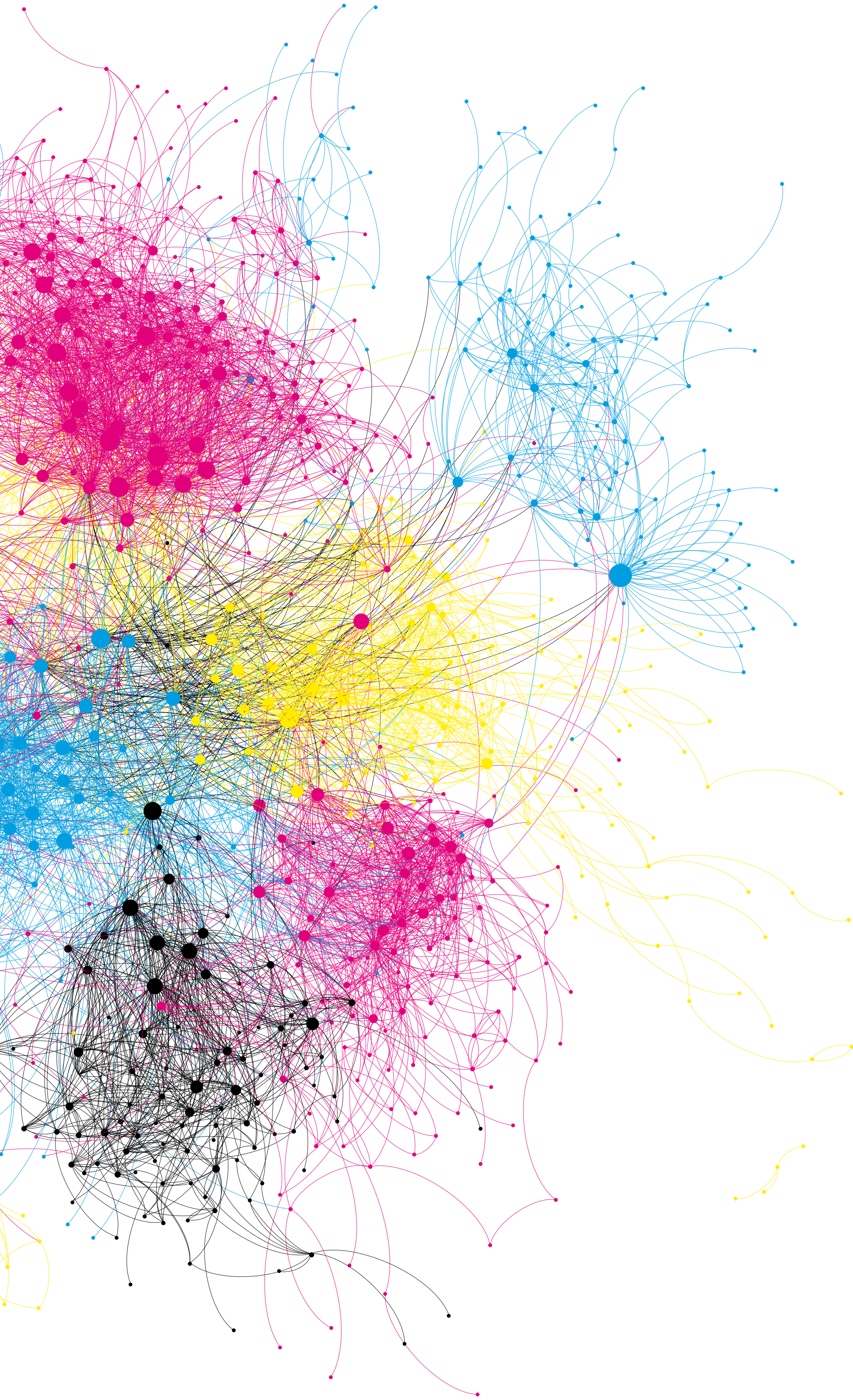
KUDELSKI GROUP
2011 ANNUAL REPORT



NAGRA
KUDELSKI GROUP

KEY FIGURES

MACROECONOMICS IMPACTING PROFITABILITY
TURNAROUND PROGRAM ON TRACK

The significant fall of USD and EUR rates affected the Group's 2011 financial results with a negative impact of CHF 121.7 million on full-year revenues and CHF 46.5 million on operating income. Operating income for the year amounts to CHF 25.4 million compared to a CHF 110 million in 2010. Net of restructuring costs, the Group's 2011 operating income was CHF 35.3 million. 2011 cash flow generation was strong, with an operating cash flow for the year at CHF 86.7 million.

2011 KEY FIGURES

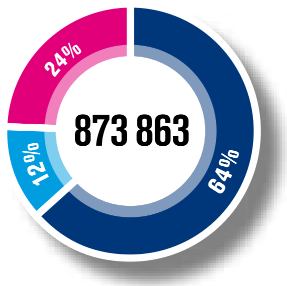
In million CHF	2011	2010	2009	2008	2007
Total revenues and other operating income	896.6	1 069.3	1 060.8	1 037.0	942.5
OIBDA [1]	91.0*	173.0	137.8	92.2	137.2
Operating income	**35.3***	**110.0**	**73.3**	**18.5**	**87.6**
Net income/loss	**-17.7***	**66.7**	**51.1**	**-7.0**	**67.5**

* Ex-restructuring costs
[1] OIBDA: Operating income before interest, taxes, depreciation and amortization

REVENUE BREAKDOWN

In CHF '000	2011
Digital TV	555 543
Middleware & Advertising	107 018
Public Access	211 302
Total	**873 863**

BY SECTOR

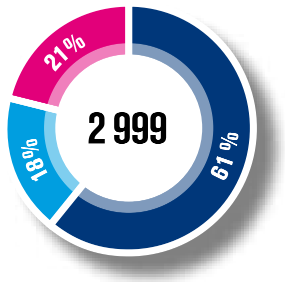


EMPLOYEE BREAKDOWN

Digital TV*	61%
Middleware & Advertising	18%
Public Access	21%
Total	**100%**

* Includes Nagra Audio employees (22)
Total employees at 31.12.2011: 2999

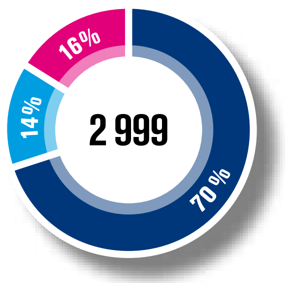
BY ACTIVITY



EMPLOYEE BREAKDOWN

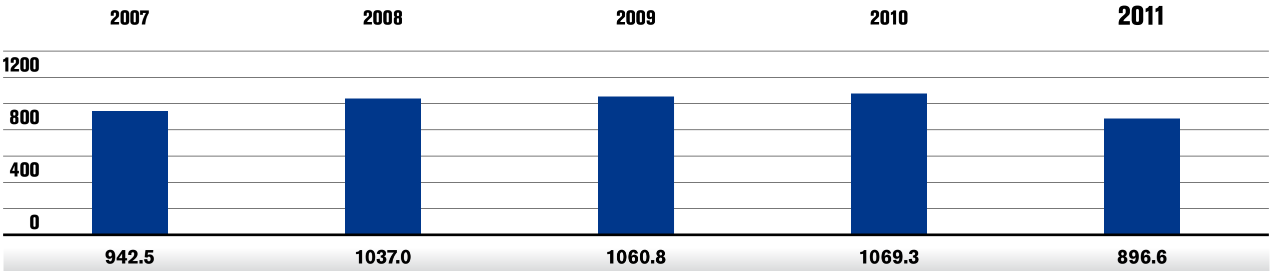
Europe	70%
Americas	14%
Asia & Oceania	16%
Total	**100%**

BY REGION

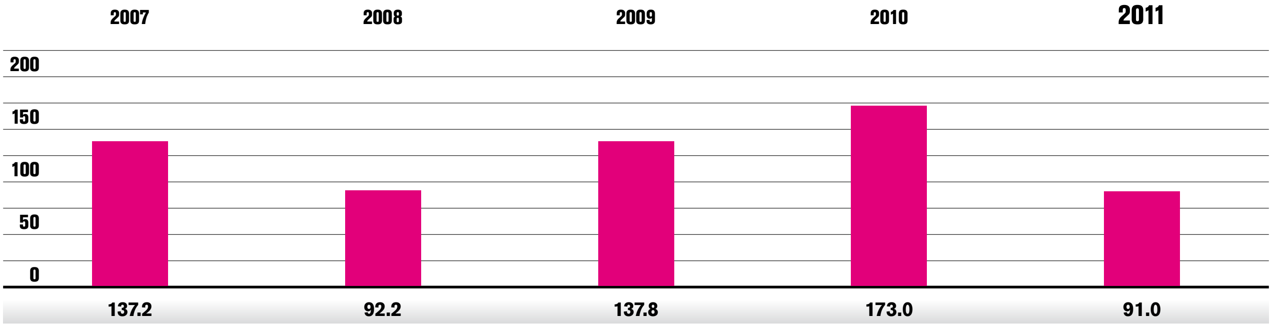


TOTAL REVENUES AND OTHER OPERATING INCOME

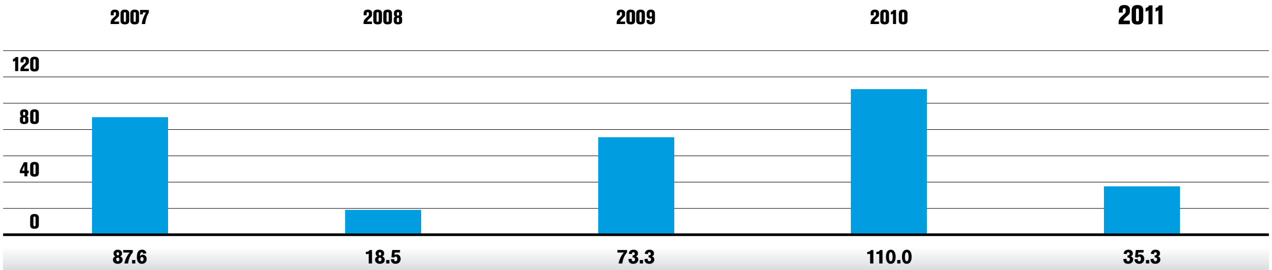
In million CHF



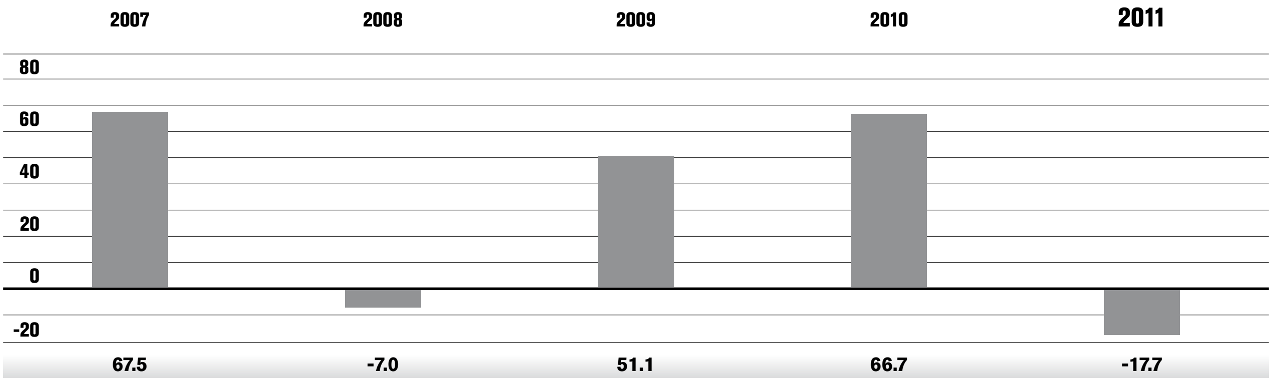
OIBDA



OPERATING INCOME



NET INCOME



HIGHLIGHTS

1

STRONG COMMITMENT TO DEVELOP NEW TECHNOLOGIES WITH
CHF 214 MILLION INVESTED IN 2011

2

STRONG SWISS FRANC AND ECONOMIC SLOWDOWN IN TRADITIONAL MARKETS
AFFECT THE GROUP'S RESULTS

3

CHF 90 MILLION SAVINGS PROGRAM ON TRACK

4

SOLID AND SUSTAINABLE DTV MARKET:
- STRATEGIC CLIENT WINS
- GROWTH PROSPECTS IN EMERGING MARKETS
- PROMISING NEW SOLUTIONS

5

150 MILLION ACTIVE SMART CARDS AND MODULES

6

TURNAROUND OF MIDDLEWARE & ADVERTISING

7

PUBLIC ACCESS:
CONTINUED GROWTH AND IMPROVED PROFITABILITY

CONTENTS

01 CHAIRMAN'S LETTER

The Kudelski Group faced three simultaneous challenges in 2011 : the transformation of the digital TV sector, the negative economic trend that prevailed particularly in Southern Europe and the sharp rise in the Swiss franc against other major currencies. The most significant of these challenges – the transformation of DTV – was something we had expected for several years and were prepared for, but the negative macroeconomic environment and the effects of the strong Swiss franc hit us harder and faster than anticipated. In response to this changed environment, we implemented a major cost-cutting program that will reduce recurring costs by CHF 90 million per year, starting in 2012.

This effort to bring down our costs impacted not only our organization and our processes, but also our workforce. The changes we made were difficult, in particular those that involved layoffs. We managed the process so as to maximally protect our capacity to innovate while simultaneously sharpening our focus on emerging markets like China and India.

Our R&D investments in 2011 amounted to CHF 214 million, which shows that even in a tough economic environment the Kudelski Group is committed to laying the foundation for future growth by investing resources in tomorrow's technology and markets. However, we have tightened our selection criteria for determining which new projects are implemented and which existing projects are maintained. With all of this, our aim is to respond to the new economic climate and the speed of change in the digital TV sector, where opportunities arise quickly – and disappear quickly as well.

We have taken a series of measures aimed at addressing each of the challenges that had an impact on our 2011 results. This should pay off in the short, medium and long term. What we have done may be summed up in five key points:

1. Responding to the transformative changes in the digital TV sector

The digital TV sector is currently experiencing a fundamental paradigm shift:

- *In developed countries, convergence between digital TV and the internet is opening up new opportunities, especially with regard to multi-screen environments. We currently have several R&D projects that are geared to staying one step ahead of convergence-driven needs. However, while developing new technologies involves substantial costs, operators are responding to the current low macroeconomic visibility with a relatively prudent approach to capital investments.*

- *Meanwhile, emerging economies are becoming fully-fledged markets in their own right. A few years ago it was possible to gain a presence in these markets with technologies and solutions similar to those deployed in developed countries. This is no longer true today; a dedicated innovation strategy is essential to succeed. That's why we decided to develop a range of solutions tailored specifically to these markets and to strengthen our emerging-market R&D teams. This is a critical step in the process of enhancing our overall competitive position in these countries as well as our responsiveness when new opportunities arise.*

- *Increasingly, Digital TV is about ecosystems, not specific products. As our projects that accelerate the development of the latest generations of middleware pay off, notably OpenTV 4 and 5, we once again have middleware platforms that respond perfectly to digital TV and internet convergence. These new technologies mean that it makes sense to fully integrate our middleware activities into the core Digital TV business line. This approach aligns our organization with the market, making us more responsive. It also greatly reduces organizational complexity (allowing us to streamline our Executive Board from nine to four members) and thus also to reduce operating expenses.*

2. Strengthening our presence in emerging markets

The Kudelski Group has traditionally had a major presence in Southern Europe, a region which generates a large proportion of our revenue streams. However, the difficult economic climate has sharply reduced our top line in these countries. To offset the shortfall (tens of millions of francs), we are strengthening our presence in emerging markets, particularly in Latin America and Asia. However, these efforts to sharpen our focus on emerging markets did not fully offset the downtrend in Southern Europe in 2011 nor are they expected to do so in 2012. Beyond this, we have also consolidated our market-leading position in Southern Europe with new generations of solutions that place us in a favorable position. Finally, the strategic strengthening of our R&D competence centers in Asia will enhance our responsiveness to the needs of emerging markets.

3. New opportunities: CyberSecurity and Intellectual Property

Among the potential revenue-growth drivers we have identified, CyberSecurity and intellectual property are two areas where we are investing selectively:

- *<u>CyberSecurity</u>*
  Over the past 20 years the Kudelski Group has acquired unique experience in developing anti-piracy solutions for all types of threats in the digital TV sector. Today, with cyber-criminals targeting a growing range of activities, we can offer a wide array of strategies to fight these attacks. We have therefore created a CyberSecurity business unit to serve this high-potential market.

- *Monetizing our intellectual property*
  For almost 25 years we have been actively protecting our intellectual property. One of the ways we do this is by regularly patenting our innovations. Today, with renewed momentum in the digital TV and media sector, we see exciting revenue potential in our patent portfolio. A dedicated team is being organized to leverage our intellectual property assets.

4. Growing our Public Access business through innovation

- *We are committed to growing our Public Access business over the long term. This division is less volatile than digital TV and media and performs well even in a difficult macroeconomic environment, which is a major risk mitigator for the Group. Public Access has also shown its ability to innovate, applying a "cloud-based" approach to a traditionally conservative industry. The new cloud-based technologies make it possible to remotely manage ski and parking facilities, for example with reservations available via mobile applications. Public Access is also driving growth outside Europe and reducing costs through innovation and process streamlining.*
- *Current SkiData CEO Charles Egli will become Chairman of the SkiData Supervisory Board during the 2012 financial year. Hugo Rohner will take over as CEO. In his various roles within the Kudelski Group, Hugo has demonstrated his ability to take up challenges and to manage costs efficiently in the units he has headed. I wish him well in his new role as CEO. I would like to thank Charles for all he has done on an operational level since 1989 to contribute to the Group's success, and we wish him well in his new role as Chairman of the SkiData Supervisory Board.*

5. Reducing our exposure to currency exchange rates

The sharp downturn in the forex markets, with major currency weakness against the Swiss franc, has strongly impacted our profitability in the digital TV business. To offset the impact of this unfavorable trend, we have reduced our cost base in "expensive" countries and shifted a number of activities to subsidiaries in India and China. Our cost-cutting measures will generate aggregate savings of CHF 90 million per year as of H2 2012.

In 2012, we will press ahead with the changes announced last year: cost reduction, strengthening our presence in emerging markets, and investing in the opportunities driven by the convergence of the digital TV and internet ecosystems. In addition, we will grow our CyberSecurity business and drive monetization of our intellectual property portfolio.

On behalf of the Board, I would like to thank our clients, our teams, and you, our shareholders, for your continuing trust in difficult times.

In spite of the tough year we experienced in 2011, the Board has nevertheless decided to distribute a dividend of CHF 0.10 per bearer share and CHF 0.01 per registered share.

ANDRÉ KUDELSKI

02 FINANCIAL REVIEW

The continued fall of USD and EUR rates affected the Group's 2011 financial results. The fall of the average USD rate from 1.04 in 2010 to 0.89 in 2011 and of the EUR rate from 1.38 to 1.23 had a negative impact of CHF 121.7 million on full-year revenues and CHF 46.5 million on operating income.

Group revenues in constant currency declined by 3.8%, corresponding to CHF 39.6 million, while reported revenues dropped by 15.6% to CHF 873.9 million in 2011, with the Digital TV segment driving most of the decline in revenue.

On a year-on-year basis, 2010 was positively impacted by certain one-off contributions, which were not available at the same levels in 2011. In 2010, the Group's other operating income benefited from government grants that had accrued for work performed in prior years. 2011 saw a return to a more normal level of grants received by the Group, resulting in other operating income declining by CHF 11.4 million to CHF 22.8 million on a year-on-year basis. In 2010, the Group recognized material revenues from the replacement of the installed base of smart cards for Virgin Media in the United Kingdom. No comparable replacement event occurred in 2011, so revenues from the UK declined by CHF 37.6 million compared to the prior year. 2011 smart card volumes also declined on all sizeable platforms in Italy, Spain and Portugal, which resulted in a decline in revenue from these three markets of CHF 33.8 million compared to 2010.

While the above one-off factors significantly affected both Group revenues and operating income, structural developments in the Digital TV segment remained positive, with selected regions, such as Latin America, continuing to deliver strong growth in constant currency, new customer wins and positive traction for the Group's latest generation of products.

In addition, the Public Access segment continued to grow its revenue in local currency and, as it was less affected by currency fluctuations, it raised its operating income to CHF 12.5 million.

2011 also saw the turnaround of the Middleware & Advertising segment reach another important milestone, with the segment reverting to profitability on a full year basis.

It should also be noted that the Group's restructuring program announced late last year has already delivered its first tangible results, with CHF 15.8 million in savings realized in 2011. The series of measures aimed at reducing the Group's total annual operating expenses by CHF 90 million are progressing according to our original plan.

Group revenues and profitability

Total annual revenues and other operating income declined from CHF 1 069.3 million in 2010 to CHF 896.6 million in 2011.

The "Margin after cost of material" (a pro-forma, non-IFRS item) decreased by CHF 152.9 million to CHF 656.2 million in 2011. Relative to total revenues, this item remained at a high level, with the normalized second half revenue mix and the CHF 11.4 million year-on-year decline of other operating income driving a 2.5% decline to 73.2%.

Personnel expenses decreased CHF 26.0 million in 2011, primarily due to currency effects. Compared to the end of 2010, total headcount decreased by 69 to 2 999 FTEs at the end of 2011. This headcount includes 100 FTEs in the Group's newly organized operations in India. However, this figure does not reflect the impact of the restructuring announced by the Group late last year, which is being implemented during the first few months of 2012.

The Group reduced other operating expenses by CHF 44.9 million in 2011, a 19.2% reduction from the prior year. In addition to the currency-driven reduction, the lower cost base reflects initial efforts undertaken by the Group as part of its overall cost-reduction program. Compared to the previous year, aggregate development, engineering, legal, expert and consultancy expenses in 2011 were reduced by CHF 24.9 million. The ongoing systematic replacement of external resources with lower cost internal resources has helped drive this cost reduction. In addition, significant progress was made by the Group to reduce other operating expense items in 2011 as compared with the prior year, including a reduction of CHF 7.6 million in travel, entertainment and lodging expenses and a reduction of CHF 7.2 million in administrative expenses.

2011 operating expenses include CHF 9.9 million of restructuring costs, with CHF 6.6 million of this representing a provision.

The Group's operating income before depreciation and amortization was CHF 91.0 million in 2011, representing a CHF 82.0 million decrease from the previous year. Depreciation, amortization and impairments increased by CHF 2.6 million to CHF 65.6 million. This resulted in an operating income of CHF 25.4 million in 2011 compared to CHF 110.0 million in 2010. Net of restructuring costs, the Group's 2011 operating income was CHF 35.3 million.

At constant currency, operating income before restructuring costs was CHF 81.8 million in 2011, representing a CHF 28.2 million decline from 2010.

Interest expense of CHF 16.6 million in 2011 includes convertible bond related charges of CHF 11.7 million, as well as interest costs for the straight bond issued in 2011 and charges related to the Group's outstanding bank loans.

The net other finance expense of CHF 17.6 million in 2011 was primarily driven by foreign exchange-related charges incurred in connection with the Group's operations.

The CHF 8.6 million income tax expense recorded in 2011 primarily relates to income taxes paid by the Group's Nagra France and SkiData AG subsidiaries.

