4.4 Impairment of financial fixed assets

	2002	2001
in kCHF		
Impairment of equity interest and loans to Group companies	-15 875	-968
Impairment of other long-term investments	-4 464	-1 786
	-20 339	-2 754

4.5 Loss on sale of equity interests

Losses on the realization of financial fixed assets stem from sales of the holdings in Précision Electronique Prececl SA and Nagra Italia SRL.

4.6 Exceptional charge

This item covers the costs of restructuring the physical access control division.

4.7 Income tax

	2002	2001
in kCHF		
Income tax	—	-2 492

5. Commitments and contingencies

	31.12.02	31.12.01
in kCHF		
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	323 388	—
Deposits and guarantees in favor of third parties	4 388	3 492
	327 776	3 492
Other commitments		
Penalty risk for non-accomplishment of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Comfort letters signed in favor of Group companies	p.m.	p.m.

Report of the statutory auditors

Report of the statutory auditors to the General Meeting of Shareholders of Kudelski SA, Cheseaux-sur-Lausanne

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Kudelski SA for the year ended December 31, 2002.

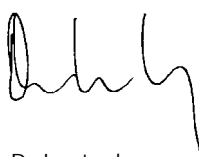
These financial statements are the responsibility of the Board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PRICEWATERHOUSECOOPERS 



D. Lustenberger



Ph. Tzaud

Lausanne, March 26, 2003

Project management

Corporate Communications, Kudelski Group

Support, coordination

Desrochers Communication

Design

www.messischmidt.ch

Print

Imprimeries Réunies Lausanne, Switzerland

This report is published in French and
translated into English and German

© Kudelski Group 2003

Kudelski SA
22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 01 01
Fax +41 21 732 01 00
info@nagra.com
www.nagra.com