Overall, the Group generated a net loss of CHF 17.7 million in 2011, representing a decrease of CHF 84.4 million from the prior year.

Digital TV

Digital TV revenues, on a constant currency basis, declined 7% in 2011, as compared with the prior year period. For the full year 2011, the segment reported revenues of CHF 555.5 million, which was CHF 129.0 million lower than in 2010. Second half revenues from this segment were stronger than the first half of 2011 by CHF 40.3 million.

Operating income for the Digital TV segment declined by CHF 100.5 million in 2011 to CHF 28.9 million. While most of the segment revenues are denominated in USD and EUR, a large proportion of Digital TV's operations are based in Switzerland, with expenses denominated in Swiss Francs. Accordingly, most of the CHF 46.5 million negative foreign exchange impact on the Group's operating income affected the profitability of the Digital TV segment.

On a geographic basis, the Group's European Digital TV business was impacted by the severe slowdown in the region, with a 25.6% reduction of reported revenues to CHF 273.7 million. In constant currency, the revenue decline amounted to 16.8%. Most of the decline took place in the first half of the year, which generated CHF 131.8 million in revenues, while revenues in the second half of the year were CHF

141.9 million, in spite of the weaker EUR rates in the second half.

2010 European Digital TV revenues were particularly strong in the UK, as the Group delivered close to 4 million smart cards to Virgin Media, replacing older generation cards. 2011 deliveries to this customer reverted to a more normal volume level. Demand from the Italian and Spanish terrestrial platforms was materially lower in 2011 than in the prior year period, which affected both the Group's conditional access and SmarDTV businesses.

Digital TV revenues in the Americas rose by 10.5% in local currencies, driven by strong demand in South America for the Group's products, with Brazil representing double digit revenue growth and the region generally benefitting from the ongoing growth and expansion of other Latin American markets. In the United States, a significant number of smartcards delivered in the last Dish/Echostar replacement cycle that are now inactive are reaching the minimum period for which such cards have to pay a service fee. As a result, Dish-related revenues will be negatively impacted in 2012.

In Asia, the Group's Digital TV revenues was CHF 33.2 million in the first half of 2011, but second half revenues recovered to CHF 47.9 million. For the full year, this translates to a constant currency revenue decline of 7.8% compared to 2010, as the Group's system and semiconductor businesses and mobile TV volumes were materially lower than in the previous year.

Public Access

Following the divestment of the Group's remaining stake in Polyright, the Public Access segment now includes SkiData as its only operating unit. In 2011, SkiData maintained its track record of resilient growth and profitability. For each year since 2004, SkiData has delivered an operating margin of at least 4.5% and year-on-year local currency growth irrespective of the economic cycle.

Public Access posted a sales increase of 4.2% in 2011 on a constant currency basis, which translated to a 5.9% reduction in reported revenues. Europe grew by 2.7% on a constant currency basis, with France and Germany delivering strong growth rates. The Americas region continued to perform strongly in 2011, experiencing 18.1% growth in local currency, thereby maintaining the strong momentum of the past few years. After a weak first half with CHF 5.2 million of revenues, Asia/Pacific and Africa recovered in the second half of 2011 with sales reaching CHF 9.9 million. For the full year, however, on a constant currency basis, revenues for the region declined by 3.4% from the previous year.

Public Access operating income recovered in 2011, improving by CHF 3.7 million to CHF 12.5 million as compared with 2010, which reflects careful cost management.

Middleware & Advertising

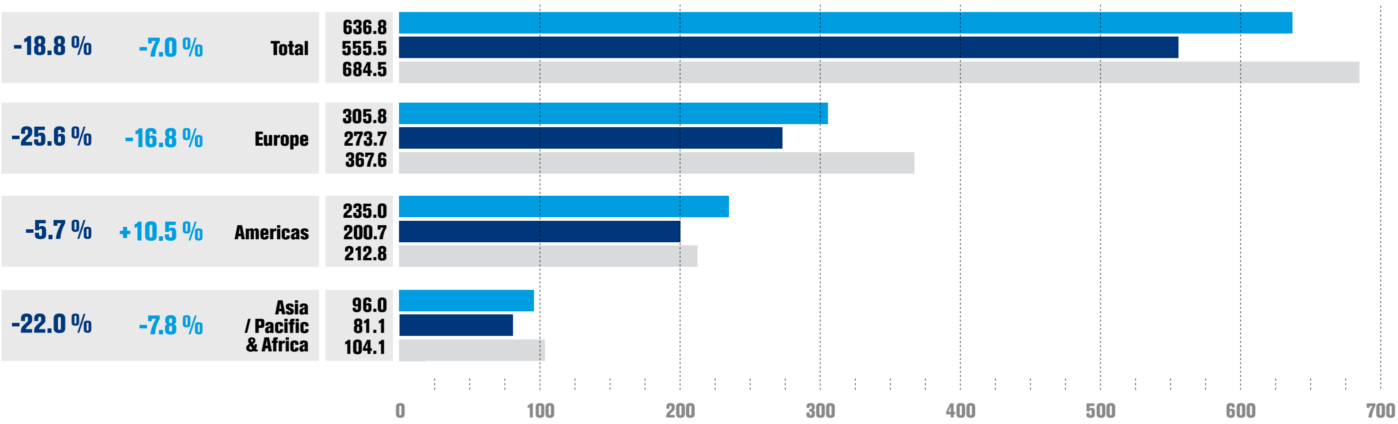
With a 1.0% decline in revenues, on a constant currency basis, Middleware & Advertising revenues were substantially stable. In constant currency, revenues from Europe declined 1.1%, with declines primarily coming from the UK and Italy, revenues from the Americas declined by 2.0%, in spite of a strong revenue contribution from Brazil, and Asia/Pacific and Africa saw a nominal decline. With a substantial balance between the three regions, Asia/Pacific and Africa remains the strongest region in this segment.

REVENUE BREAKDOWN
EXCHANGE RATE IMPACT

DIGITAL TV

In million CHF

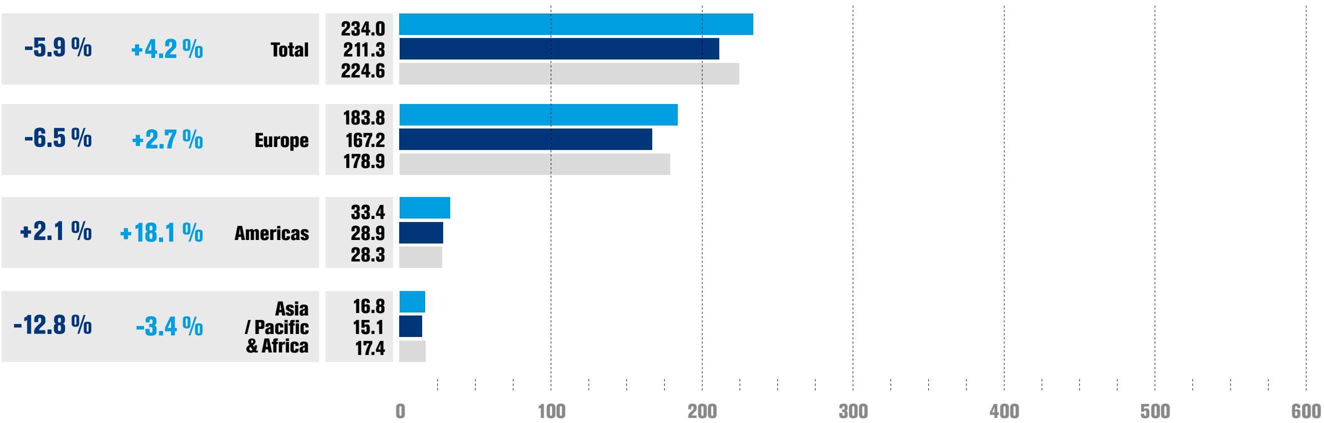
2011 Constant exchange rates | 2011 Reported | 2010 Basis



PUBLIC ACCESS

In million CHF

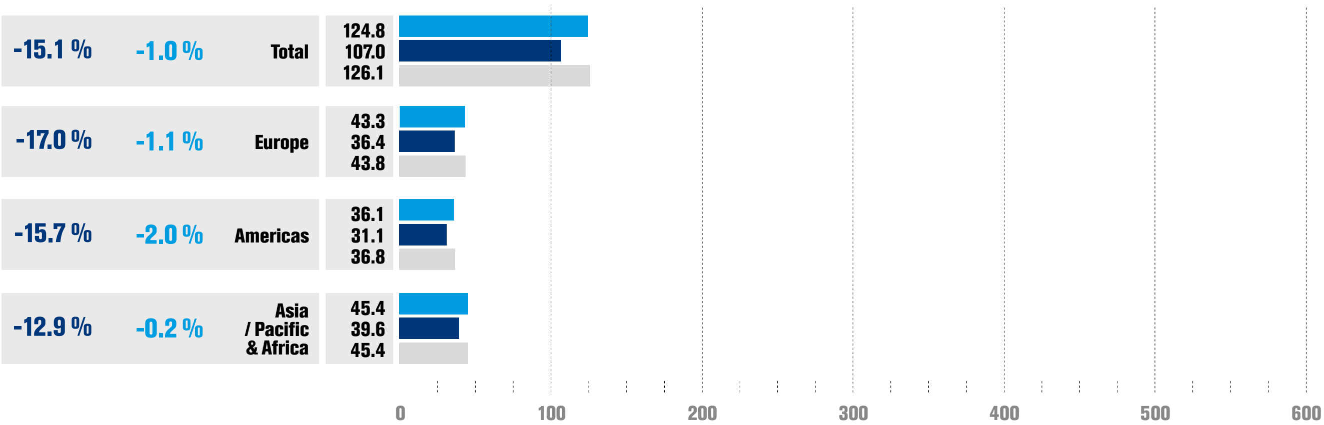
2011 Constant exchange rates | 2011 Reported | 2010 Basis



MIDDLEWARE & ADVERTISING

In million CHF

2011 Constant exchange rates | 2011 Reported | 2010 Basis



As a result of the significant R&D investments undertaken by the Group starting in 2010, development of the Group's next generation middleware solutions was accelerated, with initial deployments of such solutions commencing in 2011. Following such deployments, some of the R&D resources were released. This contributed to a lower cost base that enabled the Middleware & Advertising segment to achieve positive operating income for the year.

Balance sheet and cash flow

Total non-current assets in 2011 increased by CHF 23.3 million to CHF 530.1 million. The CHF 19.7 million increase of tangible fixed assets is primarily due to the acquisition of the building in which OpenTV's San Francisco headquarters are located. The entity that acquired the building is controlled by the Group, so it is fully consolidated in the Group's financial statements. This added CHF 33.5 million to the Group's balance sheet. Financial assets and other non-current assets rose by CHF 16.0 million in 2011, primarily reflecting the classification of CHF 19.5 million of government grants as non-current assets due to the fact that cash will not be received within the next 12 months.

Total current assets rose by CHF 50.8 million to CHF 649.4 million at the end of 2011. Inventories decreased by CHF 22.6 million to CHF 63.1 million, with the Digital TV segment driving most of this decrease, as the segment's business accelerated in the last weeks of the year. In addition, the inventory relating to the Group's audio business, which was sold at the end of 2011, was removed from the Group's financial statements. Trade accounts receivables continued to improve, with a balance of CHF 228.2 million at the end of 2011, compared with CHF 245.5 million at the end of 2010. Receivables past due by more than 6 months declined in 2011 from CHF 19.5 million to CHF 11.7 million.

At the end of 2011, cash and cash equivalents were CHF 289.6 million, representing an increase of CHF 90.6 million. On June 16, 2011, Kudelski SA issued a CHF 110 million straight bond, with a 5.5-year maturity and a 3% interest rate. This was offset by the repayment made by the Group of the CHF 23.7 million balance of the loan used to finance the acquisition of OpenTV in 2010.

Total equity decreased by CHF 29.5 million to CHF 437.2 million at the end of 2011, reflecting, among other things, the CHF 17.7 million net loss, a CHF 16.0 million dividend payment and a positive currency translation adjustment of CHF 5.5 million.

As the outstanding CHF 350 million convertible bond matures in October 2012, it was reclassified from non-current to current liabilities. In addition, the CHF 110 million straight bond issued in 2011 and the CHF 15.7 million mortgage on the building purchased in San Francisco are reflected as non-current liabilities in the balance sheet. Accordingly, total non-current liabilities decreased by CHF 220.9 million and total current liabilities rose by CHF 324.4 million from 2010.

In 2011, the Group generated CHF 86.7 million in operating cash flow. The Group used CHF 72.8 million of cash for investing activities. This includes CHF 33.5 million in cash used for the acquisition of the building in San Francisco and CHF 39.3 million of capital expenditures for tangible fixed assets, software, third party developments and other assets needed to support the Group's operations. Cash flow from financing activities was CHF 77.4 million in 2011, reflecting in particular the issuance by the Group of the straight bond in 2011 and the mortgage proceeds related to the San Francisco building.

Cash flow from financing activities also reflects the CHF 16.0 million dividend payment made in 2011.

Outlook

On October 31, 2011, the Group announced measures targeting a net annual cost reduction of CHF 90 million, with initial effects expected in late 2011 and the cost reductions becoming fully effective in the course of the second half of 2012. The implementation of these measures is progressing as planned. As part of this program, Digital TV and Middleware & Advertising operations have been fully integrated as of the beginning of 2012. Accordingly, these activities will be reported as a single segment, called Digital TV, as of January 1, 2012.

The new Digital TV segment is expected to continue to benefit from favorable fundamentals and the Group's competitive positioning. However, Group top line is expected to decrease from 2011 to 2012, as the Polyright, Medioh, Embedics and Nagra Audio businesses are fully deconsolidated, government grants are expected to be lower and the expected expiration of a contract provision with a large customer will result in the application of a lower base of paying smart cards for the purpose of license fee calculations.

Public Access is expected to maintain its momentum both on the top line as well as from a profitability perspective.

The new Digital TV segment is expected to continue to benefit from favorable fundamentals and the Group's competitive positioning.

03 STRATEGIC OVERVIEW

The rapidly implemented restructuring measures are enhancing efficiency across our organization. Despite the ups and downs of the macro cycle in the short term, opportunities remain excellent.

Additionally, we are counting on our strong fundamentals to further develop our activities in the medium and long term.

DIGITAL TELEVISION

New perspectives in a fast-changing world

Digital convergence and the rise of the internet have fundamentally changed our industry, and many other industries as well. TV operators have seen their business transformed. These shifts have also completely altered the ways in which content is broadcast and delivered. Users can now access and consume content in many different ways, with digital content available anywhere via fixed and mobile devices that use satellite, cable, terrestrial, telephone and OTT (internet) networks.

At the Kudelski Group we have been anticipating these developments for many years. This is why we have significantly widened the array of skill-sets and solutions we offer around our core business of securing content. Today, we can deliver comprehensive platforms that make operators fully functional in a converged environment, with the certainty that their content – and also their revenues – are protected no matter what network and what device is used.

This is one of the major challenges of the new environment, where delivery systems and content streams have become increasingly interdependent and open, leading to high value-added content being even more exposed to piracy.

Seizing the opportunities of convergence

Against this backdrop, the Kudelski Group has changed its profile from a technology provider to a strategic partner for its clients, a partner that is actively involved in determining their strategic goals and needs in order to deliver the most appropriate solutions.

As part of this approach, we have developed dedicated platforms for markets where deployment costs are a key parameter and where complex applications are neither wanted nor needed. The Group's long-term commitment to a philosophy based on modular, open-architecture solutions has proven to be the right choice. This approach gives us a decisive edge in the current environment, because it means that service providers are able to constantly extend their platforms to accommodate new developments and functionalities using their existing infrastructure.

The broadest range of security solutions in the industry

The traditional digital TV security paradigm is centered on the set-top box with a smartcard. However, digital convergence and all the resulting developments have driven a need for new content protection technologies.

The Kudelski Group offers a wide array of content protection solutions backed by recognized expertise in new areas like mobile TV, where we began as a pioneer and have become a global market leader. We have developed Persistent Rights Management (PRM) security solutions for open devices such as computers, mobile phones and tablets that are not smartcard enabled. We also offer software solutions that are dedicated specifically to lower-value-added content that does not require the highest degree of protection.

All these solutions have been developed to round off the traditional smartcard-based approach to conditional access, which remains the most effective content protection system for digital broadcast television. Our Conditional Access System (CAS), powered by NAGRA middleware and backed by our top-notch service and expertise, is the foundation on which the Kudelski Group's offering is built – and it is a strong base for current and future expansion.

Users can now access and consume content in many different ways, with digital content available anywhere via fixed and mobile devices that use satellite, cable, terrestrial, telephone and OTT (internet) networks.

Traditional operators, new market players and internet TV

Our new products and services have enabled traditional digital TV operators to rapidly and securely add entire new dimensions to their content- and service-offerings. This has helped them to keep pace with an ecosystem that's far more open—and far more competitive—than it used to be. New market entrants like telecom operators have contributed to the momentum in the market.

We are now on the cusp of the next stage in this process, with internet companies joining the fray in the hope of generating TV-driven revenue streams. From the outset they too have had to deal with content piracy, an issue that has long been familiar to the established players in the highly permeable and vulnerable internet environment.

The appearance of entirely new ways of delivering content has lead to a transformation of the global digital media ecosystem. Internet is no exception – and given the huge impact it has had, we see the internet as a tremendous source of opportunity for Kudelski Group's future growth.

The power of middleware: user interfaces and advanced advertising

More and more, it's the user interface that determines whether consumers like interactive applications. This has made the user interface a key factor in the success of any new product.

The multi-screen revolution has led to an even greater degree of sophistication. A given content stream can be viewed on multiple devices and moved from one device to another simply by touching and dragging on the screen. User interfaces featuring intuitive, logical navigation make it easier to explore and discover content. The user interface also includes recommendation and search features over social networks, enabling consumers to access particularly relevant content.

For service providers, the user interface is a key brand-identity driver. It also helps them increase customer loyalty and grow transaction volumes. For these reasons, the content discovery features of the user interface are becoming mission critical for operators.

The Kudelski Group has positioned itself as a skills center in the field of user experience in a multi-screen television environment. A dedicated team is actively developing and designing new UEX concepts, features and graphic design.

Advanced advertising

Advanced advertising is another key middleware sector that is being developed and reinforced at Kudelski Group.

Advanced advertising is a relatively new field with high potential. It is destined to gain traction as the latest generation of platforms is rolled out and operators can target ads based on user profiles and viewing habits. This new generation of powerful interactive tools will enable operators to take innovative approaches to advertising to fully leverage its potential. Advanced advertising offers operators very interesting opportunities for developing new revenue streams.

A global presence

The Kudelski Group has a global presence today, and this worldwide footprint is an essential factor in our balanced growth going forward.

The Asia/Pacific region – and now also the South America region, which is showing strong growth – are bringing in an increasing share of business and revenues. They have helped to partially offset the effects of slowing economies in other parts of the world, such as Southern Europe.

But the contribution made by these regions is not only financial. They also provide skills to the Group. Our R&D Centers in China (since 2010) and India (since 2011) have given us sharper insight into the specific needs of emerging markets, leading to product designs that are better adapted from both a technical and a business perspective to the regions where they will be marketed and sold. This tailored approach has underpinned our numerous new-contract wins in emerging markets, where we have continued to extend our footprint.

Cybersecurity: a new business line

Internet has become the main platform for digital content exchange, and this is true even for the most sensitive types of content. But it is also the platform most vulnerable to attacks—and is in fact the most frequently attacked. Here, the expertise we have developed in pay-TV security technologies over the years can be widely applied outside the field of digital television.

Our new Cybersecurity services are geared to companies that operate in an internet environment and host high-value-added content requiring the greatest degree of protection. We offer them a suite of personalized services, including security assessment, traffic and transaction monitoring, identification of attempted cyber-attacks, deployment of countermeasures, installation of security applications, access and identity management and legal support. The Group has a dedicated business unit in charge of Cybersecurity business development.

Monetizing our intellectual property

The Kudelski Group's large and growing portfolio of patents represents an asset that must be attentively managed, from a legal, marketing and financial perspective.

We have conducted an in-depth analysis of our patent portfolio with the objective of maximally capturing its value worldwide. As a result, we are taking a more dynamic and rigorous approach to licensing agreements, which should significantly boost patent-related revenues going forward.

PUBLIC ACCESS

Also harnessing digital convergence
Public Access is the Kudelski Group's second main activity sector. Like Digital TV, this sector also focuses on security, specifically on controlling the access of people and vehicles to sites and events. Public Access designs and markets comprehensive, hardware- and software-based solutions to manage access to ski-lifts, stadiums, fairs, amusement parks and parking lots. Examples of this latter category include the parking lots at international airports and at shopping centers. Public Access accounts for close to one quarter of the Group's revenues, and its profitability is rising.

As in the Digital TV sector, Public Access designs solutions based on the latest technologies and aims to provide operators with solutions that will help them grow their business, strengthen their competitive positioning and improve their profitability.

Public Access solutions allow operators to have a variety of interactive communication channels with users and offer extended features and functionalities, thus enabling users to access sites and premises smoothly and securely. The solutions offered by the Group can be managed remotely via the internet or other networks; this makes them an ideal choice for centrally managed multi-site facilities.

Consulting and service are also a growing part of the division's activities. Customers particularly appreciate our expertise when they are developing large-scale, complex projects that involve not just technological challenges but also innovative marketing and new business models.

AUDIO

Nagra Audio was spun off from the Kudelski Group on 1 January 2012 as part of the Group's restructuring program. It will continue its development as a newly created independent company, Audio Technology Switzerland. The new entity, which is owned by the Kudelski family, should generate new momentum for its sound-and-audio based activities thanks to its exclusive focus on that area.

The strong growth that Kudelski Group has experienced in its security-related activities over the last three decades has progressively reduced the relative weight of the audio segment. Creating a new dedicated corporate entity for audio was the best way to avoid marginalizing this historic business line, which goes back to 1951 and was at the origin of the Kudelski Group. This solution will provide audio with the best strategic outlook going forward.

Audio Technology Switzerland will maintain the two business sectors that comprised Nagra Audio, Professional Recorders and high-end Hi-Fi devices. It remains committed to the same level of excellence that has made the brand into a global legend.

04 DIGITAL TELEVISION

2011 was marked by the transformation of the digital television industry, in a difficult economic environment that affected the Group's historical markets.

This transformation entails new challenges – and new opportunities – for the Kudelski Group.

One of the main features of this market transformation is the convergence of three sectors: digital television, internet and telecoms. Although this convergence was expected, it is generating risks while simultaneously enabling key players like the Kudelski Group to extend their activities beyond the usual borders.

In 2011, the Kudelski Group continued to win new contracts and expand its global footprint. Whatever the devices used by consumers – TV, PC, mobile devices or tablets –, NAGRA is enabling service providers to integrate new technologies and turn them into successful revenue-generating and customer loyalty strategies.

Overall, structural developments in the Digital TV market remained favorable thanks to new customer wins, the positive traction from our latest generation of products and continued strong growth of selected regions such as Latin America.

AN INCREASING GLOBAL FOOTPRINT

In 2011, NAGRA, the Digital TV division of the Kudelski Group, continued to strengthen its international footprint in mature as well as in emerging markets, through new partnerships or the extension of existing contracts.

Europe
CANAL+, a long-standing NAGRA customer, selected NAGRA's latest security solution to secure Internet TV access.

Additionally, NAGRA and CANAL+ created a new partnership in content and revenue security for the launch of CANALSAT and CANAL+ high definition channels in Switzerland. The operator selected the latest generation of NAGRA Media Access conditional access solutions to provide their subscribers with access to high definition content delivered via satellite. NAGRA's system allows CANAL+/CANALSAT Switzerland not only to secure their new high-definition services for live broadcasts, but also to offer innovative features over time, such as time-shifted television (pause and restart a live program) and start-over television (restart a program already in progress).

In Spain, we confirmed our position as a key provider of internet TV solutions by winning new contracts with two major operators, DIGITAL+ and Jazztel.

In collaboration with NAGRA, DIGITAL+, the leading pay-TV operator in Spain, launched with NAGRA "DIGITAL+ a la carta", an Over-The-Top VOD and linear TV service powered and secured by NAGRA's multi-screen end-to-end solution and available to subscribers of the DIGITAL+ satellite service.

DIGITAL+ has been a pioneer in developing and bringing advanced digital television services to the Spanish pay-TV market and this launch is an important step in their multi-screen development strategy. Users can access a complete VOD catalogue on both a subscription and pay-per-view basis, providing access in both standard and high definition, with catch-up TV functionality.

Jazztel, Spain's fastest growing ISP provider launched OTT services based on the platform that NAGRA had already implemented for PRISA TV. The NAGRA-enabled turnkey OTT solution provides Jazztel customers with access to PRISA TV premium on-demand (VOD) and high-definition content as well as PRISA live TV services.

In a first for the Spanish market, the new offer enables Jazztel subscribers to access the best content available in that market today including CANAL+ premium on-demand and high-definition content as well as live TV services currently available on the PRISA TV platform.

Beyond conditional access: today the new digital TV ecosystem includes internet TV and OTT services that contribute to improve the overall multiscreen experience by providing more choices for consumers, while growing average revenue per user for operators.

NAGRA provides Jazztel with an end-to-end solution that demonstrates the full range of NAGRA's expertise in multiscreen television, including set-top boxes, content protection, middleware user interface customization and adaptive streaming technology. This new service complements Jazztel's traditional telephone and internet DSL services, enabling the operator to build a more attractive offering. It also confirms NAGRA's position as a key player in the OTT space.

At the beginning of 2012, NAGRA and abertis telecom, Spain's leader in infrastructure and telecommunications services, announced a strategic partnership to launch a cloud-based service aimed at pay-TV service providers and free-to-air broadcasters seeking to deploy affordable multiscreen television with a fast time-to-market.

The OTT wave also reached Italy. Mediaset, Italy's leading pay-TV provider and existing NAGRA customer, selected NAGRA to securely deliver Over-The-Top video-on-demand services to its subscribers. At the core of the solution is NAGRA Media Persistent Rights Management (PRM) which provides operators like Mediaset with the foundation they need to deliver multiscreen services and multiple video on demand formats. Offering studio-approved protection for internet-based content, NAGRA Media PRM enables early window video-on-demand services.

A growing number of pay-TV service providers are deploying Over-The-Top services on existing devices using NAGRA content protection solutions.

Telenet, Belgium's leading cable operator, chose NAGRA's latest-generation conditional access technologies to secure its existing cable and new digital terrestrial (DTT) service.

VOO-Be tv, Wallonia's leading cable operator, selected NAGRA's latest-generation embedded conditional access technologies for VOO's two-way cable service areas.

Telefónica, one of the world's leading operators in the telecommunications sector and an existing NAGRA customer, selected NAGRA to enable next generation services for its global operations, thus extending our technology partnership beyond conditional access to include the next generation of middleware. The new agreement will allow Telefónica to deliver hybrid and internet-based services to Telefónica's worldwide subscriber base. NAGRA's middleware will be used on

Security is a moving target and we've invested heavily to ensure the highest level of protection for our customers content and revenues, whether it's through our smartcards, interactive applications or information and subscriber management systems.

multiple platforms supporting a range of broadcast, on-demand and interactive services and is expected to be deployed in the first quarter of 2012.

T-Com Croatia (Hrvatski Telekom), Croatia's leading telecommunications provider offering triple-play voice/Internet/TV, chose NAGRA's turnkey end-to-end hybrid solution for its hybrid satellite/IP pay-TV platform. The end-to-end solution includes NAGRA's latest-generation conditional access and persistent rights management solution, content management, service delivery platform, as well as OpenTV client middleware and applications. The solution allows subscribers to enjoy a virtually unlimited and seamless digital entertainment experience across multiple delivery networks and devices.

Asia

The digital television market is booming in Asia. In China, Taiwan and India, governments are officially requiring operators to digitize their cable networks within very tight time frames running from mid 2012 to the end of 2015. NAGRA is strengthening its presence in these markets with tailored security solutions that fulfill requirements for high security levels and low deployment costs. NAGRA is also responding to operators' needs by providing advanced content management solutions for multi-screen platforms.

The Asian market is also developing through digital terrestrial systems in Indonesia, where local operators are benefiting from NAGRA's experience in conducting large-scale deployments of innovative solutions in Europe.

NAGRA is serving some 18 million homes in India with satellite television systems.

IMCL, a NAGRA customer since 2003 and India's leading cable MSO with around 8 million homes under the brand name InCableNet, selected NAGRA's fully integrated end-to-end solution to be deployed in an initial 500 000 set-top-boxes with the potential deployment of a further 500 000 devices. NAGRA will also act as system integrator.

Bengal Communications Ltd (BCL), one of the largest cable MSOs in Bangladesh, selected NAGRA's latest-generation conditional access and middleware technologies for its upcoming digital cable services.

In Taiwan, NAGRA will drive the country's cable digitalization with the four major service providers, kbro, TBC, CNS and HYA, having selected NAGRA Media Access DLK (cardless) technology.

PT MAC, Indonesia's first and only DTT television operator, will roll-out advanced digital terrestrial services secured by NAGRA's next-generation conditional access solution. NAGRA will act as lead integrator and be responsible for delivering a secure end-to-end DTV infrastructure.

Americas

The Latin American market is showing sustained momentum and remains an important growth vehicle for the Group's digital TV segment. Since it first came to the region, NAGRA has delivered and deployed a variety of advanced television services, including DVR, HD, user interfaces, end-to-end integration and award-winning GPS-driven access control. NAGRA's open ecosystem offers the widest range of set-top box features available today in the South American market. NAGRA's technology also enables multiscreen, hybrid broadcast/IP, over-the-top and home networking, allowing operators to grow their business and remain competitive in a fast-growing market.

NAGRA has been present in South

America since the 1990's and has been growing ever since, working with service providers in the cable, satellite, terrestrial, MMDS and telco markets. Besides significant growth with established customers like NET, Embratel and Telefónica, some important additions were made in 2011 such as CNT in Ecuador, which selected NAGRA for its DTH services, ClaroTV (American Movil) which opted for OpenTV middleware and Oi in Brazil which ordered additional middleware modules.

Our market share and the great diversity of our customers, who operate in all types of digital television delivery modes, are major assets for us in this region.

AN EXPANDING DIGITAL TV ECOSYSTEM

NAGRA, the preferred technology vendor for internet TV

While traditional TV growth has slowed, internet-based TV continues to grow year after year. Many service providers, be they cable, satellite or telco operators, are turning to NAGRA's expertise and innovative capacity in order to address this trend. Many customers are leveraging NAGRA solutions so that they can offer viewers an internet-connected environment as a natural extension to their existing services.

The number of internet-connected TVs and set-top boxes is growing and is expected to continue to grow as operators seek to offer more of these services to their viewers, while maintaining secure access to all types of content.

The Kudelski Group is well positioned in this extended television ecosystem where security is essential.

A solution for OTT networks

NAGRA has a specific security solution that meets the requirements of OTT network delivery. The NAGRA Media Player (NMP) platform allows premium pay-TV content and other video delivery services to securely flow to open devices such as personal computers, mobile phones, tablets and game consoles over multiple networks.

NMP is a software application based on the NAGRA Media PRM (Persistent Rights Management) solution. It supports subscription and transactional video-on-demand models. It integrates seamlessly with adaptive streaming technology to deliver a personal and consistent viewing experience. NAGRA Media PRM enables cross-device content consumption, distribution and monetization models without compromising on security. With this solution, consumers get seamless access to content across multiple media platforms without being limited by digital rights management issues.

With further deployments at the end of 2011 and the beginning of 2012, NAGRA PRM – a key component of the Group's internet TV solution – has been adopted by key service operators around the world including Telefónica, UPC, T-Com Croatia, Numericable, SFR, Digital+, Zon, Mediaset, Virgin Media, Telenet, VOO, NET, Embratel, Skylife, CNS et kbro (Taïwan), Elisa, Hansenet and Naxoo.

NAGRA OpenTV next-generation middleware solution

The Kudelski Group has made substantial investments in the middleware solution, a key component of NAGRA's end-to-end offering.

The targeted effort in next-generation middleware has yielded it first promising results in the market. OpenTV4 was successfully launched to power an internet TV solution for the Spanish internet service provider Jazztel. The flexibility of the middleware was demonstrated by the fast roll-out of the solution, offering users an innovative user experience. Building on this approach, the

Nagra is the leading supplier of conditional access and middleware solutions in the promising South American region.

NAGRA OTT's turnkey solution allows Jazztel customers to access premium on-demand and high definition content

deployment of OpenTV5 is moving ahead as planned with one of its lead deployment customers Telefónica, an operator who is now using OpenTV5 as a global middleware solution across its TV services.

Thanks to its open architecture, the next-generation OpenTV5 middleware solution can be easily ported from one set-top box to another and from one chip to another. It provides operators with an efficient, flexible and reliable application environment.

User experience competence center

The way users consume video content is drastically changing. We now live in an age of multiscreen consumption, social networking and increased competition between service providers, especially with the emergence of new OTT players. As a result, the way in which users interact using different devices has become increasingly important. Gone are the days when consumers would just need a simple grid "EPG" (Electronic Program Guide) to browse through a few live channels. The TV user interface has now become a portal or gateway that must provide seamless access to content from the operator, third party content in the cloud and personal content stored on various devices. NAGRA offers a complete range of user interfaces including NAGRA Guide, OpenTV nx and OpenTV Gravity for set-top boxes. An application was also especially designed for the iPad.

Advanced advertising: extensive features

NAGRA offers a wide range of advanced advertising services. Advanced advertising comprises everything – largely enabled by digital TV – that goes beyond the simple TV commercial, including addressable, interactive, cross-platform and on demand advertising.

Addressable advertising allows different households to receive advertising messages specific to their profile. Interactive advertising enables viewers to obtain further information about products, order them and take part in games. Advanced advertising can also include voting and polling, dedicated advertiser links, video on demand and electronic program guide advertising. The possibilities are endless.

In 2011, NAGRA acquired Sigma System's Subscriber Information Service (SIS) business, further strengthening NAGRA's role in the development of advanced advertising solutions at both the service provider and set-top box levels. By integrating SIS into its advanced advertising offering, NAGRA ensures that audience qualification is an integral part of its solution and that it can be leveraged to deliver the right message to the right audience. The SIS solution complements NAGRA's existing advertising solutions and capabilities, which include campaign management, ad decision and ad management services and interactive advertising systems.

In the first quarter of 2012, NAGRA extended its advanced advertising partnership with Time Warner Cable Media, the advertising sales division of Time Warner Cable. This renewed partnership presents two significant milestones: the selection by Time Warner Cable Media of NAGRA's latest generation campaign management product, EclipsePlus/xG Billing, and the renewal of a deal between both companies for NAGRA-OpenTV's advanced advertising products.

EclipsePlus/xG Billing allows a service provider's advertising sales team to combine data from multiple order management and traffic systems into individual invoices based on each ad's metrics and pricing and for any type of ad campaign - including linear, on-demand, interactive, addressable, Web, mobile, satellite, over-the-top and long-form. It is the latest product in the Eclipse® line of campaign management solutions which schedule more than 100 million spots per month.

NAGRA-OpenTV Gravity Interface especially designed for tablets such as the iPad

NAGRA-OpenTV Gravity Interface – Live TV programs

NAGRA-OpenTV Gravity Interface – Video on demand

NAGRA Guide User Interface

END-TO-END CONDITIONAL ACCESS SOLUTIONS

NAGRA Media ACCESS ELK-CAS – security for IP and hybrid networks

NAGRA's next generation conditional access solution, NAGRA Media ACCESS ELK-CAS (Embedded Link CAS) is specifically designed to protect live video content over "always-on" IP managed networks. This state-of-the-art security system leverages an innovative combination of software and hardware root of trust using NAGRA On Chip Security (NOCS). This technology has been certified on most chipset models manufactured by the major semiconductor suppliers.

NAGRA Media ACCESS ELK-CAS is also the security component of NAGRA's global IPTV solution. NAGRA's integrated end-to-end solution is designed for telecom and cable operators who want to rapidly launch IPTV services. It comprises a state-of-the-art Service Delivery Platform (SDP) combined with a comprehensive Content Management System (CMS), NAGRA Media ACCESS ELK-CAS for conditional access and the NAGRA Media Guide. It enables operators to offer subscriptions to live TV, pay-per-view, video on demand and PVR applications.

DLK – a newcomer in NAGRA's security solution offering

In order to address new market needs, particularly the needs of cable operators in emerging markets, NAGRA now offers the NAGRA Media ACCESS DLK solution. This is an entry-level software solution that can be deployed rapidly without heavy investments. It provides operators with a tailored solution that protects lower value content in a one-way broadcast environment.

NAGRA Media ACCESS – A comprehensive solution suite

NAGRA Media Access CLK (Card linK): smartcard-based security for one-way broadcast networks;

NAGRA Media Access ELK (Embedded LinK): embedded security for interactive two-way networks;

NAGRA Media Access DLK (Downstream LinK): new integrated conditional access system for one-way networks addressing new market needs.

NOCS – a reference program for set-top box and chip manufacturers

NAGRA set up a partnership program called NAGRA On-Chip Security (NOCS) which establishes standards for the integration of security into video chipsets. So far, close to 100 million NOCS- compliant chipsets have been certified and embedded in set-top boxes to serve more than 120 pay-TV operators worldwide.

Since the program was first launched in 2003, NOCS technology, an essential element of NAGRA's security solutions, has continued to evolve to protect media content and operator services in set-top boxes and in home networks. NOCS technology in set-top boxes ensures certified security for NAGRA's conditional

SmarCAM-3 enables consumers to enjoy premium channels directly on their iDTVs.

access and DRM solutions, as well as for all other software in the device such as middleware, applications and other DRM solutions. Platform-level security is becoming more important for controlling and securing digital outputs as well as for meeting the new security requirements from the major studios.

NAGRA On-Chip Security brings the hardware "root-of-trust" that ensures platform security and as a result protects service providers' investments in consumer devices.

NOCS technology was further reinforced in 2011 to include a complete infrastructure comprising a certification process and keys management system to ensure secure and consistent implementation and personalization of NAGRA security features across different chipsets. Combined with NAGRA products, NOCS provides full security for content going "into the device, on the device and out of the device" which is needed for premium video-on-demand services.

World-class anti-piracy services for pay-TV
NAGRA offers world class anti-piracy services for pay-TV, organized around three key areas:

- An anti-piracy strategy, which combines technical and legal counter-measures, proactive initiatives against future risks and piracy attempts, and full cooperation with legal and law enforcement authorities through a worldwide network;
- Technical counter-measures, which include over-the-air set-top box and smart card updates, detection and disabling of pirates' devices and user misbehavior detection;
- An anti-piracy methodology for legal matters, which involves identifying top priority targets, field investigations, pre-litigation actions and litigation.

CONDITIONAL ACCESS MODULES – GROWING SUCCESS WORLDWIDE

Conditional access modules (CAMs) enable consumers to access services that use different conditional access systems through one single device, such as a set-top box or an integrated digital television set. A leader in this sector, SmarDTV continued its sustained growth in 2011.

In 2011, SmarDTV started shipping its latest SmarCAM-3 CI Plus modules into the Austrian retail markets in collaboration with a number of distribution partners. These modules provide secure access to ORF satellite channels and to pay-TV services. SmarDTV was also chosen by TopUp TV in the United Kingdom to supply CI Plus modules for its UK network. TopUp TV delivers sports, entertainment and movie subscription TV services on the digital terrestrial platform Freeview. These modules, secured by the latest version of the NAGRA conditional access system, ensure the highest quality protection for Sky Sports 1, Sky Sports 2 and ESPN. Thanks to the SmarCAM-3, these channels are now directly accessible on Integrated Digital Televisions (iDTVs) without the need for a set-top box, extra remote control, SCART leads or power leads.

SmarCAM-3 is plugged directly into the digital TV using the industry standard DVB-CI interface and the signal is always in digital format. No analog conversion or interface is necessary, providing an improvement to traditional set-top box connectivity that often uses SCART connectivity.

On the technology level, SmarDTV's Micro SD card received CEA-2040 standard certification from the Consumer Electronic Association (USA). The standard specifies the interface between a consumer electronics device displaying or decoding video and a small removable, replaceable memory card module that embodies the conditional access system. Examples of devices that use a microSD card include smart phones, tablets, PCs and other in-home and mobile viewing devices. With a tiny form factor, the NAGRA-secured SmarDTV microSD conditional access modules provide access to premium TV content via a wide range of mobile and static viewing devices.

CYBERSECURITY – PROVEN KNOW-HOW IN FIGHTING PIRACY

For more than 20 years, the Kudelski Group has been an expert in protecting high value-added content against various forms of piracy, securing a worldwide leadership position in this area. This unique experience has allowed the Group to acquire exceptional know-how in fighting pirate attacks, capitalizing on its technological, operational and legal competencies. Today, internet security and privacy protection have become key issues. In this context, the Kudelski Group has decided to offer its expertise in the area of cybersecurity to companies and operators outside the pay-TV sector, through the creation of a specific Cybersecurity unit.

NAGRA aims to be the trusted Swiss technology partner for companies and users who wish to secure their assets, transactions and reputation in a globalized and digitally connected world.

For more than 20 years, the Kudelski Group has been an expert in protecting high value-added content against various forms of piracy. This unique experience has allowed us to acquire exceptional know-how in fighting pirate attacks, capitalizing on our technological, operational and legal competencies.

NagraID – ALWAYS AHEAD IN SMARTCARD APPLICATIONS

The Kudelski Group offers state-of-the-art smartcard expertise through our affiliates NagraID and NagraID Security. These companies produce multi-component and other complex cards for the security and identification industries. NagraID provides advanced design, development and industrialization capabilities for innovative authentication solutions. It holds international patents for a non-violent lamination process used for embedding sensitive, electronic components into cards and other form-factors.

MasterCard Information Display Card: a revolution in Display Cards

At the Cartes 2011 trade show in Paris, NagraID demonstrated new versions of its Display Card including the new-generation MasterCard Information Display Card and the VISA CodeSure Matrix Display Card.

The MasterCard Information Display Card is the first smartcard that connects the EMV (EuroCard/MasterCard/Visa) payment contact chip to an embedded LCD display that enables information stored on the card to be uploaded every time the card goes online. With this new payment card, cardholders can for the first time access up-to-date account and payment-related information using their trusted and familiar payment card.

Among the advanced security functionalities of these display cards, cardholders can generate a unique one-time-use passcode (OTP) by typing the correct PIN on the embedded keypad. The MasterCard Display Card has the same physical characteristics as traditional payment cards, with a magnetic strip that consumers have known for more than 50 years. The lastest-generation Information Display Cards provides unprecedented levels of interactivity between issuers and cardholders. One of the major advantages of this technology is that it is very easy to deploy and leverages the standard EMV investment by using the existing payment infrastructure and equipment.

During Cartes 2011, BNP Paribas's Turkish subsidiary TEB unveiled its next credit card product that is based on the new MasterCard Information Display Card. Two Romanian banks, Credit Europe Bank and Banca Comerciala Carpatica, also announced the launch of NagraID-based payment cards with a built-in One-Time-Password.

More than twenty new pilot projects based on these cards were launched in 2011 with deployments expected in 2012.

For years, NagraID Security has demonstrated its technological expertise in payment cards with embedded electronics. Innovation is one of NagraID's key drivers, positioning it as a leader in the introduction of new payment card technology.

Visa CodeSure Matrix Display Card – another great innovation

The introduction of the Matrix Display Card is a new step in the development of display cards.

Built on the multi-channel authentication system offered by CodeSure, the Matrix Display Card adds a fully customizable dot matrix display that supports local languages and non-Roman character sets. The card also has a smartphone-like 'soft touch' keypad and a highly visible power button that, combined with the new matrix display, helps banks to customize the product to local language and usability preferences.

Designed to add security for consumers in Card-Not-Present (CNP) purchasing environments, the CodeSure range also incorporates contactless payment technology within a card that is the same size as traditional debit and credit cards.

Strengthened relations and footprint in strategic markets

As part of its development strategy, NagraID Security is permanently seeking to renew or establish strategic partnerships with card manufacturers, integrators, network providers and payment system providers serving its target market segments. Examples of partner companies include Gemalto, Oberthur Technologies, AustriaCArd, ECard and FutureCard, which are all key card manufacturers firmly positioned with the banking and financial market segment. Bank cards represent 80% of NagraID deployments.

Credit cards as access cards – a new innovative project

NagraID had a very innovative year in 2011. The company worked with its sister company SkiData to develop a new business model to use credit cards as access cards for ski lifts and other sports facilities such as stadia. The card combines a EMV payment system with a SkiData RFID (contactless) access system. The card could be used not only in SkiData's environment but also as a credit card based on the 14443-A standard which is mainly used in the transportation sector. The objective is to use only one card for multiple applications.

Cards for electronic identification

Digital identification and authentication is another area in which NagraID's technology is applied. The e-Service ID Display Card is a new and highly secure solution for identity cards, corporate badges and other electronic identification applications.

Based on the PACE (Password Authenticated Connection Establishment) protocol, the e-Service ID Display Card is the most efficient and convenient method for verifying critical documents like national IDs, residence permits, driving licenses, health cards, weapon IDs, social security eligibility and many more.

The smartcard incorporates a flexible LCD screen that displays a secure 6-digit dynamic key at the press of an integrated button. This password is sent together with the card authentication number to a server to obtain instant electronic identification and authentication. The dynamic code is unique to each card, which makes duplication impossible, protecting the digital identity of the cardholder against counterfeits, manipulation and identity theft.

Digital display cards developed and produced by NagraID Security

NagraID has demonstrated its technological expertise in payment cards with embedded electronics. Innovation is one of NagraID's key drivers, positioning it as a leader in the introduction of new payment card technology.

05 PUBLIC ACCESS

Public Access, with SkiData, is a promising sector with a good growth outlook.

We are committed to this activity in the long term and continue to successfully develop it worldwide. Year after year, SkiData achieves growth in its business irrespective of the economic cycle.

The Kudelski Group, and more specifically SkiData, is a global player in key segments of this market such as car access, ski-lift access and event access. SkiData has always been a pioneer, staying one step ahead of the market with innovative, state-of-the-art solutions. For example, SkiData was the first to offer "hands-free" solutions (based on RFID technology) for ski-lift access and has extended this expertise to numerous other areas.

Just like in the television sector, digital convergence is broadening the scope of opportunity in the public access sector and changing consumer habits. In response, our solutions are increasingly comprehensive and integrated, enabling operators to manage the growing number of user interaction points in a simplified manner.

The Nagra Public Access growth strategy is focused on two main priorities: geographical expansion, particularly outside Europe, and the development of new global solutions. This strategy has proved to be successful. Last year, Public Access delivered excellent results in the Americas with more than 18% growth in local currency, continuing the momentum of previous years. Technologically, the shift of public access solutions towards an integrated approach has led to a more and more modular product offering including service and consulting activities. In 2011, SkiData once again demonstrated its sense of innovation with the roll-out of a new cloud-based software platform that allows services and facilities to be managed online.

SKIDATA – INNOVATION AS A KEY DRIVER

In spite of a difficult economic environment, SkiData continued to experience growth in its various markets. There were major new deployments in the ski and parking segments, notably in the North America Region, as well as an initial Mountain Access solution deployment in China. Finally, there was the positive business dynamic engendered by the Euro 2012 football championship, with stadium-access solutions implemented in Poland and Ukraine. All of this illustrates SkiData's strong momentum around the globe.

Sweb – cloud-based services

SkiData once again illustrated its capacity for technological innovation with new cloud-based solutions. Rolled out during 2011, this offering was favorably received by operators.

SkiData has developed a new software platform that provides on-line access to its entire range of infrastructure, network and software services. Operators can access their applications and data from any PC and manage them simply and efficiently, while being invoiced in a flexible way based on their effective use of the platform.

SkiData's clients can use these new tools to monitor and manage their facilities, obtain reports and sell services on line, all via SkiData's "sweb" applications. All of this can be done remotely, from anywhere, and at any time.

On-line barrier-gate management system

SkiData has also harnessed the cloud-based platform to design a gate management solution for operators, who can now open and close gates and barriers remotely, using internet-enabled ticket scanning. The cloud makes these operations even faster than they are in offline systems. In addition, operators using the cloud-based system benefit from IT infrastructure savings, since there is no longer any need for computers and servers on site.

Mountain destinations: from the Americas to China

In the Americas, SkiData already has a strong presence, from Alaska all the way to Tierra del Fuego. Adding to its presence in Canada and Argentina, SkiData has recently deployed solutions in the U.S., with roll-outs at Park City Mountain in Utah, Stowe in Vermont and Squaw Valley in California. These resorts are all now equipped with the latest generation of the SkiData access system.

SkiData's first deployment of a mountain access solution in China came in 2011, at the Maoershan Ski Resort. Further deployments were achieved in Asia, including in Belarus's Logoisk resort and in Japan's Shiga Kogen ski area.

Visitor management solutions

One of SkiData's major projects in 2011-2012 is the deployment of access solutions for the main stadiums in Poland and Ukraine that will be hosting Euro 2012 football matches.

SkiData has provided the access solutions and point-of-sale terminals for half of the stadiums that will be used in the Euro 2012 football championship, both for admission to the matches and access to food and drink facilities. One example is the largest stadium in Poland, Stadion Narodowy, which seats 58 000 and will also host other events. As access systems integrator, SkiData will deploy a solution comprising gate control, ticket sales and point-of-sale terminals. In addition, several American venues have been equipped with these solutions: one example is the MLS soccer club Philadelphia Union's stadium.

Parking solutions

Most of the new parking sector deployments in 2011 were in North America. Following the Dallas/Fort Worth Airport project in 2010, Los Angeles's John Wayne Airport, the Montreal Trudeau Airports and the Lester Pearson Airport in Toronto all saw deployments of SkiData's latest parking management solutions last year.

At Toronto's Lester Pearson Airport our deployment began in one of the underground lots, with the other sites scheduled for gradual implementation in successive phases.

Several parking access deployments were also made outside the airport segment. These included the Costanera and Mall Plaza shopping malls in Santiago, Chile, as well as the Ritz Hotel, and the city parking lots in Ottawa, Canada. In Toronto, the University of Scarborough's parking lots were also equipped with a SkiData parking solution.

New SKIDATA online barrier-gate management system based on the Sweb platform

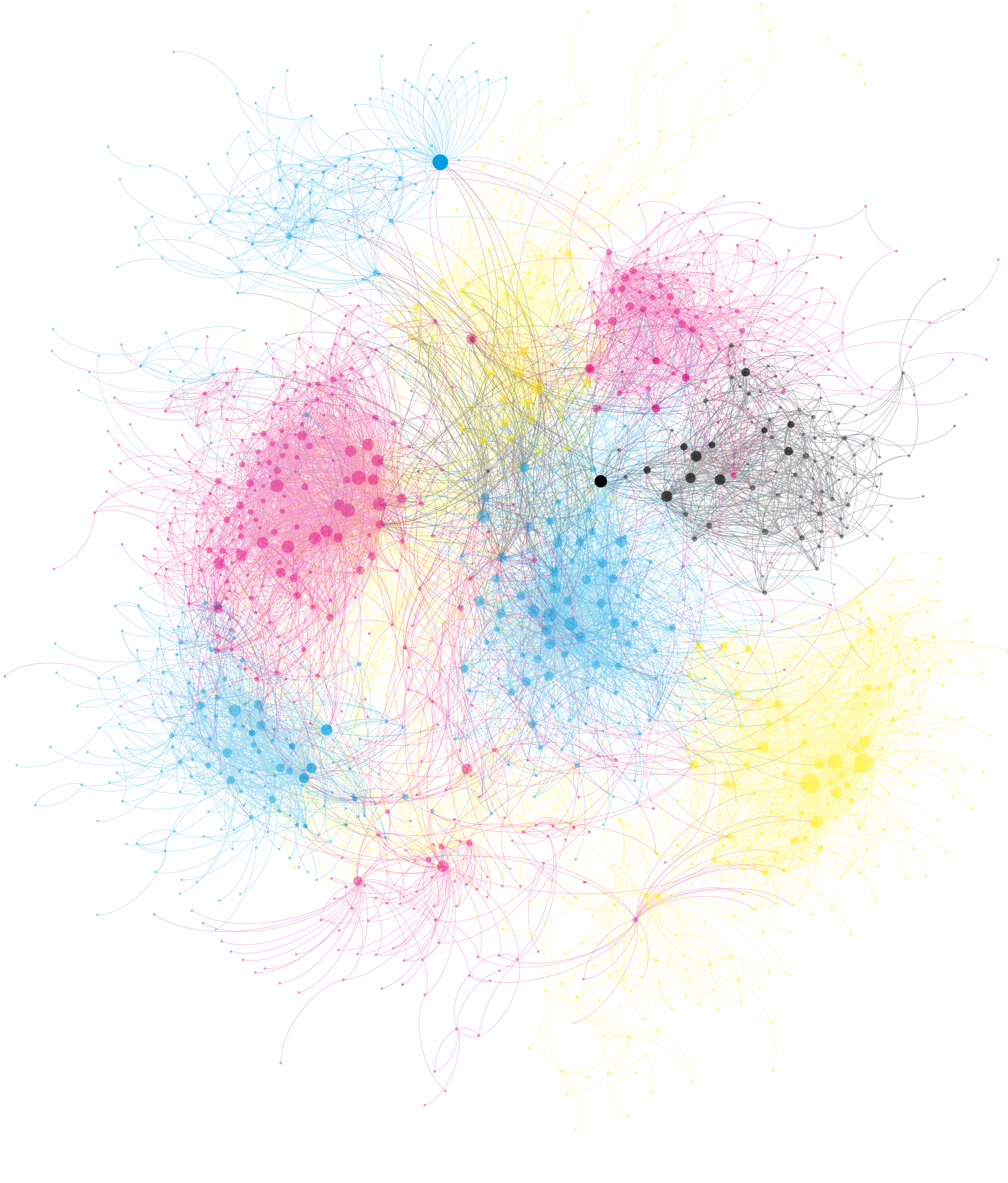
Shiga Kogen ski resort in Japan equipped with a SKIDATA Mountain solution

SKIDATA provides access solutions to Euro 2012 football stadia, such as the National Stadium in Warsaw, Poland

The Costanera shopping mall in Santiago, Chile, uses a SKIDATA parking solution

06 CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2011.



1. GROUP STRUCTURE AND SHAREHOLDING

1.1. Group structure

Kudelski SA has its registered offices in Cheseaux-sur-Lausanne. The company has been structured as a holding company since 1999 and its shares have been listed on the SIX Swiss Exchange since 2 August 1999.

The structure of the Kudelski Group is shown below – sections 1.1.1. - 1.1.3.

1.1.1. Operational structure of the Group

From an operational point of view, the Group's activities are divided into three divisions: Digital Television, Middleware & Advertising and Public Access, which develop their solutions with the assistance of departments dedicated to Marketing, Research and Development, Sales and Management of Intellectual Property.

The Digital Television division* is composed of four departments:

- Sales and Operations
- Products and Solutions
- Conditional Access
- Corporate Development

The Middleware & Advertising division* is composed of the two segments referred to in its name.

*As from 1 January 2012, the Middleware & Advertising division is integrated in the Digital Television division. Since that date, the Digital Television division is divided into four departments as follows: Sales; Operations and Products; Conditional Access; Engineering Solutions; Corporate Strategy and Business Development.

The Public Access division is divided into three segments:

- Car Access
- People Access (ski)
- People Access (events)

The company's Audio activities were consolidated in the accounts of Nagravision SA and under the operational direction of Charles Egli until their transfer to Audio Technology Switzerland SA effective as of 31 December 2011.

Results by sector are presented in note 6 of the Kudelski Group's 2011 financial statements.

Main operating companies held directly or indirectly by Kudelski SA

The list of the Group's main operating companies is included in note 57 of the 2011 financial statements. Additional information is also included in the 2011 Annual Report's key figures.

1.1.2. Listed companies included in the scope of consolidation

Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ISIN: CH0012268360) with a market capitalization at 31 December 2011 of CHF 414 373 572. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange.

1.1.3. Unlisted companies included in the scope of consolidation

Information concerning the company name, registered office, share capital and holdings owned by unlisted Group companies included in the scope of consolidation is shown on pages 110 and 116 of the Kudelski Group's 2011 financial statements.

INTERNATIONAL PRESENCE

		DIGITAL TV	MIDDLEWARE/ ADVERTISING	PUBLIC ACCESS
EUROPE	Switzerland	■	■	■
	France	■	■	■
	Austria	□	□	■
	Germany	■	□	■
	Belgium	□	□	■
	Spain	■	□	■
	Italy	■	□	■
	The Netherlands	□	■	■
	Sweden	□	□	■
	United Kingdom	■	■	■
AMERICAS	USA	■	■	■
	Brazil	■	□	□
	Chili	□	□	■
	Canada	□	□	■
MIDDLE EAST	United Arab Emirates	□	□	■
ASIA / PACIFIC	Singapore	■	□	□
	China	■	■	□
	Hong Kong	■	□	■
	Japan	□	■	■
	Taiwan	■	□	□
	South Korea	■	□	□
	Australia	□	■	□
	India	■	■	■

1.2. SIGNIFICANT SHAREHOLDERS

The principal shareholders of Kudelski SA are the Kudelski family pool including Mr André Kudelski and Mr Stefan Kudelski and, outside the Kudelski family pool, Mrs Irène Kudelski Mauroux and Mr Henri Kudelski (and their respective descendants), and Mrs Marguerite Kudelski and Mrs Isabelle Kudelski Haldy (and their respective descendants) through two investment structures of which they are the beneficiaries. Furthermore, Mrs Marguerite Kudelski holds 5112 bearer shares in her own name. To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no shareholder agreements between the family pool and other shareholders.

The shareholding structure, under which the Kudelski family pool has control over the company, guarantees the Group's long term stability. This stability is essential to ensure long-term continuity and independence, which are key elements for the Group's main customers.

Kudelski Financial Services SCA has issued a convertible bond (ISIN: CH 0022692609) for an amount of CHF 350 million, representing 5 307 856 bearer shares (5.58% of voting rights). See section 2.7 for details.

Announcements made by Kudelski SA to SIX Swiss Exchange concerning disclosure of shareholdings may be consulted on the company website at:
www.nagra.com/investors-doc.html

They are also available on the SIX Swiss Exchange website under the following link:
http://www.six-swiss-exchange.com/shares/security_info_fr.html?id=CH0012268360CHF4
Click on the link regarding management transactions.

1.3. CROSS-HOLDINGS

The Group has no knowledge of the existence of any cross-holdings.

AT 31 DECEMBER 2011	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	8 034 311	23.72%	57.16%
Mrs I. Kudelski Mauroux and Mr H. Kudelski (and their respective descendants)		3 000 000	5.62%	3.16%
Mrs M. Kudelski* and Mrs I. Kudelski Haldy (and their respective descendants)		3 000 000	5.62%	3.16%

** Mrs Marguerite Kudelski additionally holds 5112 bearer shares in her own name.*

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital at 31.12.2011 and 2.2. Specific information concerning authorized and conditional capital

Ordinary capital

The share capital is CHF 533 798 320. It is divided into 48 749 832 bearer shares with a nominal value of CHF 10 per share and 46 300 000 registered shares with a nominal value of CHF 1 per share. Each share confers the right to one vote. All shares are fully paid up.

Authorized capital

The Board of Directors is authorized to increase the share capital in one or more stages until 4 May 2012 by a maximum amount of CHF 40 881 640 through the issue of 3 768 164 bearer shares with a nominal value of CHF 10 per share and 3 200 000 registered shares with a nominal value of CHF 1 per share to be fully paid up.

The issue price, the nature of contributions, the date from which new shares shall give entitlement to dividends and other modalities of the share issue shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance whole or partial acquisition of other companies in Switzerland or elsewhere. All statutory restrictions to the transfer of shares are applicable to new registered shares.

Conditional capital

The conditional capital amounts to CHF 107 639 240 and is structured as follows:

– a maximum amount of CHF 7 639 240 through the issue of a maximum of 763 924 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to employees of the company and of affiliated companies are exercised. There are no preferential subscription rights for shareholders. Share option or subscription conditions are determined by the Board of Directors. Issue at a price below market conditions is authorized;

– a maximum amount of CHF 100 000 000 through the issue of a maximum of 10 000 000 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the conversion rights related to the convertible bonds of the company or its subsidiaries are exercised.

There are no preferential subscription rights for shareholders. The preferential subscription right of shareholders to the issuance of a convertible bond may be limited or eliminated by decision of the Board of Directors on valid grounds, namely (a) if the convertible bonds are placed primarily in markets outside Switzerland, or if the issue proceeds contribute (b) to the financing or refinancing of acquisitions of companies or firms or (c) to the financing of other strategic investments of the Group, or (d) to financing the redemption of all or part of convertible loans previously issued by the company or its subsidiaries. If the convertible bond is not offered preferentially to shareholders, (a) the convertible bonds must be sold to the public under market conditions, (b) conversion rights must be exercised within a period of seven years from the day of issuance of the respective bond, and (c) the conversion price must be at least the equivalent of market conditions at the time of the issue of the bond.

2.3. Changes in capital

CHF '000	31.12.11	31.12.10	31.12.09
Registered share capital	46 300	46 300	46 300
Bearer share capital	487 498	487 383	485 635
Legal reserve	45 675	84 611	81 887
Capital contribution reserve	43 304	n/a	n/a
Net profit	-25 930	90 615	42 834
Total available earnings	348 591	394 900	322 532
TOTAL SHAREHOLDERS' EQUITY	**971 368**	**1 013 194**	**936 354**

For information relating to changes in the capital which have taken place in 2011, 2010 and 2009, please refer to the Group's corresponding financial statements. Information regarding the capital contribution reserve can be found under note 3.4 of the Kudelski SA financial statements in the Kudelski Group's 2011 financial statements.

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2011 was made up of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 48 749 832 bearer shares with a nominal value of CHF 10 per share. Each share confers the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the relevant type of share. Kudelski SA does not have participation certificates.

2.5. Profit sharing certificates

Kudelski SA does not have profit sharing certificates.

2.6. Restrictions on transferability and nominee registration

As per the Articles of Incorporation of Kudelski SA, registered shares may be transferred upon delivery of the endorsed share certificate, subject to the approval of the Board of Directors and registration in the share register and to the Swiss Federal Act on Intermediated Securities.

The Board of Directors may refuse to approve the transfer of registered shares in one or more of the following cases:

a) If there exists valid reason within the meaning of article 685b paragraph 2 of the Swiss Code of Obligations, i.e. if admission of the acquirer of the shares into the shareholder's group is incompatible with the object of the company or may jeopardize the economic independence of the company. This would in particular be the case if the acquirer could prejudice the company directly or indirectly, or if transfer of the shares could jeopardize the existing majorities.

b) If the company offers the seller of the shares to acquire the shares for its own account, for the account of other shareholders or of third parties at their real value at the time of the request.

c) If the acquirer does not expressly declare that he has acquired the shares in his own name and for his own account. If the shares are acquired by inheritance, division of an estate, marital property rights or by debt enforcement, the company may only refuse its consent if it makes an offer to the acquirer to take over the shares at their real value. In the event of a dispute, the real value referred to in this section will be determined by the court having jurisdiction in the place where the company has its registered office. The company will bear the costs of such valuation. If the acquirer does not reject the purchase offer within one month of becoming aware of the real value, the offer will be deemed accepted. Kudelski SA has no regulations concerning the registration of nominees.

Limitations on the transferability of registered shares, authorized or conditional increases in share capital and limitations on or eliminations of preferential subscription rights are decided upon at the General Meeting if approved by shareholders holding at least two thirds of the shares represented at the Meeting and an absolute majority of the nominal share capital represented.

The General Meeting is validly constituted regardless of the number of shareholders present and/or the number of shares represented.

2.7. Convertible bond, straight bond and share purchase plan

Convertible bond

On 5 October 2005, Kudelski Financial Services Holding S.C.A., a wholly owned subsidiary of Kudelski SA, issued a non-subordinated convertible bond of CHF 350 million in order to pursue the aim of the Kudelski Group to actively manage its assets, in particular by optimizing its financial costs and by improving the duration of its financial debt instruments. The issue proceeds were used mainly for the redemption of the previous convertible bond issued at the end of January 2002, and the remainder is used for potential acquisitions or other purposes corresponding to the general interest of the Group outside Switzerland.

Following a merger between Kudelski Financial Services Holdings S.C.A. and KUD SA, Luxembourg, KUD SA absorbed Kudelski Financial Services Holding S.C.A. on 28 June 2011. With this merger, KUD SA replaces Kudelski Financial Services Holding S.C.A. as issuer and debtor in the framework of the convertible bond effective 28 June 2011.

The annual coupon amounts to 1.625% calculated with reference to the nominal amount of the bond payable on 5 October each year from 5 October 2006. The conversion price was initially set at CHF 67.76 per ordinary bearer share of Kudelski SA. In accordance with section D.1.2 (1) (c) of the bond conditions, the conversion price of bearer shares was adjusted on 30 May 2007 at CHF 66.98 and on 5 April 2011 with a new conversion price which is now CHF 65.94 per ordinary bearer share of Kudelski SA. Bonds, with a nominal value of CHF 5000 each, may be converted at no cost until 21 September 2012 (subject to early repayment), into 75.8265 (instead of 73.7898 initially) bearer shares of Kudelski S.A. with a nominal value of CHF 10 per share. The conversion price of bearer shares now amounts to CHF 65.94 (instead of CHF 67.76 initially). A conditional capital of 5 307 856 Kudelski SA shares has been constituted for this purpose, as mentioned in section 1.2 above.

The repayment price of the bonds is at par on 5 October 2012. Early repayment can take place from 5 October 2010. Kudelski SA unconditionally and irrevocably guarantees this issue. The convertible bond is quoted on the SIX Swiss Exchange, under security number ISIN CH0022692609. The offering circular for the convertible bond is available on request from the Group's head office or by e-mail to info@nagra.com. More information about the convertible bond can be found in the financial reports, note 28 of the consolidated financial statements.

Straight bond

On 11 June 2011, Kudelski SA issued a 5 ½ year CHF 110 million straight bond. The proceeds of this transaction are used for general corporate purposes, enabling the Kudelski Group to diversify its financial resources and lengthen its average debt maturity profile.

The annual coupon amounts to 3% calculated with reference to the bond payable on 11 December of each year from 11 December 2011.

The repayment price of the bonds is at par on 11 December 2016. The straight bond is quoted on the SIX Swiss Exchange, under security number ISIN CH0122488452. The offering circular for the straight bond is available on request from the Group's head office or by e-mail to info@nagra.com. More information about the straight bond can be found in the financial reports, note 29 of the consolidated financial statements.

Share purchase plan

In 2004, the Kudelski Group introduced a share purchase plan for the employees of certain Group companies, enabling those employees to buy Kudelski SA bearer shares on favorable terms. Each participant can subscribe annually to this plan up to a maximum amount of 7.7% of his/her gross annual salary.

The share purchase price is the closing price of the Kudelski SA share listed on the SIX Swiss Exchange on the day of subscription with a discount of up to 42%. However, the shares are subject to a three year blocking period from the date of purchase.

A chart showing employee participation in this plan for the year 2011 can be found in the Kudelski Group financial statements, note 42 of the consolidated financial statements.

3. BOARD OF DIRECTORS

The Board of Directors is the highest executive body of the company. It has the non-transferable and inalienable responsibilities set forth by the law and the Articles of Incorporation. The Board currently consists of eight members elected by the General Meeting of Shareholders. Three Committees, an Audit Committee, a Strategy Committee and a Remuneration and Nomination Committee, are formed within the Board of Directors and are responsible for specific tasks (see sections 3.4.1 - 3.5.)

Mr Stefan Kudelski has been the Honorary Chairman of the Board of Directors since 2 May 2006.

Mr Nicolas Gœtschmann, who is not a Board member, was appointed as Corporate Secretary by the Board.

3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
ANDRÉ KUDELSKI* Chairman of the Board and Chief Executive Officer	1960	Swiss	**Degree in Physical Engineering** Ecole Polytechnique Fédérale de Lausanne (EPFL)	1987	15.05.2012
CLAUDE SMADJA Deputy Chairman of the Board and Lead Director	1945	Swiss	**Degree in Political Science** University of Lausanne	1999	15.05.2012
NORBERT BUCHER	1931	Swiss	**Doctorate in Engineering** Ecole Polytechnique Fédérale de Lausanne (EPFL) Various postgraduate studies at the University of New York, Harvard Business School and IMD Lausanne	1992	15.05.2012
PATRICK FŒTISCH	1933	Swiss	**Doctorate in Law** University of Lausanne **Bar Exam**	1992	15.05.2012
LAURENT DASSAULT	1953	French	**Degree in Corporate Law** **Degree from ESLSCA** Ecole Supérieure Libre des Sciences Commerciales Appliquées, Paris	1995	15.05.2012
PIERRE LESCURE	1945	French	**Degree in Literature and Journalism** Centre de formation des journalistes, Paris	2004	15.05.2012
MARGUERITE KUDELSKI	1965	Swiss	**Engineering degree in Microtechnology** **Doctorate in Microtechnology** Ecole Polytechnique Fédérale de Lausanne **Executive MBA** IMD Lausanne	2006	15.05.2012
ALEXANDRE ZELLER	1961	Swiss	**Degree in Economics** University of Lausanne	2007	15.05.2012

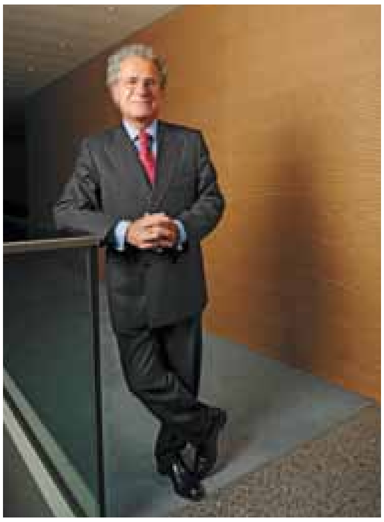
* *André Kudelski is the only member to combine his Board duties with an executive function within the Group (Chief Executive Officer)*

ANDRÉ KUDELSKI

CLAUDE SMADJA

NORBERT BUCHER

PATRICK FŒTISCH



LAURENT DASSAULT

PIERRE LESCURE

MARGUERITE KUDELSKI

ALEXANDRE ZELLER

CURRENT MANDATES

	KUDELSKI GROUP	OTHER
ANDRÉ KUDELSKI André Kudelski began his career in 1984 as a Research & Development engineer with Kudelski SA. In 1986, after working for several months with a firm in Silicon Valley, he returned to work in the family business firstly as Pay TV Product Manager then as Director of Nagravision SA, a company in charge of the Pay TV sector. Mr Kudelski then took over from his father Stefan Kudelski and from 1991 became Chairman and Chief Executive Officer of the parent company Kudelski SA.	– Nagravision SA, Chief Executive Officer – Nagra plus SA, Chairman and Chief Executive Officer – SkiData AG, Member of the Supervisory Board – OpenTV Corp., Executive Chairman (until 31 December 2010) – NagraStar LLC., Co-Chairman	– Dassault Systèmes SA (France), Board member, member of the Audit Committee and of the Remuneration and Nomination Committee – Edipresse SA (Switzerland), Board member, Chairman of the Audit Committee – HSBC Private Banking Holdings (Suisse) SA (Switzerland), Board member – Nestlé SA (Switzerland), Board member, member of the Audit Committee – Comité d'economiesuisse (Switzerland), member – Swiss-American Chamber of Commerce (Switzerland), Vice-Chairman
CLAUDE SMADJA After 15 years with Télévision Suisse Romande (TSR) as Deputy Editor of the Information Department, Claude Smadja joined the management of the World Economic Forum in 1987, a position that he held until 1992. He then returned to TSR as Director of Information until 1996, in which year he was appointed Managing Director of the World Economic Forum. In June 2001, Claude Smadja set up his own strategy consultancy Smadja & Associates, Strategic Advisory, which collaborates on strategic issues with multinationals and government bodies and organizes international events.	– OpenTV Corp., Board member (until 31 December 2010)	– Edipresse SA (Switzerland), Board member, Chairman of the Remuneration Committee and member of the Audit Committee – International Board of Overseers of the Illinois Institute of Technology (United States), member.
NORBERT BUCHER Norbert Bucher began his professional career as an engineer with Sulzer, in Winterthur and in New York, then moved to Syska & Hennessy Inc, Consulting Engineers in New York. He then joined Philip Morris Europe SA as Deputy Managing Director. After eleven years as Deputy Managing Director at Interfood SA in Lausanne, he occupied the position of Senior Vice President with Jacobs Suchard in Zurich for seven years.	– Nagra plus SA, Board member	
PATRICK FŒTISCH Patrick Fœtisch is an independent lawyer specializing in contracts and finance at an international level. He acts as legal counsel to Group companies as and when required, bringing to bear his in-depth knowledge of their activities to provide assistance and legal advice.	– Nagravision SA, (Switzerland) Chairman – Nagra France SAS, (France) Chairman – NagraID SA, (Switzerland) Chairman – Nagra plus SA, (Switzerland) Board member – SkiData AG, (Austria) Member of the Supervisory Board	

CURRENT MANDATES
OTHER

LAURENT DASSAULT

After a career spanning thirteen years in the banking sector, in 1992 Laurent Dassault joined the Dassault Group, in whose subsidiaries he holds important positions. Today he assumes around thirty mandates, including those of the Dassault Group, mainly in the financial, industrial and wine-producing sectors.

- 21 Centrale Partners SA (France), member of the Supervisory Board
- Amis du FRAC (Fond Régional d'Art Contemporain en Aquitaine) (France), President
- Arqana SAS (France), advisor to the Directoire
- Artcurial SA (France), Board member
- Artcurial Développement Sàrl (France), Co-gérant
- Artcurial Holding SA (France), Chairman of the Development Committee
- Association des Amis du Musée d'Art Moderne (France), Board member
- Banque Privée Edmond de Rothschild Europe SA (Luxembourg), Board member
- Catalyst Investments II L.P. (Israel), Chairman of the Advisory Board
- Château Dassault SAS (France) (since 1994), Chairman
- Financière Louis Potel & Chabot SAS (France), Board member
- Generali France SA (France), Board member and President of the Accounting Committee
- Groupe Industriel Marcel Dassault SAS (France) (since 1992), Directeur Général Délégué and Board member
- Immobilière Dassault SA (France) (since 2003), Chairman of the Supervisory Board
- Laurent Dassault Rond Point (LDRP) SCI (France), Associé Gérant
- Lepercq, de Neuflize & Co. Inc. (United States), Board member
- L. REAL ESTATE SCA SICAR (Luxemburg), Chairman of the Investors Committee
- Organisation pour la Prévention de la Cécité (OPC) (France), Board member
- ONE DROP France (association), President
- PECHEL INDUSTRIES SAS (France), membre du comité de suivi
- Power Corporation du Canada (company incorporated under Canadian law on joint stock companies) (Canada), Board member
- SAGARD PRIVATE EQUITY PARTNERS SAS (France), membre du comité consultatif
- SGAM ALTERNATIVE INVESTMENTS SA (France), prestataire
- Sita SA (Switzerland), Board member
- SOGITEC Industries SA (France), Board member

PIERRE LESCURE

Save for a two year period (1972-1974) as a television news presenter for Antenne 2, Pierre Lescure spent the first fifteen years of his professional career with the RTL, RMC and Europe1 radio stations where he successively occupied a variety of positions, in particular Deputy Editor and Director of Programs. In 1981 he returned to television as Editor in Chief of Antenne 2. From 1984, he worked with André Rousselet on the launch project for the pay TV channel CANAL+ where he was appointed Director and then Chief Executive Officer. From 1993 to 2002, he was Chairman and Chief Executive Officer of the CANAL+ Group. From 2000 to 2002 Pierre Lescure was also co-Chief Executive Officer of Vivendi-Universal. Since 2002, he has been Chairman and Chief Executive Officer of Anna Rose Production SAS, a company active in audio-visual and cinematographic production as well as in communication consultancy services. Lastly, since July 2008 he has directed the Théâtre Marigny in Paris.

- Lagardère SCA (France), member of the Supervisory Board
- Havas SA (France), Board member
- PrisaTV S.A.U. (Spain), member of the Supervisory Board
- DTS Distribuidora de Televisión Digital, S.A. (Digital+) (Spain), member of the Supervisory Board

CURRENT MANDATES

MARGUERITE KUDELSKI

Marguerite Kudelski's professional career began at the EPFL's Laboratory of Electromechanics and Electrical Machines, where she worked from 1991 to 1999. During this period she also worked as a development engineer within the Nagra Audio division of the Kudelski Group. In 1999, she became the Head of R&D with Précel SA in Neuchâtel (then a Kudelski Group company) before being appointed as CEO and Board member of the same company in 2000, positions that she occupied until the end of 2002. After completing a number of marketing and financial analysis projects for NagraID in 2003, she took responsibility for certain key projects for the Group within the Finance Department from 2004 to 2006. From 2007 to 2011, Marguerite Kudelski worked as a consultant, offering services such as business development and management consulting. In December 2011, Mrs Kudelski took over the management of the Group's historical activity, Nagra Audio, which was transferred to the company Audio Technology Switzerland SA where she holds the position of Chairman of the Board of Directors and Head of the R&D Department.

KUDELSKI GROUP

– polyright SA, Board member (until 18 July 2011)

OTHER

– Audio Technology Switzerland SA, Chairman

ALEXANDRE ZELLER

Alexandre Zeller began his professional career in 1984 with Nestlé as a Management Auditor. Three years later he joined Credit Suisse, where he carried out various duties in the field of loans and asset management at a Swiss and international level, while at the same time managing various branches. In 1999 he was appointed to the Executive Board and then as CEO of Credit Suisse Private Banking. In November 2002, Alexandre Zeller joined the Banque Cantonale Vaudoise as Chairman of the Executive Board. From July 2008 to February 2012, he was CEO of HSBC Private Bank (Switzerland) and, as from October 2010, Regional CEO Europe and Middle East. Since March 2012, Alexandre Zeller is an independent consultant and director.

OTHER

– Swiss Banking (Swiss Bankers Association), Board member (from 10 February 2010 to 15 February 2012)

3.2. Other activities and vested interests
Please refer to the individual profiles of Board members under 3.1 above.

3.3. Election and term of office
The Board of Directors comprises between one and ten members. Board members are appointed by the General Meeting for a period of one year. The term of office ends on the day of the Ordinary General Meeting. They may be re-elected. The year of the first election as well as the end of term of office for each member are mentioned under section 3.1.

3.4. Internal organization
The Board of Directors performs inalienable and non-transferable duties prescribed by the law (art. 716 of the Swiss Code of Obligations) with the support of its three Committees: Audit, Strategy, and Remuneration and Nomination.

The internal organization of the Board of Directors is defined in the Articles of Incorporation and the Board Regulations. The regulations are available on request to the General Secretariat of the Kudelski Group by calling +41 21 732 01 27 or by post at the following address: 22-24 route de Genève, 1033 Cheseaux-sur-Lausanne.

3.4.1. Distribution of tasks within the Board of Directors
The Board of Directors constitutes itself by appointing from within its ranks the Chairman and the Deputy Chairman. If the Board of Directors allocates the function of Chief Executive Officer to its Chairman, a "Lead Director" is also elected among its members. If not, management of company is delegated in full to the Chief Executive Officer or otherwise to the Executive Board. A Corporate Secretary may be appointed and chosen from outside the Board of Directors. He or she is not a member of the Board of Directors.

The Chairman of the Board leads the discussions at the General Meeting, ensures that the minutes are taken, is in charge of protocol and directs meetings of the Board, informs Board members of the development of business and the half-yearly accounts, represents the company in dealings with administrative and/or judicial authorities subject to mandates entrusted by the Board of Directors to a third party, to a Director or to one of its members.

The Deputy Chairman may convene a meeting of the Board of Directors. He chairs the General Meeting in the absence of the Chairman.

Management of the company may be delegated to the Chief Executive Officer, unless otherwise stipulated by law. In his management activities, the Chief Executive Officer acts in accordance with directives issued by the Board of Directors and safeguards the interests of the company. He also makes a report at each meeting of the Board of Directors covering the essential aspects of the current business situation.

In the Group's current structure, the functions of Chairman of the Board of Directors and Chief Executive Officer are exercised by one person. This situation guarantees a rapid and fluid information and decision-making process, enabling the company to respond operationally and strategically at the pace required by developments in the sectors of activity pursued by the Group. There are mechanisms to counterbalance a potential risk resulting from the combination of these functions through the institution of the Lead Director.

The Lead Director ensures the independence of the Board of Directors vis-à-vis the Chairman and Chief Executive Officer and also the management of the company; he also chairs the Board of Directors in cases of conflict of interest involving the Chairman and Chief Executive Officer. Thus the Lead Director may autonomously convene and direct a meeting of the independent members of the Board of Directors if the interests of the company require independent deliberation. He ensures a performance appraisal process for the Chairman of the Board of Directors and the Chief Executive Officer.

3.4.2. Composition, attributions and delimitation of competencies of Board Committees

Committees are constituted by the Board of Directors which appoints their members and chairpersons. The Board Committees meet as often as is necessary. They have a consultative and preparatory role vis-à-vis the Board of Directors, to which they report on a regular basis. Committee reports serve as the basis for decision making by the Board of Directors.

Audit committee

The Committee consists of at least three non-executive members of the Board of Directors. At least one Committee member has proven experience in the field of accounting. All members may have knowledge or practical experience in the field of financial management. The Audit Committee meets in principle three times a year. The Audit Committee may at any time request detailed risk analyses of the Group's various sectors of activity as well as relating to specific fields of its choice. The Committee calls on experts outside the Board of Directors where this is deemed necessary for the successful completion of its tasks.

The Audit Committee supervises the company's internal financial reporting process and ensures its integrity, transparency and quality. It ensures that accounting methods comply with applicable regulations and constantly updates and provides financial information to the company.

It assesses the quality of work of external auditors. The Audit Committee reviews the auditing fees, ensures execution of the yearly audit plan, assesses the efficiency of the auditors in identifying and solving issues related to the Group or to the financial statements. The Audit Committee provides appropriate recommendations to the Board of Directors concerning renewal of the term of office of external auditors or, where necessary, their replacement. The Committee ensures that the recommendations of external auditors are followed up and safeguards their independence.

The Committee provides regular reports presenting its recommendations to the Board of Directors concerning the adequacy, efficiency and veracity of accounting processes.

Strategy Committee

The Strategy Committee is composed of four members of the Board of Directors, including the Chairman and Deputy Chairman. It meets at least twice a year.

The purpose of the Strategy Committee is to review and define Group strategy. It drafts strategic development options with a view to ensuring the long-term enhancement of the Group's competitive position and its shareholder value. To this end, the Strategy Committee monitors market trends and the Group's competitive position, drafts future development models and oversees the Group's development by means of investments, disinvestments and reorganization.

To define strategic choices, the Strategy Committee relies upon information supplied by management, the members of the Board of Directors and, if deemed necessary, by external counsel.

The Strategy Committee periodically reviews the balance between the Group's objectives, its structure and the organization in place to achieve strategic objectives. The Strategy Committee makes proposals to the Board of Directors, which has ultimate decision-making power on strategy.

Remuneration and Nomination Committee

This Committee is composed of three non-executive members of the Board of Directors. It meets at least twice a year.

The Committee supervises the remuneration policy put in place by the company (refer to section 5: Remuneration, shareholdings and loans).

The Committee presents proposals to the Board of Directors concerning the appointment of Board members to be submitted to the General Meeting. At the request of the Chief Executive Officer,

	AUDIT COMMITTEE – President	AUDIT COMMITTEE – Member	STRATEGY COMMITTEE – President	STRATEGY COMMITTEE – Member	REMUNERATION AND NOMINATION COMMITTEE – President	REMUNERATION AND NOMINATION COMMITTEE – Member
André Kudelski				Member		
Claude Smadja	President	Member		Member		Member
Norbert Bucher		Member				
Laurent Dassault						
Patrick Fœtisch					President	Member
Marguerite Kudelski		Member				
Pierre Lescure			President	Member		Member
Alexandre Zeller				Member		

it examines applications for management positions and may if it wishes meet with candidates.

3.4.3. Working methods of the Board of Directors and its Committees

The cooperation and allocation of competencies between the Board of Directors and its Committees are described in section 3.4.2.

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business.

In 2011, the Board of Directors and its Committees met as follows:

Board of Directors	10 times
Strategy Committee	4 times
Audit Committee	3 times
Remuneration and Nomination Committee	2 times

Average attendance at Board meetings exceeded 90%. Meetings of the Board of Directors lasted on average five 3.5 hours. Most Committee meetings lasted on average two hours.

3.5. Competencies

Please see also section 3.4.1 for details of the internal organization of the Board of Directors and the position of Chief Executive Officer.

The Board of Directors

The Board of Directors:

- has the ultimate management of the company and issues all necessary instructions;
- determines the organization;
- determines the principles of the accounting system and of the financial controls and also of financial planning insofar as this is necessary for the management of the company;
- appoints and dismisses persons entrusted with management and representation;
- exercises ultimate supervision over persons entrusted with management to ensure in particular compliance with the law, the Articles of Incorporation, regulations and instructions given;
- writes the annual report, calls the General Meeting and implements its decisions;
- takes decisions on capital calls with respect to shares that are not fully paid up (article 634a of the Code of Obligations);
- takes decisions regarding the assessment of an increase in capital and relevant changes to the Articles of Incorporation (articles 651 para. 4, 651a, 652a, 652g, 652h, 653g, 653h of the Code of Obligations);
- informs the judge in the event of overindebtedness.

Group management

The Board of Directors has delegated full management of the company to the Chief Executive Officer, subject to legal imperatives and contrary provisions in the Articles of Incorporation. The Chief Executive Officer therefore coordinates the day-to-day operations of the Group companies.

3.6. Information and control instruments with respect to Group managemen

Because of the nature of the industry, mechanisms for controlling Group management and information feedback systems are very important. The Kudelski Group has therefore put in place information and control instruments at different levels, which it improves on a continuous basis. These instruments concern strategy, operations, finance, law, human resources and information management.

Supervision

- The Chief Executive Officer submits a report to the Board members prior to each meeting outlining key aspects of the current business situation (key contracts, sales trends, market trends, human capital) for each Group entity and activity.
- Board members receive weekly or quarterly press digests concerning the Group, depending on the amount of relevant newsflow; they may also receive other informative documents concerning the Group and its entities, as well as a message from the Chief Executive Officer whenever the CEO deems this is necessary.
- At least twice a year, members of management are invited to present their activities to members of the Board of Directors. Members of the Board may also ask questions directly to company executives as and when they see fit.
- At each Board meeting, if justified by the business situation and depending on the agenda, members of management, Group executives or outside experts are invited to present specific subjects to members of the Board of Directors.

Operations and strategy

- In the Group's key sectors, ad hoc committees comprising a cross-disciplinary panel of internal experts evaluate market, strategic, operational, legal and financial risks. These ad hoc committees analyze risks, manage processes relating to the evaluation of such risks, propose measures and monitor their implementation. There is a security committee and an innovation committee. Information and comments arising from these committees are conveyed to the Group management during the Executive Board Meetings, which take place at least once a month. The Digital TV Executive Board Meetings, which take place at least once a month and last on average four hours, also use the information provided by the ad hoc committees and review in particular two specifically chosen and relevant topics for the Digital TV segment. As from 1 January 2012, the new streamlined composition of the Group Management, which includes the CEO, the CFO, the COO and the EVP Strategy and Business Development, gives Group Management the necessary flexibility to tailor its meetings and their duration to the needs of the Group. The management of the Digital TV activity is now ensured by an "Executive Board Group Operation" comprised of the CEO, the COO and the CFO as well as senior members of the DTV activity depending on the agenda. This committee meets twice a month for 2.5 hours. Synchronization between Group Management and extended Management, i.e. including as well the Group's General Counsel, the Director of Human Resources the Senior Vice President "Advanced Advertising and Innovation", the Corporate Secretary and senior members of the DTV activity, is achieved within the "Executive Board–Extended" which takes place every month and lasts 2 hours.

Finance

– The Controlling entity conducts regular financial and operational analyses intended to identify operational and financial risks throughout the value chain of the various activities of Group companies and proposes and coordinates necessary improvements and corrective actions. This entity also makes available a platform of analytical services to Group management and operational departments. Each year the Group improves the level of detail and efficiency of its information management system, in particular by combining financial and operational information. This provides an increasingly accurate and global view of the various activities. Every month, the Controlling entity prepares a number of reports which are made available to management. Those reports are then adapted and sent to each regional head and business unit with the corresponding analytical metrics. The reports include: a report providing an overview of the Group's profit and loss broken down by activity and showing profit trends and budget overruns/shortfalls, with adaptations based on quarterly revisions of the annual forecast by entity, as well as their operational indicators; a sales report including region, client and sales type-specific analysis as well as their respective margins; a report on the operational cost trend broken down by cost center, a report on the financial development of key projects and a monthly and quarterly report on cash flow situation for the Group and for each segment for the current year and the coming year.

– In addition, the Group has an internal control system based on the COSO (Committee Of Sponsoring Organizations of the Treadway Commission) reference system. This system aims at providing "reasonable assurance" as regards the performance and efficiency of operations, the reliability of financial information and reporting, and compliance with laws and regulations in force. A team is in charge of internal controls. The various processes are periodically reviewed and analyzed by the external auditors (PriceWater-houseCoopers).

Legal

– Close involvement of the Legal Department in decision making contributes to improving legal risk management.

– Contract management and electronic archiving tools have been introduced enabling more efficient tracking of contracts and confidentiality agreements.

– Under the responsibility of the Legal Department, management implemented an "IP Board" including experts from the Legal Department and from the Corporate Development Department. This Board is responsible for providing management with proposals regarding operational and strategic matters in the field of intellectual property. The Board is also in charge of the implementation and of the follow-up of management decisions. It meets once every quarter for 1.5 hours and otherwise as needed to perform its duties. Two main committees report to the IP Board: the committee in charge of monetizing the intellectual property portfolio and the Open Source Board. The IP Board submits proposals and reports on its activity during the Executive Board Meetings at least twice a year. As from 1 January 2012, the IP Board will submit proposals to the "Executive Board–Extended".

Human Resources

– The HR Department uses a performance development tool ("Performance Development System" – PDS) designed to align the teams' management programs with the needs of the company. PDS features performance- and skills-evaluation functions and establishes a career development baseline for employees in line with the company's needs.

Information management

– The Corporate IT department has developed and implemented a series of policies and procedures concerning IT security (for the use of computer systems, data protection and back-up, etc.).

4. GROUP MANAGEMENT

4.1. Group executive management members*

	DATE OF BIRTH	NATIONALITY	POSITION	EDUCATION
ANDRÉ KUDELSKI	1960	Swiss	**Chairman and Chief Executive Officer (CEO) of the Group**	**Engineer-physicist** Ecole Polytechnique Fédérale de Lausanne (EPFL)
MAURO SALADINI Executive Vice President of the Group	1966	Swiss	**Chief Financial Officer (CFO)**	**ETHZ Electrical Engineer** Ecole polytechnique fédérale de Zurich **MBA** INSEAD (France)
PIERRE ROY Executive Vice President of the Group	1952	Swiss	**Director of Operations (COO), Digital TV**	**Degree in Business Management** (HEC) Lausanne
ALEX OSADZINSKI** Executive Vice President of the Group	1958	British/ American	**Director Product**	**Degree equivalent to a USA BSc in Computer Science / Management Information Systems and Marketing**
MARK BEARIAULT*** General Counsel	1971	American	**Director of Group Legal Affairs**	**Juris Doctor** Georgetown University Law Center, Washington, DC (USA) **Bar exams** California and New York
JOHN BURKE Senior Vice President	1953	Irish	**Director of Group Human Resources**	**Degree in Economics** **MBA** (Hons) Trinity College (Dublin)
NICOLAS GŒTSCHMANN Corporate Secretary	1960	Swiss	**Director of Group administration**	**Degree in Economics** University of Fribourg
CHARLES EGLI Executive Vice President of the Group	1948	Swiss	**Director** Chief Executive Officer of Nagra Public Access AG	**ETS Engineer in Electronics** Ecole Technique Supérieure Lausanne or today HES (Hautes Etudes Spécialisées) Lausanne
YVES PITTON Senior Vice President of the Group	1968	Swiss	**Director Corporate Development**	**Degree in Physical Engineering** University of Lausanne **Doctorate in Materials Science** Ecole Polytechnique Fédérale de Lausanne (EPFL) **MBA** SDA Bocconi (Italy)

* ***On 1 January 2012 the Group's Executive Management was reduced to the following members: Messrs Kudelski, Saladini, Roy and Osadzinski, as announced in a press release on 31 October 2011.***

** *Alex Osadzinski obtained various scientific diplomas in the United Kingdom in return for which the company International Education Evaluations Inc. in 1991 issued an equivalence to an American Bachelor's degree in Computer Science/Management Information Systems and Marketing.*

*** *Lucien Gani (born in 1948, Swiss, holding a Doctorate in Law, a HEC Degree from the University of Lausanne and a Bar Exam) was a member of the Group Management until 31 March 2011. He continues to assume missions for the Group as well as the following mandates for Kudelski Group companies: SmarDTV SA, President; NagraID SA, Board member; Nagravision SA, Board member; EDSI SAS (France), Chairman; Nagra Media Pvt Ltd., India, Board member. As from 1 April 2011, Mr Beariault succeeded Lucien Gani as Group General Counsel.*

ANDRÉ KUDELSKI

MAURO SALADINI

PIERRE ROY

ALEX OSADZINSKI

MARK BEARIAULT

JOHN BURKE

NICOLAS GŒTSCHMANN

CHARLES EGLI

YVES PITTON

MANDATES WITH MAIN OPERATIONAL COMPANIES HELD BY KUDELSKI SA

ANDRÉ KUDELSKI

Please refer to section 3.1. of this chapter.

MAURO SALADINI

Mauro Saladini started his career in 1990 as a financial services consultant with Accenture. In 1995, he joined Thema Consulting, where he set up the Zurich subsidiary and took responsibility for cash flow and risk management activities. In 1997, he joined McKinsey & Co, where he became a partner in 2001. He worked in particular on corporate finance and strategy projects relating to various industries, mainly media and telecommunications. In addition, Mauro Saladini was in charge of the Swiss Media Practice and joint-head of the European Media Practice. He has been the Chief Financial Officer and Executive Vice President of the Kudelski Group since 1 February 2003.

- Nagravision SA, Director
- OpenTV Corp., Board member (until 31 December 2010)
- SkiData AG, Chairman of the Supervisory Board (until 1 July 2012; from this date Vice President of the Supervisory Board)
- NagraID Security SA, Board member

Other mandates:
- Newave Energy Holding SA (Switzerland), Board member (until 27 February 2012)

PIERRE ROY

Pierre Roy began his professional career with Procter & Gamble as a Financial Analyst in 1975. Following this early experience, he joined IBM in 1977 as a Sales Engineer. In 1979, he began his international career with Digital Equipment Corporation, where he fulfilled various management positions at the European headquarters in Geneva and also abroad, in the Finance and Administration, Marketing and Business Management departments. He joined Kudelski SA in 1992 as Managing Director of Nagra Audio, Business Development Director of Nagravision and Managing Director of Précel (at the time a Kudelski Group company). In 1999 he started his own corporate consultancy firm working in the telecommunications sector while continuing to collaborate on strategic projects for Nagravision. In 2003, he was appointed Chief Operating Officer for the Digital Television sector of the Kudelski Group and Executive Vice President.

- OpenTV Corp., Board member (until 31 December 2010)
- Nagravision SA, Board member, Director
- SmarDTV SA, Board member
- Nagra USA, Inc., Board member
- Nagravision Asia Pte Ltd., Board member
- Nagra Media Korea LLC, Board member
- Nagra Media Pvt Ltd., India, Board member
- Nagra Thomson Licensing SA, Chairman (until 24 June 2011)

ALEX OSADZINSKI

Alex Osadzinski began his professional career in the United Kingdom in 1978, at two successful start-up companies which were subsequently sold. In 1984, he joined AT&T Unix Europe as European Sales Manager. From 1986 to 1994 he worked for Sun Microsystems, where he became Vice President for Markets and Product Strategy. After two years with Grass Valley Group (Tektronix) as Vice President for Marketing and International Sales, President of Grass Valley Japan and General Manager, Mr Osadzinski returned to the world of start-ups with the companies BE from 1996 to 1998 and Vitria Technology from 1998 to 2000. Both these companies were subsequently listed on the stock exchange. He then became CEO of the start-up Katmango. From 2001 to 2008 he was involved in start-ups as a "Venture Partner" through the company Trinity Ventures, one of the main venture capital companies in Silicon Valley and active in software and digital media. In December 2008, Mr Osadzinski joined the Kudelski Group as Executive Vice President Product in the Digital Television division. On 1 January 2012, Mr Osadzinski became Executive Vice President and Director Strategy and Business Development.

- Nagravision SA, Director
- OpenTV Corp., Board member (until 27 June 2011)
- OpenTV Inc., Board member and Director

MARK BEARIAULT

Mark Beariault began his professional career in 1996 at the law firm of Simpson Thacher & Bartlett in New York City where he represented financial institutions and companies in a broad range of corporate finance and securities transactions. In 1999, he moved to San Francisco, California where he advised entrepreneurs and technology companies, first at the law firm of Wilson Sonsini Goodrich & Rosati. From 2000 to 2002, he was Associate General Counsel at OmniSky Corporation, a wireless data company, and Senior Corporate Counsel at VERITAS Software, a provider of data storage software until 2003. Mr. Beariault then joined the legal department of OpenTV Corp. serving first as its Deputy General Counsel and then as its General Counsel beginning in 2006, with responsibility for worldwide legal, regulatory and intellectual property matters. The Kudelski Group acquired a controlling interest in OpenTV in January 2007 and took the company private in March 2010, at which time Mr. Beariault became Senior Vice President, Legal in the Kudelski Group's legal department. In April 2011, he was appointed to the Group Executive Board as General Counsel and Director of Group Legal Affairs at the Group's headquarters in Switzerland.

- Nagra USA, Inc., Board member
- SmarDTV SA, Board member
- OpenTV Inc., Director

MANDATES WITH MAIN OPERATIONAL COMPANIES HELD BY KUDELSKI SA

JOHN BURKE

John Burke began his professional career in marketing with Procter & Gamble International in Geneva in 1977. From 1982, he was appointed Group Marketing Manager with various Group subsidiaries, including Geneva, Athens, Cincinnati and Madrid. In 1986, he joined RotoVision SA as Sales Director. He then joined the IUCN (World Conservation Union) in 1991 as Director of Communications and Public Relations. In 1996, he joined Novartis Consumer Health, initially as Head of Human Resources and Communication. He was then appointed Head of the Medical Nutrition division and a member of the Executive Committee, before being promoted to worldwide Head of the Nutrition division. In 2001, John Burke joined the Geneva-based International Federation of Red Cross and Red Crescent Societies as Director of Support Services and in 2004 was appointed Chief Administrative Officer of the Global Fund to Fight Aids, TB and Malaria, where he remained until he joined the Kudelski Group on 1 June 2006.

– Nagravision SA, Director

NICOLAS GŒTSCHMANN

From 1986 to 1989, Nicolas Gœtschmann was a Private Client Executive with Credit Suisse in Geneva before becoming a Fund Manager with Kestrel SA in Neuchâtel. In 1990, he joined the Kudelski Group as Director of Finance and Administration. Since 2004, he has been the Corporate Secretary of the Kudelski Group as well as Director of Group Administration.

– Nagravision SA, Director
– Nagra Public Access AG, Director (until 4 June 2010)
– Nagra USA Inc., Board member
– Nagra France Holding SAS (France), Chairman

CHARLES EGLI

Charles Egli worked at Studer Revox in Zurich as a Development Engineer then as Project Manager until 1989, when he joined Nagravision as Project Manager. In 1992, he was appointed as Chief Operating Officer of Kudelski SA and then, in January 2003, Chief Executive Officer of Nagra Public Access AG (until 4 June 2010) and Executive Vice President of the Kudelski Group. He also occupied the post of Chief Executive Officer of SkiData AG from September 2004 to July 2012. As from July 2012, Charles Egli will become Chairman of the Supervisory Board of SkiData AG.

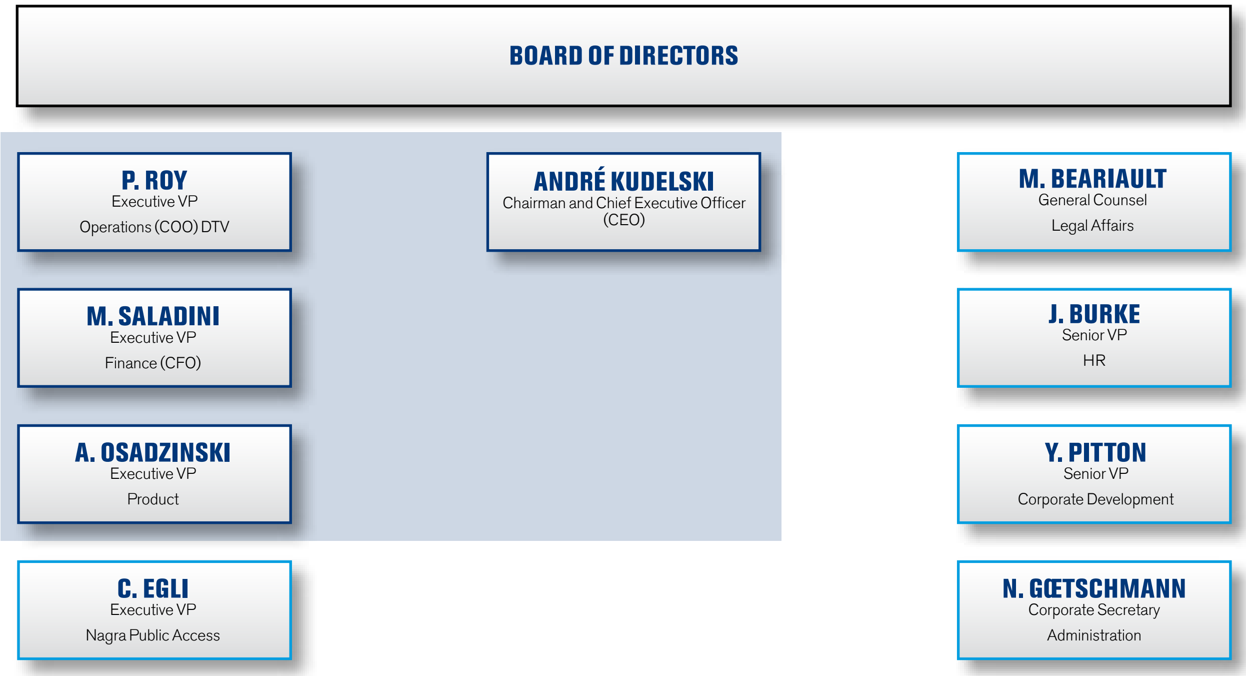
– SkiData AG, CEO Vorstandsvorsitzender (until 1 July 2012)
– SkiData AG, Chairman of the Supervisory Board (as from 1 July 2012)
– Nagra Public Access AG, Chief Executive Officer (until 4 June 2010)
– Nagravision SA, Board member
– polyright SA, Board member, Vice President (until 18 July 2011)
– Nagra plus SA, Director

YVES PITTON

Mr Pitton worked on several projects at the Ecole Polytechnique Fédérale de Lausanne (EPFL) and for various international companies during the three years of his PhD thesis. After obtaining his PhD in Material Sciences & Engineering, he joined Alusuisse (now called Constellium Valais Ltd.) as Project and Product Manager, with responsibilities for product development, marketing and business development. He left Alusuisse to study for an MBA, which he obtained after one year's study in 2001. From August 2001, Mr Pitton worked as a consultant and then Engagement Manager for McKinsey & Co in Europe and the United States, where he led strategic projects for international companies operating in various business sectors, including finance, TV & new media, high-tech, technology and industrial businesses, both in Europe and in the US. He joined the Kudelski Group in October 2006 and was put in charge of strategic projects. In September 2008, he took responsibility for Business Development, and on 15 December he was appointed to the Group Executive Board as Senior Vice President in charge of Corporate Development. As from 1 April 2012, Yves Pitton will become Senior Vice President Advanced Advertising and Innovation based in San Francisco.

– Nagravision SA, Director (until 22 February 2012)
– Abilis Systems Sàrl, gérant

Other mandates:
– Ligaris SA (Switzerland), Board member



On 1 January 2012, the Group's Executive Management was reduced to the following members: Messrs Kudelski, Saladini, Roy and Osadzinski

4.2. Other activities and vested interests

Please refer to the individual profiles of members of the Group management under 4.1 above.

4.3. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2011.

5. REMUNERATION, SHAREHOLDINGS AND LOANS

5.1. Principles of remuneration

The objective of the remuneration policy of the Remuneration and Nomination Committee is to align the interests of the management bodies as closely as possible with those of the company over the medium and long term. In particular, the variable component of remuneration can change depending on the evolution of business, the level of responsibility assumed by executive members and their performance, which can have a positive or negative effect on the remuneration of each member of management. The method for determining the remuneration of each executive member is optimized in such a way as to avoid favoring short-term results.

The Committee seeks to ensure that global remuneration offers a salary level that is comparable with that of an executive manager with similar competencies and responsibilities, also taking into account national and international practices in the digital television and Internet activity sectors. The Committee also takes into account the Group's desire not to dilute the capital of the company excessively.

Fixed remuneration is not considered individually as a comparison factor for the Committee, which favors an overall assessment of remuneration in the long-term interest of the company and of its shareholders. The Remuneration and Nomination Committee's assessment of the terms of remuneration was based on its own opinion and on the terms applied in the market by other companies of similar size (in terms of complexity, revenues and number of employees and listed on the Swiss Stock Exchange and on the Nasdaq or on Swiss Performance Index – SPI – sectors Technology) and with which it competes in hiring board members and upper managers, without being implicitly in the same activity sector, without referring to particular benchmarks or engaging the services of consultants. The Remuneration and Nomination Committee considers that there are no companies that can be compared to the Group, outside the above-mentioned general elements. This is in particular due to the diversification of the Group's activities and the rapid evolution of the markets in which the Group operates on the one hand, and the influence of the players in these markets on the other hand.

The purpose of the variable component of remuneration is to align the interests of the members of Group Management with those of the company by having members contribute to value creation or be penalized in the opposite situation. The variable component of remuneration depends on the Group's results (both economic and strategic), the employee's level of responsibility, and the achievement of individual objectives. Variable remuneration is not expressed as a percent of fixed remuneration.

There is currently no provision setting forth a particular allowance or benefit – including with regard to share vesting periods – in the event of termination of the employment contract of a member of Group Management, early departure of a member of the Board of Directors or change in control of the company.

5.2. Components of remuneration
Note 45 to the financial statements shows the breakdown of payments to members of the Board of Directors and Group Management, pursuant to Article 663bis of the Swiss Code of Obligations.

The principles governing the determination of components of remuneration are different for non-executive members of the Board of Directors and for Group Management.

5.2.1 Members of the Board of Directors
Overall remuneration of non-executive members of the Board of Directors is composed of fixed annual fees and an allowance for costs and other expenses incurred while performing their duties. The company's founder and Honorary Chairman also receives fixed annual fees as shown in note 45 of the financial statements. This remuneration is paid in cash.

If specific tasks or services not within the usual scope of activities are assigned to Board members, the services rendered are remunerated on the basis of fees that correspond to market rates for the same type of services.

5.2.2 Members of Group Management
Instruments of remuneration
The total annual remuneration of members of Group Management includes a salary and a variable component.

Remuneration is paid in cash, shares and payment in kind, including for example payment of all or part of the health insurance premium and the provision of a company car. The fixed component is in principle paid in cash. The Remuneration and Nomination Committee has discretionary authority to determine how the variable part is paid, taking into account such criteria as the share price and the dilution effect. A maximum of 50% of the variable part of remuneration is in principle paid in the form of Kudelski SA bearer shares, with the exception of a member of Group Management who does not reside in Switzerland and whose variable remuneration is paid entirely in cash. These shares are blocked for a period of 1, 3 or 7 years in accordance with the employee's wishes, but at least half of these shares must be blocked for at least three years. Members of Group Management may also take part in the share purchase plan introduced in 2004, in accordance with the terms of said plan (refer to section 2.7)

Variable remuneration
The amount of the variable component depends on the individual performance of the member of management and the strategic, economic and operational performance of the Group. The key factors determining variable remuneration levels are the performance of the Group and its divisions, the budget, the strategic initiatives, the achievement of objectives and the quality of management delivered by the member of management concerned.

The objectives are set by the Board of Directors and reflect the Group's strategy; they also represent part of the objectives of the Chief Executive Officer (CEO). The CEO sets the individual objectives of each member of Group Management with the Remuneration Committee.

The Remuneration and Nomination Committee has discretionary authority to determine how the components of individual performance and those relating to the Group are to be weighted, in order to set the remuneration of each member of Group Management. The global results of the assessment of each individual objective are calculated according to a weighted geometric average. The result of the mathematical formula promotes excellence at all levels and encourages members of management to optimize their performance. The variable component of compensation is thus maximized by reaching, or even surpassing, several individual objectives. However, failing to reach a single important objective has a non-linear effect that can impact variable salary significantly.

Special information regarding 2011
The remuneration of each member of management is fixed globally and the variable remuneration of management members is not determined according to the fixed component of remuneration as specified in section 5.1. above. As an indication, the variable component of the remuneration of members of management in 2011 represented between 20% and 55% of the global remuneration, except for the remuneration of the Chief Executive officer (see note 45 of the Financial Statements). This ratio is not fixed and can therefore change every year. The differences in the ratio between fixed and variable remuneration between the management members is based on the practices used in the market at the time of the person's nomination, the function and the status within the company as mentioned under section 5.1. above.

The variable component of the remuneration of members of management was lower than in 2010, mainly because of the evolution of the Group's results which were negatively impacted by a certain number of external factors related to the effects of foreign exchange rates and slower growth in some regions, among other causes.

5.3 Competency and procedure for determining remuneration levels

The Remuneration and Nomination Committee is responsible for setting the remuneration policy as well as the remuneration of each member of the Board of Directors and Group Management. As an exception to this principle, the remuneration of members of the Remuneration and Nomination Committee is set by the Board of Directors (refer to section 3.4.2, Remuneration and Nomination Committee). The Chairman of the Board is invited to take part in setting the remuneration of members of the Board and key managers in the company, with the exception of the Chairman's own remuneration.

Each year, the Remuneration and Nomination Committee examines the remuneration policy and sets the remuneration of each member of the Board of Directors and Group Management, in principle during the first quarter; during the same period, the Chief Executive Officer sets the performance objectives of the members of Group Management. He presents the decisions to the Board of Directors in a meeting that is generally held during the first quarter as well. The remuneration of non-executive members of the Board of Directors and of the Remuneration and Nomination Committee is set by the entire Board of Directors in a meeting that is also generally held during the first quarter. The individuals whose remuneration is being discussed do not attend the relevant meetings of the Remuneration and Nomination Committee and of the Board of Directors

5.4 Changes to the remuneration policy during the year under review

No major change was made to Kudelski Group's remuneration policy relative to the 2011 financial year. However, it should be noted that the blocked shares of the Group Management were blocked, for periods of 3 to 7 years only (refer to section 5.2.2., Instruments of remuneration).

6. SHAREHOLDER PARTICIPATION

The provisions of the Articles of Incorporation governing the participation rights of shareholders are in compliance with the law as set out in the Swiss Code of Obligations.

The Articles of Incorporation of Kudelski SA may be consulted on the Kudelski Group website via the following link: www.nagra.com/ar/statuts_Kudelski.pdf

6.1. Voting rights and representation restrictions

In accordance with the Articles of Incorporation of Kudelski SA, there are no restrictions on voting rights and no statutory Group clauses and rules on granting exceptions.

6.2. Statutory quorums

The Kudelski SA Articles of Incorporation do not provide for any statutory quorums.

6.3. Convening of the General Meeting of Shareholders

The rules in the Articles of Incorporation on calling the General Meeting of Shareholders are in accordance with applicable legal provisions. The General Meeting of Shareholders must be called at least 20 days before the date of the meeting. The notice of the General Meeting is published in the Swiss Official Gazette of Commerce.

6.4. Agenda

Items on the agenda are mentioned in the notice. Regarding rules for adding items to the agenda, the Articles of Incorporation of Kudelski SA do not contain provisions that differ from the Swiss Code of Obligations, namely Art. 699 CO, "Shareholders who represent shares totaling a nominal value of CHF 1 million (*) may request that an item be included in the agenda. The calling and the inclusion of an item on the agenda must be requested in writing listing the items and motions".

(*) This represents 0.2% of the capital of Kudelski SA.

6.5. Registration in the share register

Kudelski SA shares that can be traded on the Swiss Exchange are bearer shares; consequently there is no register of shareholders for this category of shares.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1. Duty to make an offer

Kudelski SA has no provision on opting-out or opting-up in its Articles of Incorporation. This means that if a shareholder reaches the limit laid down by the law on stock markets (art. 32 LBVM: $33\frac{1}{3}$% of the voting rights), he must by virtue of this law submit a takeover bid.

7.2. Clauses on changes of control

No such clauses exist.

8. AUDITORS

8.1. Duration of the mandate and term of office of the lead auditor

The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated to the Group are audited by other auditors. The auditors were reappointed by the General Meeting of Shareholders of Kudelski SA of 5 April 2011 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Mrs Corinne Pointet Chambettaz since 1 January 2010. The auditor in charge is replaced at the latest seven years after the year in which he first occupied this position, as specified in article 730a paragraph 2 of the Swiss Code of Obligations.

8.2. Auditing fees

The Kudelski Group paid PricewaterhouseCoopers for auditing services for the year 2011 the sum of CHF 964 000. Auditing services are understood to mean the work required each year to examine the consolidated accounts of the Group and its subsidiaries and to prepare the reports required under the laws of each country, performed by PricewaterhouseCoopers.

8.3.Additional fees

The Kudelski Group paid PricewaterhouseCoopers for additional services for the year 2011 the sum of CHF 208 654 representing CHF 169 166 for tax advisory services and CHF 39 490 for other additional services. Additional services mean in particular services such as the auditing of occasional transactions and other services such as new or modified accounting methods.

8.4. Monitoring and control instruments pertaining to the audit

The aim of the Audit Committee of the Board of Directors is to provide effective and regular supervision of the company's financial reporting processes in order to ensure their integrity, transparency and quality. To this end and under its terms of reference, it is responsible for monitoring the work of the external auditors.

PricewaterhouseCoopers provides the Audit Committee with a detailed report before each Committee meeting regarding the execution and results of its work within the Kudelski Group, proposals to correct or improve identified problems and the implementation status of decisions made by the Audit Committee.

The auditor's representatives, including the auditor in charge of the Group's audit, are regularly invited to take part in meetings of the Audit Committee as external participants. Representatives from PricewaterhouseCoopers were invited to all three meetings of the Audit Committee with the exception of discussions and decisions of the Audit Committee regarding the auditors. The auditor in charge of the internal audit attended the parts of these three meetings that were relevant for him.
For more information on the Audit Committee, and particularly on the selection, evaluation and independence criteria, please refer to sections 3.4.2. and 3.4.3. of this report.

9. INFORMATION POLICY

The Kudelski Group keeps investors regularly informed of the following developments:

– progress of business and major new contracts;
– changes occurring in the management of the Group;
– acquisitions or sales of companies;
– half-yearly and annual financial results.

Press releases are issued in compliance with the rules in force on the SIX Swiss Exchange concerning factual publicity and are available on the Group's website simultaneously with their publication. A link on the home page of the Group's web site allows direct access to press releases. The Group communicates as often as necessary in this manner. Press releases are generally published in French and in English. In certain specific cases, a German version is also provided. They are available in these languages on the website.

Persons wishing to receive Kudelski Group press releases may subscribe to a mailing list using a form available on the Kudelski Group website. Financial results are presented to investors and financial analysts during a press conference held twice a year. Persons invited can also follow the conference by phone.

The Group's website is a permanently updated source of information. The Investor Relations section contains a list of the principal dates of the corporate calendar (publication of results, General Meeting and presence at major trade shows) as well as the Group's main publications (annual report and half-year report).

The Group's main website links and e-mail addresses are on page 124 of this report.

Important dates
15 May 2012: Annual General Meeting, Lausanne
21 August 2012: Publication of the Interim Financial Report
30 April 2013: Annual General Meeting, Lausanne

07 FINANCIAL STATEMENTS

CONTENTS

KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010)

In CHF'000	Notes	2011	2010
Revenues	6	873 863	1 035 172
Other operating income	7	22 763	34 169
Total revenues and other operating income		**896 626**	**1 069 341**
Cost of material		-240 414	-260 220
Employee benefits expense		-376 155	-402 160
Other operating expenses	8	-189 062	-233 975
Operating income before depreciation, amortization and impairment		**90 995**	**172 986**
Depreciation, amortization and impairment	9	-65 560	-62 974
Operating income		**25 435**	**110 012**
Interest expense	10	-16 578	-16 709
Other finance income/(expense), net	11	-17 649	-16 677
Share of results of associates	17	-281	4 897
(Loss) / Income before tax		**-9 073**	**81 523**
Income tax expense	12	-8 615	-14 846
Net (loss) / Income for the year		**-17 688**	**66 677**
Attributable to:			
– Equity holders of the company		-18 121	65 689
– Non controlling interests		433	988
		-17 688	**66 677**

In CHF	Notes	2011	2010
(Loss) / Earnings per bearer share			
– basic	14	-0.3383	1.2268
– diluted	14	-0.3383	1.2267
(Loss) / Earnings per registered share (not listed)			
– basic	14	-0.0338	0.1227
– diluted	14	-0.0338	0.1227

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010)

In CHF'000	2011	2010
Net (loss) / income	-17 688	66 677
Currency translation differences	5 645	-32 217
Cash flow hedges	-2 590	1 561
Net (loss) / gain on available-for-sale financial assets	-15	72
Total comprehensive (loss) / income for the year	**-14 648**	**36 093**
Attributable to:		
– Equity holders of the company	-14 713	36 454
– Non controlling interests	65	-361
	-14 648	**36 093**

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

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2011 AND 2010)

Assets

In CHF'000	Notes	31.12.2011	31.12.2010
Non-current assets			
Tangible fixed assets	15	166 355	146 723
Intangible assets	16	214 713	223 511
Investments in associates	17	3 996	7 624
Deferred income tax assets	18	56 465	56 471
Financial assets and other non-current assets	19	88 549	72 476
Total non-current assets		**530 078**	**506 805**
Current assets			
Inventories	20	63 102	85 703
Trade accounts receivable	21	228 219	245 458
Other current assets	22	68 465	66 255
Financial assets (short term)	23	–	2 103
Cash and cash equivalents	24	289 591	199 031
Total current assets		**649 377**	**598 550**
Total assets		**1 179 455**	**1 105 355**

Equity and liabilities

In CHF'000	Notes	31.12.2011	31.12.2010
Capital and reserves			
Share capital	25	533 798	533 683
Reserves		-113 225	-82 384
Treasury shares	26	-326	-489
Equity attributable to equity holders of the parent		**420 247**	**450 810**
Non controlling interests		16 905	15 808
Total equity		**437 152**	**466 618**
Non-current liabilities			
Long-term financial debt	27	129 953	352 899
Deferred income tax liabilities	18	5 545	5 854
Employee benefits liabilities	30	32 386	27 737
Provisions for other liabilities and charges	31	2 298	2 397
Other long-term liabilities and derivative financial instruments	32	2 280	4 438
Total non-current liabilities		**172 462**	**393 325**
Current liabilities			
Short-term financial debt	33	383 376	61 596
Trade accounts payable	34	54 196	55 980
Other current liabilities	35	93 820	102 024
Current income taxes		2 067	2 599
Advances received from clients	36	16 497	12 643
Derivative financial instruments	37	2 540	456
Provisions for other liabilities and charges	31	17 345	10 114
Total current liabilities		**569 841**	**245 412**
Total liabilities		**742 303**	**638 737**
Total equity and liabilities		**1 179 455**	**1 105 355**

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

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010)

In CHF'000	Notes	2011	2010
Net (loss) / income for the year		**-17 688**	**66 677**
Adjustments for:			
Current and deferred income tax		8 615	14 846
Interest expense and other finance income/(expense), net		13 765	10 244
Allocation of the equity conversion component and transaction costs of convertible bond and borrowings		6 756	7 848
Depreciation, amortization and impairment	9	65 560	62 974
Change in fair value of financial assets at fair value through profit or loss		1 935	150
Share of result of associates	17	281	-4 897
Dividends received from associated companies	17	1 038	828
Gain on sales of subsidiaries		-1 575	–
Non-cash employee benefits expense		4 932	5 904
Other non operating cash items		-556	-3 240
Other non cash income/expenses		7 707	23 839
		90 770	**185 173**
Change in inventories		20 368	-7 945
Change in trade accounts receivable		14 476	26 551
Change in trade accounts payable		-1 028	-12 730
Change in deferred costs and other net current working capital headings		-23 105	-29 578
Interest paid		-7 913	-8 871
Interest received		1 833	8 855
Income tax paid		-8 729	-12 309
Cash flow from operating activities		**86 672**	**149 146**
Purchases of intangible fixed assets		-20 218	-29 754
Purchases of tangible fixed assets		-57 898	-43 388
Proceeds from sales of tangible and intangible fixed assets		3 676	1 339
Investment in financial assets and loans granted		-3 618	-7 110
Divestment of financial fixed assets and loan reimbursement		2 438	69 932
Acquisition of subsidiaries, net of cash acquired	38	-658	-2 688
Disposal of subsidiaries, cash inflow		981	–
Disposal of associated companies	17	2 639	3 080
Acquisition of associated companies		-168	-1 086
Cash flow used in investing activities		**-72 826**	**-9 675**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-38 695	-121 921
Increase in bank overdrafts, long term loans and other non-current liabilities		131 019	28 902
Proceeds from employee share purchase program	42	71	142
Cash received from exercise of stock options		–	14
Proceeds from non controlling interest		7 705	
Dividends paid to non controlling interests		-6 673	–
Dividends paid to shareholders	41	-16 011	-15 958
Proceeds from sale of treasury shares	26	–	605
Acquisition of treasury shares	26	–	-489
Acquisition of non controlling interest, cash outflow	38	–	-31 320
Cash flow from/(used in) financing activities		**77 416**	**-140 025**
Effect of foreign exchange rate changes on cash and cash equivalents		-702	-10 554
Net increase / (decrease) in cash and cash equivalents		**90 560**	**-11 108**
Cash and cash equivalents at the beginning of the year	24	199 031	210 139
Cash and cash equivalents at the end of the year	24	289 591	199 031
Net increase / (decrease) in cash and cash equivalents		**90 560**	**-11 108**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2010		**531 935**	**58 614**	**-139 830**	**30 571**	**-42 344**	**-380**	**33 079**	**471 645**
Profit for the year				65 689				988	66 677
Other comprehensive (loss) / income for the year					1 633	-30 868		-1 349	-30 584
Total comprehensive income for the year		**–**	**–**	**65 689**	**1 633**	**-30 868**	**–**	**-361**	**36 093**
Employee share purchase program	42	88	86	5					179
Employee stock option plan		7	7						14
Shares issued for employees	42	1 653	329						1 982
Acquisition of treasury shares	26						-489		-489
Sale of treasury shares	26			225			380		605
Dividend paid to shareholders	41			-15 958					-15 958
Non controlling interests arising on business combinations	4			-9 685				-16 910	-26 595
Impact of transactions with non controlling interests	43			-993					-993
Restricted shares allocated over the vesting period				135					135
December 31, 2010		**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**466 618**
(Loss) / profit for the year				-18 121				433	-17 688
Other comprehensive (loss) / income for the year					-2 089	5 497		-368	3 040
Total comprehensive (loss) / income for the year		**–**	**–**	**-18 121**	**-2 089**	**5 497**	**–**	**65**	**-14 648**
Employee share purchase program	42	115							115
Dividend paid to shareholders	41			-16 011					-16 011
Dividend paid to non controlling interests								-6 673	-6 673
Impact of transactions with non controlling interests								7 705	7 705
Restricted shares granted to employees	26			-163			163		–
Restricted shares allocated over the vesting period	43			46					46
December 31, 2011		**533 798**	**59 036**	**-134 661**	**30 115**	**-67 715**	**-326**	**16 905**	**437 152**

Fair value and other reserves as of December 31, 2011, include kCHF 33 470 (2010: kCHF 33 470) of equity component of the convertible bond, put-option on acquisition of non controlling interests for kCHF -2 672 (2010: kCHF -2 672) and kCHF -170 (2010: kCHF -155) of unrealized gain/(loss) on available-for-sale financial assets. It also includes an unrealized gain of kCHF -513 (2010: kCHF 1 561) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

The consolidated financial statements of the Kudelski Group ("Group" or "company") are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and its predecessor organization, the International Accounting Standards Committee (IASC).
The policies set out below are consistently applied to all the years presented. These consolidated financial statements were prepared under the historical cost convention, except for items to be recorded at fair value.
The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See note 2 for areas involving a higher degree of judgment and significant estimates. The annual closing date of the individual financial statements of all Group companies is December 31.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally implying an ownership of more than one half of the voting rights, unless they are held on a temporary basis. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises significant power to govern their financial and operating policies and bears an over-proportional responsibility for the main risks.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.
Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group is treating transactions with non controlling interests as transactions with equity owners of the Group. For purchases from non controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non controlling interests are also recorded in equity.
Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.
The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognizes the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Associates

Associates are entities over which the Group has significant influence but which is neither a subsidiary nor a joint venture to the Group. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not to control those policies. It is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.
Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(C) Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interests. Cost incurred for an acquisition is charged against income statement.

Identified assets acquired include fair value adjustment on tangible fixed assets and intangible fixed assets. When determining the purchase price allocation, the Group considers mainly development technologies, customer lists, trademarks and brands as intangibles. They are initially measured using valuation techniques based on the acquired company modified business plans.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as Goodwill and is denominated in the functional currency of the related acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is then recognised as other operating income.

(D) Divestments

The gain or loss resulting from divestments is recognized in the income statement. It is measured as being the difference between the sale price less transaction costs and the Group's portion of equity within the divested company at transaction date. Cumulative currency translation adjustments that were previously recorded in the comprehensive income are recognized in the income statement as part of the gain or loss on sale.

(E) Foreign currencies

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

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

(F) Revenue recognition

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

(a) Sale of goods

Sale of goods is recognized when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sale of goods may include delivery of complete systems comprising hardware, software, specific developments, an initial batch of smartcards, licenses and other services. When the revenue of a sale of goods is subject to a performance obligation other than a warranty, the revenue is only recognized for the estimated acquired portion.

(b) Services rendered

Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training as well as revenues from complete security solutions generating recurring service revenues.

Revenue from system integration, specific developments and customization is recognized under the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract. For certain customers, the Group commits to provide replacement smartcards at low or no cost to the customer against the payment of a recurring security fee. Such revenues are recognized when earned, while estimated related cost in order to cover the risk is charged to the cost of material and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

disclosed under provision in the balance sheet.
Revenue from maintenance and training is recognized when earned (maintenance revenue is allocated over the contractual period).

(c) Royalties and licenses

Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled. Revenue on licenses with a fixed term is recognized upon the life of the contract on a straight line basis.
For software license arrangements, the Group recognizes new software license revenue when: (1) The company has entered into a legally binding arrangement with a customer for the license of software; (2) delivery has occured; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Multiple element arrangements – service mode

The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements is recognized when contractually earned and is usually dependent on the client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms under this category. When the fair value of a particular element cannot be determined, the revenue is fully allocated to the undelivered element.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized in the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract and the useful lives of those assets. It is shown under depreciation in the income statement. When the title is transferred, the cost is deferred under deferred costs and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract and the useful lives of those assets. In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

(e) Payment to customers

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

(f) Government grants

Government grants are recognized when the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. They are recognized in the income statement as operating income unless they are linked to a capitalized fixed asset. In which case it is deducted from the amount of the fixed asset.

(g) Interest income

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

(G) Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized in the balance sheet and subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and qualifies for hedge accounting.
The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge) or as a hedge of a forecasted transaction (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets, liabilities or cash flows. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

(a) Derivatives that do not qualify for hedge accounting

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

(b) Fair value hedge

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

(c) Cash flow hedge

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

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

(H) Taxes

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

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

Temporary differences and tax losses carried forward that could be offset against future profits, generating deferred tax assets and liabilities are compensated within one legal entity to determine the net deferred tax asset or liability amount. Net deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against the temporary differences or tax losses carried forward can be utilized.
Deferred income tax liability have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

(I) Tangible fixed assets

(a) General

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

Building acquisitions or constructions and building improvements are allocated to components. The costs less residual values are depreciated over their useful life. Such useful life may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use. Depreciation is calculated on a straight-line basis over the useful life, according to the following schedule:

Technical equipment and machinery

	Useful life in years
Machinery and measurement instruments	4 – 7
Digital material and equipment	4 – 5
Computer and information networks	4
Fixed assets made available to clients	2 – 10

Other equipment

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts and are included in the consolidated income statements.

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

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

(J) Intangible assets

(a) Goodwill

Arising after January 1, 2004

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of net identifiable assets acquired at the date of acquisition. It is denominated in the local currency of the related acquisition. Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill on acquisition of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. All Goodwill is considered to have an indefinite life and is at least annually tested for impairment and carried at cost less accumulated impairment losses.
Gains and losses on the disposal of an entity include the carrying amount of Goodwill relating to the entity sold.

Arising before January 1, 2004

Goodwill resulting from business combinations occurred before January 1, 2004 has been written off directly to equity following the Group's previous accounting policies and has not been reinstated. It is not transferred to the income statement when impaired or disposed of.

(b) Internal research and development

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

(c) External research and development

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

(d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to four years). Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

(e) Other intangibles in connection with business combinations

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

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

(K) Financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They also include investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.
Purchases and sales of investments are recognized on settlement date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income while exchange differences on monetary items are recognized in the income statement. When financial assets available-for-sale are sold or impaired, the cumulative fair value adjustments recognized in other comprehensive income are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by either using valuation techniques or at cost if the fair value cannot be reliably estimated. Valuation techniques may include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount or the impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(L) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.
The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overheads and factory depreciation.
Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.
Furthermore, inventories which are no longer part of production and sales plans are directly written off from the gross value of inventories.

(M) Deferred costs

Deferred costs are measured at cost and are allocated to the income statement over the shorter of their useful life and the contract period. The portion of deferred cost to be reversed in the income statement in a period exceeding 12 months is disclosed under other non current assets.

(N) Trade accounts receivable

Trade accounts receivable are measured using the amortized cost method, less adjustments for doubtful receivables. A provision for impairment is made for doubtful receivables based on a review of all material outstanding amounts at the reporting date.

(O) Cash and cash equivalents

Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three month or less. This position is readily convertible to known amounts of cash. Bank overdrafts are shown within short-term financial debt in current liabilities on the balance sheet.

(P) Marketable securities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

(Q) Share capital

Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital and the nominal value of the share capital increase as well as incremental costs directly attributable to the issue of new shares or options of Kudelski SA are considered as share premium and are part of equity.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(R) Convertible bonds

Convertible bonds are initially recognized at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability component of convertible bonds is determined using a market interest rate for an equivalent straight bond at inception. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. Issuance costs are allocated on a proportional basis to the liability component and are expensed over the convertible bond life.

As the convertible bonds issued do not entitle the issuer to deliver cash upon exercise of the conversion option, the equity component is measured at inception and is allocated to the reserves.

(S) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(T) Contingent consideration

The purchase consideration for selected Group acquisitions may include contingent components, which depend on the future financial performance of the company acquired ("earn out clause"). It is based on the management's best estimate of the final consideration payable and is subject to a yearly review.

Where a portion of the contingent consideration for an acquisition is deferred to a date more than one year after the end of the current financial year, that portion is discounted to its present value and disclosed within other long term liabilities.

(U) Employee benefits

(a) Pension obligations

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

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligation is in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, amendments to the pension plan and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the average working life of the related employees.

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

(b) Other long-term employee benefits

Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. Benefits cost is recognized on an accrual basis in the personnel expenses.

(c) Employee Share Purchase Program (ESPP)
The Group put in place an employee share purchase program which allows certain employees to buy a specific number of shares at preferred conditions and with a blocking period of 3 years.
The difference between the fair value of these shares and the employees' payments for the shares is expensed in the income statement at subscription date. The fair value of the shares transferred is determined based on the market price of the shares including an adjustment to reflect the blocking period effect.

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

(e) OpenTV Corp employee share based payments
OpenTV Corp, a subsidiary of the Group, recognizes compensation expenses for shares and share options granted to employees and board members.

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

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

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

(X) New and amended accounting standards and IFRIC interpretations
Standards and Interpretations effective in the current period
The Group has adopted new and amended or revised IFRS standards as of January 1, 2011.
The adoption of following standards had limited impact on the financial statements:

IAS 24 - Related party disclosure – (effective from 1 January 2011) clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

IAS 32 (amendment) – (effective from 1 February 2010) implies that right issues are required to be classified as equity in certain conditions.

Annual IFRS improvement projects effective from 1 January 2011.

Following IFRICs were not relevant on Group's account:

IFRIC 19 – Extinguishing financial liabilities (effective from periods beginning on or after 1 July 2010).

IFRIC 14 – IAS 19, limits on a Defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2011).

Standard and Interpretations in issue not yet adopted
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but which the Group has not early adopted:

IFRS 7 - Financial Instruments: Disclosures (amendment) - (effective from 1 July 2011).

IFRS 7 and IAS 32 (amendment) - Offsetting financial assets and liabilities and disclosures (effective 1 January 2013).

IFRS 9 – Financial instruments (effective from 1 January 2015) comprises two measurement categories for financial assets and liabilities: amortized cost and fair value.

IFRS 10 – Consolidated financial statements (effective from 1 January 2013) replaces the parts of IAS 27 that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. A new definition of control is also included.

IFRS 11 – Joint arrangements (effective from 1 January 2013) replaces IAS 31. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights or obligations of the parties to the arrangement. Joint ventures are required to be accounted for using the equity method of accounting only.

IFRS 12 – Disclosure of interests in other entities (effective from 1 January 2013) is a disclosure standard and is applicable to entities that have interests in subsidiar-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

ies, joint arrangements, associates and/or unconsolidated structured entities.

IFRS 13– Fair value measurement (effective from 1 January 2013) etablishes a single source of guidance for fair value measurments and disclosure about fair value measurements. It defines fair value, etablishes a framework for measuring fair value, and requires disclosures about fair value measurements.

IAS 1 (amendment) – (effective from 1 July 2012) retains the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. It also requires to split other comprehensive income items between those that will be recycled and not in the income statement.

IAS 12 (amendment) – (effective from 1 January 2012) provides an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset.

IAS 19 (amendment) – (effective from 1 January 2013). The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendment requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendment requires all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The adoption will have a material negative impact on comprehensive income by increasing employee benefit liabilities as the corridor approach used by the Group will no longer be allowed and will also impact disclosures.

IAS 27 (revised) – (effective from 1 January 2013)

IAS 28 (revised) – (effective from 1 January 2013)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Complete security solutions generating recurring service revenues

As defined in note 1 F, the Group provides complete security solutions generating recurring service revenues either by making assets available to clients, whereby depreciation is recognized over the shorter of the duration of the contract and the useful life of such assets or by transferring title of the assets, whereby cost is deferred and allocated to cost of material over the shorter of the duration of the underlying revenue streams and the useful life of such assets. Depending on the contract terms with each client, the Group may replace the assets made available or transferred to the client for security or economic reasons. Early replacement due to technical obsolescence would affect the profitability of the Group by resulting in an impairment of the assets made available to the client or of the deferred costs. Furthermore those contracts may include payments made to customers which are subject to impairment reviews.
In case of impairment this would affect the profitability of the Group by resulting in a reduction of the deferred costs and revenues.

Litigation and product liability provisions

A number of Group subsidiaries can be subject to litigation and product liability claims arising out of the normal conduct of their businesses. As a result, claims could be made against them that might not be covered by existing provisions or by external insurance coverage. Management believes that the outcomes of such actions, if any, would not be material to the Group's financial condition but could be material to future results of operations in a given period.

Deferred tax assets

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 18). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore modify significantly the deferred tax asset and the income taxes captions.

Retirement benefit plans

The Kudelski Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates. The actuarial assumptions used (note 30) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. The Group has recorded in compliance with IFRS 1 the initial differences as of January 1, 2004 between assumed and actual income and expense as a liability in its balance sheet and uses the corridor approach in order to recognize its unrecorded gains and losses.

Impairment of Goodwill

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

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

Market risk

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

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

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in Swiss francs. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.
It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion defined in the treasury policy of the exposure generated.
Net investments in Kudelski affiliates with a functional currency other than the Swiss Franc are of long-term nature: the Group does not hedge such foreign currency translation exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

(b) Interest rates
The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and collars. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

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

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a mean of mitigating the risk of financial loss from defaults. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial informations and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the department in charge annually.
The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.
The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited within a high rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management
The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.
The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS

Digital Television Solutions
On April 12, 2011, the Group purchased 100% of EnMedia Software Technologies Pvt Ltd, India, for a consideration of kCHF 366. EnMedia Software Technologies Pvt Ltd provides software services, end to end system design, development and delivery of embedded software to customers. No goodwill arose from this business combination.

The aggregated assets and liabilities arising from the above 2011 business combination are as follows:

In CHF'000	Fair value of assets acquired
Tangible fixed assets	50
Intangible fixed assets (goodwill excl.)	322
Trade accounts receivable	73
Other current assets	27
Cash and cash equivalents	69
Trade accounts payable	-27
Other current liabilities	-148
Fair value of net assets acquired	**366**
Purchase consideration:	
– cash paid	366
Fair value of net assets acquired	-366
Goodwill	**–**
Purchase consideration:	
– cash paid	366
Cash and cash equivalents acquired	-69
Net cash outflow from acquisitions	**297**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

BUSINESS COMBINATIONS IN 2010

Digital Television Solutions

On December 10, 2010, the Group closed an asset deal to acquire certain assets from the French technology company Iwedia for a cash consideration of EUR 0.5 million (CHF 0.7 million). Iwedia develops software products for television operators, as well as set-top box and integrated digital TV vendors. No goodwill arose from this business combination.

Public Access

On May 17, 2010, Skidata AG purchased 100% of C-oncept software GmbH, Austria, for a consideration of kCHF 2 293. C-oncept software GmbH provides online public access software solutions and services. The Goodwill, amounting to kCHF 105, is allocated to the Public Access cash generating unit and is attributable to the knowledge of employees to develop user-friendly access services.

The aggregated assets and liabilities arising from the above 2010 business combinations are as follows:

In CHF'000	Fair value of assets acquired
Tangible fixed assets	317
Intangible fixed assets (goodwill excl.)	3 324
Trade accounts receivable	542
Trade accounts payable	-356
Other current liabilities	-137
Long term liabilities	-852
Fair value of net assets acquired	**2 838**
Purchase consideration:	
– cash paid	2 943
Fair value of net assets acquired	-2 838
Goodwill	**105**
Purchase consideration:	
– cash paid	2 943
Cash and cash equivalents acquired	–
Net cash outflow from acquisitions	**2 943**

Correction of previous purchase price

On September 18, 2009, the Group purchased 100% of Medialive SA, a French company which was further merged with Nagra France SAS. The final purchase price allocation was dependent on the French tax authorities agreement to net out Medialive SA tax losses carried forward with Nagra France SAS net income. Such confirmation was provided by French tax authorities during the first half 2010. Hence, the purchase price allocation has been changed to reflect a tax asset for tax losses carried forward for CHF 2.5 million and recognized as a badwill for such amount. The badwill has been presented in the income statement as other operating income.

Transactions with non controlling interests

On March 26, 2010, OpenTV Corp completed the redemption of all of its outstanding Class A ordinary shares, other than such Class A shares held by Kudelski Group. A total of 16 098 257 shares, representing 11.5% of the share capital of the company, have been redeemed for a total consideration of kCHF 26 595. The redemption of the above shares was treated as transaction with non controlling interest and was allocated to retained earnings for kCHF 9 685 and non controlling interests for kCHF 16 910. Furthermore, as part of the going private process, cash payments were made for kCHF 1 101 for the cancellation of employees or former employees' option rights. Employee share based payments and cash payments for kCHF 108 were received from employees stock option exercises. The above transactions were considered as «Impact of subsidiaries share based payment» and were allocated to retained earnings for kCHF 993.

Contribution and Pro forma data including business combinations for all of 2011

The acquired businesses contributed net income of kCHF -1 751 (2010: kCHF -1 038) to the Group for the period from acquisition dates to December 31, 2011.

If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 873 914 (2010: kCHF 1 035 820) and kCHF -17 735 (2010: kCHF 64 549) respectively.

5. DIVESTMENTS

On December 31, 2011 the Group carved out its audio activity and sold these assets (mainly inventory and tangible fixed assets) to Audio Technology Switzerland SA for a consideration of CHF 2.3 million payable over a a period specified in a payment plan. The sale agreement also comprises an earn-out clause depending on the success of the carved-out business. This company is treated as a related party as Group Board members and Executives invested in that company.

On June 16, 2011, the Group disposed of its 50% stake of the joint venture Nagra Thomson Licensing for kCHF 536.

On July 18, 2011, the Group disposed of its 50% stake of the joint venture polyright SA for kCHF 575. Furthermore, the buyer repaid the loan and interest granted to the joint-venture at closing date.

On November 9, 2011, the Group disposed of its 25% stake of its associated company RTP, LLC, for kCHF 2 639.

Arising in 2010

On February 19, 2010, the Group disposed of its 28% stake of its associated company Ticketcorner AG for kCHF 3 080. Furthermore, the buyer repaid the Ticketcorner loan and interest at closing date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

6. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker.
Group operating segments represent strategic business units that offer different products and services for which internal reporting is provided to the chief operating decision maker. The chief operating decision maker reviews internal reports in order to allocate resources to the segment and to assess its performance.
The Group is organized operationally on a worldwide basis in 3 operating segments:

- Digital Television Solutions
- Public Access
- Middleware & Advertising

These operating segments, which are reflected in internal management reporting, can be described as follows:
The Digital TV division provides open conditional access solutions allowing digital TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform.
The Public Access division provides access control systems for ski lifts, car parks, stadiums, concert halls and important events as well as multifunctional cards for universities and corporations.
The Middleware & Advertising division provides middleware software, applications, including advanced advertising and interactive services as well as professional services for digital and interactive television.
Income and expenses relating to Corporate include the costs of Group Headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions"

The segment information for 2011 and 2010 is as follows:

	Operating divisions	
	Digital Television Solutions	
In CHF'000	2011	2010
Total segment Revenues	**560 999**	**690 194**
Inter-segment revenues	-5 456	-5 717
Revenues from external customers	**555 543**	**684 477**
Depreciation and amortisation	-46 194	-45 196
Impairment	-3 749	-1 177
Operating income/(loss) - excluding corporate common functions	**28 922**	**129 465**
Corporate common functions		
Interest expense and other Finance income/(expense), net		
Share of result of associates		
(Loss) / income before tax		
	31.12.2011	31.12.2010
Total segment Assets	**705 293**	**733 402**

Interests expenses, other finance income/(expense), net and share of result of associates are not allocated to the reportable segments as they are centrally managed.

The measure of income statement presented to manage Segment performance is the segment operating income/(loss). Segment operating income/(loss) is based on the same accounting policies as consolidated operating income/loss except that inter-segment sales are eliminated only at the consolidation level. Inter-segment transactions are contracted on arm's length basis.

Reportable segment assets include total assets allocated by segment with the exclusion of Intersegment balances which are eliminated. Investments in associates, and non-current assets are not provided to the chief operating decision maker and are therefore not disclosed by segment. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to balance sheet assets.

	Public Access		Middleware & Advertising		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	211 403	**224 727**	**132 423**	**139 328**	**904 825**	**1 054 249**
	-101	-103	-25 405	-13 257	-30 962	-19 077
	211 302	**224 624**	**107 018**	**126 071**	**873 863**	**1 035 172**
	-8 918	-9 100	-6 699	-7 501	-61 811	-61 797
	–	–	–	–	-3 749	-1 177
	12 461	**8 802**	**2 207**	**-6 425**	**43 590**	**131 842**
					-18 155	-21 830
					-34 227	-33 386
					-281	4 897
					-9 073	**81 523**
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	145 327	**155 422**	**213 218**	**180 380**	**1 063 838**	**1 069 204**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

Total Segment assets are reconciled to total Balance Sheet assets as follows:

In CHF'000	31.12.2011	31.12.2010
Total Segment Assets	1 063 838	1 069 204
Cash & Cash equivalents	110 717	30 981
Other current assets	377	602
Financial assets and other non-current assets	4 523	4 568
Total Assets as per Balance Sheet	**1 179 455**	**1 105 355**

GEOGRAPHICAL INFORMATION

The company's country of domicile is Switzerland. The Group's revenue from external customers and information about its non-current assets by countries are presented below:

	Revenues from external customers		Non-current assets	
In CHF'000	2011	2010	31.12.2011	31.12.2010
Switzerland	41 141	44 889	214 242	240 859
United States of America	134 912	154 838	148 010	119 018
France	90 352	93 359	14 567	15 439
Brazil	70 672	72 663	22	–
Italy	67 113	91 958	820	897
Germany	59 044	75 544	5 676	5 790
United Kingdom	36 621	74 184	1 466	1 710
Rest of the world	374 008	427 738	51 010	54 003
	873 863	**1 035 172**	**435 813**	**437 716**

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

INFORMATION ABOUT MAJOR CUSTOMERS

No revenues from transactions with a single external customer reach 10 per cent of the Group's revenue.

REVENUE CATEGORIES

In CHF'000	2011	2010
Sale of goods	423 788	537 754
Services rendered	291 505	331 654
Royalties and licenses	158 570	165 764
	873 863	**1 035 172**

7. OTHER OPERATING INCOME

In CHF'000	2011	2010
Government grants (research, development and training)	17 539	29 758
Badwill on business combinations	–	2 473
Gain/(Loss) on fixed assets sales proceeds	-102	668
Earn-out adaptation	429	-761
Gain on sale of subsidiares	1 574	–
Others	3 323	2 031
	22 763	**34 169**

2010 government grants include a one-off entitlement accrued from work performed in previous years yet only fullfilling group revenue recognition criteria in 2010.

8. OTHER OPERATING EXPENSES

In CHF'000	2011	2010
Development and engineering expenses	49 056	56 992
Travel, entertainment and lodging expenses	28 524	36 073
Legal, experts and consultancy expenses	24 936	41 844
Administration expenses	27 220	34 384
Building and infrastructure expenses	30 924	34 294
Marketing and sales expenses	11 156	14 382
Taxes other than income tax	2 696	5 425
Insurance, vehicles and others	14 550	10 581
	189 062	**233 975**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2011	2010
Land and buildings	15	6 462	6 311
Equipment and machines	15	30 402	31 402
Total depreciation and impairment of tangible fixed assets		**36 864**	**37 713**
Intangible assets	16	28 696	25 261
Total amortization and impairment on intangible fixed assets		**28 696**	**25 261**
Depreciation, amortization and impairment		**65 560**	**62 974**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

10. INTEREST EXPENSE

In CHF'000	Note	2011	2010
Interest expense:			
– Convertible bond 2005 – 2012	28	11 708	11 546
– Bond 2011 – 2016	29	1 911	–
– Other and bank charges		2 959	5 163
		16 578	**16 709**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2011	2010
Interest income		2 433	2 562
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-10 453	-2 437
Net foreign exchange transaction gains/(losses)	13	-8 979	-17 463
Gain on sale of investment		–	400
Others		-650	261
		-17 649	**-16 677**

Changes in fair value of kCHF -15 (2010: kCHF 72) for available-for-sale financial assets were recognized directly in other comprehensive income.
Changes in fair value of held for trading financial assets amounting to kCHF -10 453 (2010: kCHF-2 437) are disclosed under Net gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2011	2010
Current income tax		-8 158	-13 138
Deferred income tax	18	382	438
Other taxes		-839	-2 146
		-8 615	**-14 846**

Other taxes include non reimbursable withholding taxes.

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

In CHF'000	2011	2010
Income before taxes	**-9 073**	**81 523**
Expected tax calculated at domestic tax rates in the respective countries	187	-22 693
Effect of income not subject to income tax or taxed at reduced rates	5 820	11 172
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	4 551	3 675
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-19 197	-5 678
Efffect of associates' result reported net of tax	317	428
Effect of disallowed expenditures	-989	-574
Effect of prior year income taxes	138	330
Effect of non-refundable withholding tax	-839	-2 146
Other	1 397	640
Tax expense	**-8 615**	**-14 846**

Income before tax includes the full income before tax of non-fully owned subsidiaries whose taxes are paid by its shareholders since they are tax-transparent companies. As a result 100% of the income before tax of these companies is included in income before tax while the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 1 373 (2010: kCHF 1 157) and is disclosed under other in the above table.

The weighted average applicable tax rate is decreasing from 27.84% in 2010 to 2.06% in 2011. The decrease is caused by a change in the profitability mix of group subsidiaries in the different countries. For 2011, losses are realized in lower than usual average tax jurisdiction/companies thus positively impacting the weighted average tax rate.

13. NET FOREIGN EXCHANGE RESULT

The exchange differences accounted for in the income statement are as follows:

In CHF'000	2011	2010
Sales	3 377	-10 106
Cost of material	-1 761	5 265
Other finance income/(expense) net	-8 979	-17 463
Total exchange differences	**-7 363**	**-22 304**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

14. EARNINGS PER SHARE (EPS)

Basic earnings per share

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the year. The number of outstanding shares is calculated by deducting the average number of shares purchased and held as treasury shares from the total of all issued shares.

In CHF'000	2011	2010
Net (loss) / income attributable to bearer shareholders	-16 554	60 009
Net (loss) / income attributable to registered shareholders	-1 567	5 680
Total net income attributable to equity holders	**-18 121**	**65 689**
Weighted average number of bearer shares outstanding *	48 930 955	48 913 869
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (in CHF)		
Bearer shares	-0.3383	1.2268
Registered shares	-0.0338	0.1227

* In early 2012, the company performed a share capital increase which changed the average number of shares without any corresponding change in the level of resources. For the purposes of the earnings per share calculation, the weighted average number of bearer shares has been retrospectively adjusted to reflect this increase as if the capital increase had occurred at the beginning of the earliest comparative period presented.

Diluted earnings per share

The diluted earnings per share calculation takes into account all potential dilutions to the earnings per share arising from the convertible bonds and options on Kudelski SA shares.

In CHF'000	2011	2010
Net income attributed to equity holders of the company	-18 121	65 689
Elimination of interest expense on convertible debt *	–	–
Tax impact on above adjustments	–	–
Net income used to determine earnings per share	**-18 121**	**65 689**
Of which:		
– attributable to bearer shareholders	-16 554	60 009
– attributable to registered shareholders	-1 567	5 680
	-18 121	**65 689**
Weighted average number of bearer shares outstanding	48 930 955	48 913 869
Effect of dilutive potential bearer share:		
– employee stock option plan (ESOP and ESP) *	–	3 233
– convertible bond*	–	–
Weighted average number of bearer shares for the purpose of diluted earnings per share	**48 930 955**	**48 917 102**
Weighted average number of registered shares for the purpose of diluted earnings per share	46 300 000	46 300 000
Diluted earnings per share (in CHF)		
Bearer shares	-0.3383	1.2267
Registered shares	-0.0338	0.1227

* Shares equivalent of 5 307 856 (2010: 5 225 440) relating to the convertible bond and 946 (2010: 0) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

15. TANGIBLE FIXED ASSETS

Tangible fixed assets comprise the following:

In CHF'000	31.12.2011	31.12.2010
Land and buildings	105 081	77 819
Equipment and machines	61 274	68 904
	166 355	**146 723**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Construction in progress	Total
Gross values at cost					
As of January 1, 2010	**15 641**	**80 621**	**18 015**	**1 779**	**116 056**
Additions	2 114	5 942	3 369	–	11 425
Disposals and retirements	-155	-738	-478	–	-1 371
Currency translation effects	-380	-2 633	-777	–	-3 790
Reclassification & others	–	1 716	697	-1 779	634
As of January 1, 2011	**17 220**	**84 908**	**20 826**	**–**	**122 954**
Additions	6 095	27 703	416	–	34 214
Disposals and retirements	-599	-893	-6 835	–	-8 327
Change in scope	–	–	8	–	8
Currency translation effects	302	1 259	42	–	1 603
Reclassification & others	–	–	-970	–	-970
As of December 31, 2011	**23 018**	**112 977**	**13 487**	**–**	**149 482**
Accumulated depreciation and impairment					
As of January 1, 2010	**–**	**-26 712**	**-12 893**	**-1 779**	**-41 384**
Systematic depreciation	–	-3 929	-2 352	–	-6 281
Impairment	–	–	-30	–	-30
Disposals and retirements	–	215	433	–	648
Currency translation effects	–	1 659	273	–	1 932
Reclassification & others	–	-1 739	-60	1 779	-20
As of January 1, 2011	**–**	**-30 506**	**-14 629**	**–**	**-45 135**
Systematic depreciation	–	-4 015	-2 203	–	-6 218
Impairment	–	–	-244	–	-244
Disposals and retirements	–	186	6 830	–	7 016
Change in scope	–	–	-8	–	-8
Currency translation effects	–	245	-140	–	105
Reclassification & others	–	–	83	–	83
As of December 31, 2011	**–**	**-34 090**	**-10 311**	**–**	**-44 401**
Net book values as of December 31, 2010	**17 220**	**54 402**	**6 197**	**–**	**77 819**
Net book values as of December 31, 2011	**23 018**	**78 887**	**3 176**	**–**	**105 081**
Useful life in years	Indefinite	10–50	4–8		

In CHF'000	31.12.2011	31.12.2010
Fire insurance value of buildings	118 105	83 091
Corporate buildings on land whose owner has granted a permanent and specific right of use	8 163	6 401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
Gross values at cost			
As of January 1, 2010	**209 789**	**15 995**	**225 783**
Additions	29 930	2 058	31 988
Change in scope	317	–	317
Disposals and retirements	-45 170	-3 327	-48 497
Currency translation effects	-9 946	-631	-10 577
Reclassification & others	-198	-616	-814
As of January 1, 2011	**184 722**	**13 479**	**198 200**
Additions	21 687	1 997	23 684
Change in scope	-477	-147	-624
Disposals and retirements	-11 509	-843	-12 352
Currency translation effects	-878	-26	-904
Reclassification & others	126	844	970
As of December 31, 2011	**193 671**	**15 304**	**208 974**
Accumulated depreciation and impairment			
As of January 1, 2010	**-143 239**	**-11 371**	**-154 610**
Systematic depreciation	-28 734	-1 550	-30 284
Impairment	-1 118	–	-1 118
Disposals and retirements	45 361	3 111	48 472
Currency translation effects	7 589	480	8 069
Reclassification & others	136	38	174
As of January 1, 2011	**-120 005**	**-9 292**	**-129 297**
Systematic depreciation	-28 107	-1 696	-29 803
Impairment	-483	-116	-599
Change in scope	471	142	613
Disposals and retirements	10 376	517	10 893
Currency translation effects	600	-24	576
Reclassification & others	-22	-62	-84
As of December 31, 2011	**-137 170**	**-10 531**	**-147 701**
Net book values as of December 31, 2010	**64 717**	**4 187**	**68 904**
Net book values as of December 31, 2011	**56 501**	**4 773**	**61 274**
Useful life in years	2 – 10	4 – 7	

Technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. 2011 and 2010 impairment losses mainly consisted of assets made available to clients that were written off due to swaps out of those assets.

In CHF'000	31.12.2011	31.12.2010
Fire insurance value of technical equipment and machinery	154 841	136 517

16. INTANGIBLE ASSETS

In CHF'000	Technology	Customer lists, Trademarks & Brands	Software	Goodwill	Other intangibles	Total
Gross values at cost						
As of January 1, 2010	**101 164**	**3 892**	**41 620**	**150 350**	**247**	**297 273**
Additions	7 253	–	20 801	–	–	28 054
Disposals and retirements	-215	–	-6 448	–	–	-6 663
Change in scope	2 956	–	368	105	–	3 429
Currency translation effects	-5 915	-393	-2 405	-14 909	-48	-23 670
Reclassification & others	1 411	–	4 470	–	205	6 086
As of January 1, 2011	**106 654**	**3 499**	**58 406**	**135 546**	**404**	**304 509**
Additions	13 438	–	6 780	–	–	20 218
Disposals and retirements	-5 742	–	-395	–	–	-6 137
Change in scope	322	–	-154	–	–	168
Currency translation effects	-609	-32	-311	219	–	-733
As of December 31, 2011	**114 063**	**3 467**	**64 326**	**135 765**	**404**	**318 025**
Accumulated depreciation and impairment						
As of January 1, 2010	**-35 301**	**-1 602**	**-23 654**	**–**	**-191**	**-60 748**
Systematic amortization	-11 639	-521	-13 024	–	-50	-25 234
Impairment	–	–	-27	–	–	-27
Recovery of amortization on disposal and retirements	215	–	6 523	–	–	6 738
Currency translation effects	2 550	193	1 931	–	45	4 719
Reclassification & others	-1 413	–	-4 828	–	-205	-6 446
As of January 1, 2011	**-45 588**	**-1 930**	**-33 079**	**–**	**-401**	**-80 998**
Systematic amortization	-12 599	-462	-12 729	–	–	-25 790
Impairment	-2 234	–	-672	–	–	-2 906
Change in scope	–	–	153	–	–	153
Recovery of amortization on disposal and retirements	5 611	-4	129	–	–	5 736
Currency translation effects	231	–	262	–	–	493
As of December 31, 2011	**-54 579**	**-2 396**	**-45 936**	**–**	**-401**	**-103 312**
Net book values as of December 31, 2010	**61 066**	**1 569**	**25 327**	**135 546**	**3**	**223 511**
Net book values as of December 31, 2011	**59 484**	**1 071**	**18 390**	**135 765**	**3**	**214 713**
Useful life in years	4–10	5–10	3–4	Indefinite	4	

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units. Cash generating units are defined within the frame of the Group to their operating segment. kCHF 102 307 (2010: kCHF 101 766) have been allocated to Middleware & Advertising, kCHF 29 016 (2010: kCHF 29 211) to Digital Television Solutions and kCHF 4 442 (2010: kCHF 4 569) to Public Access Solutions.

The Middleware & Advertising Goodwill value in use has been determined based on a value in use calculation which uses cash flow projections approved by the Group management covering a five-year period and a discount rate of 10.0% (2010: 11.0%). The cash flows beyond that five-year period have been extrapolated using a steady 2.5% (2010: 2.5%) per annum growth. Revenue assumptions for the five-year plan were generating from product line, product and customer. Management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity, loss of two of the top three customers and sales projections, delays in change in location mix. Based on such analyses, management concludes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

As 2012 Digital Television Solutions and Public Access Solutions budgeted cash flows are greater than carrying value of Goodwill allocated to these cash generating units, these values do not need to be impaired.
2011 impairments consist of development expenses and software projects that have been stopped.

17. INVESTMENTS IN ASSOCIATES

In CHF'000	2011	2010
At January 1	**7 624**	**6 653**
Acquisition of an associated company	100	998
Share of profit	-281	4 897
Sale of an associated company	-2 639	-3 080
Dividends received	-1 038	-828
Currency translation effects	230	-1 016
At December 31	**3 996**	**7 624**

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

Name of associate	Principal activity	Interest held 2011	Interest held 2010
APT-SkiData Ltd, United Kingdom	Sales of Physical Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Physical Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Physical Access products	49%	49%
Resort Technology Partners LLC, USA	Sales of Physical Access products	0%	25%
Hantory Co., Ltd, South Korea	Digital Television sales and service	49%	49%
iWedia SA, Switzerland	Digital Television sales and service	40%	0%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2011	31.12.2010
Total assets	21 360	32 118
Total liabilities	11 078	17 868
Net assets	10 282	14 250
Group's share of associates' net assets	3 996	7 624

	2011	2010
Revenue	49 547	54 625
Result of the period	3 177	5 952
Group's share of associates' result for the period	-281	4 897

The Group's share of profit in 2011 includes a loss on the sale of the 49% stake in Resort Technology Partners LLC of kCHF 863. The Group's share of profit in 2010 includes the gain on the sale of the 28% stake in TicketCorner AG of kCHF 3 080 corresponding to the sale consideration. Prior to the disposal, its carrying value as adjusted for the unrealized portion of its revalued assets and liabilities was nil.

18. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2011	31.12.2010
Deferred tax assets	56 465	56 471
Deferred tax liabilities	-5 545	-5 854
	50 920	**50 617**

The movement on the deferred income tax account is as follows:

In CHF'000	Note	2011	2010
At January 1		**50 617**	**51 513**
Exchange differences		-79	-633
Impact of business combinations		–	-701
Income statement (expense)/income	12	382	438
At December 31		**50 920**	**50 617**

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

In CHF'000	At January 1, 2011	Income statement effect	Business combinations	Currency translation effects	At December 31, 2011
Deferred tax assets associated with					
– intangibles	29 765	-5 533	–	15	24 247
– employee benefits	5 922	1 161	–	-30	7 053
– tax losses	15 299	6 442	–	-11	21 730
– provisions and other elements tax deductible when paid	2 488	-1 328	–	-43	1 117
– inter-company profit elimination	3 084	-224	–	-14	2 846
– others	178	-227	–	-5	-54
Total deferred tax assets (gross)	**56 736**	**291**	**–**	**-88**	**56 939**
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-4 152	-7	–	–	-4 159
– provisions & accelerated tax depreciation	-1 679	21	–	3	-1 655
– others	-288	77	–	6	-205
Total deferred tax liabilities (gross)	**-6 119**	**91**	**–**	**9**	**-6 019**
Net deferred tax asset/(liability)	**50 617**	**382**	**–**	**-79**	**50 920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for the past year:

In CHF'000	At January 1, 2010	Income statement effect	Business combinations	Currency translation effects	At December 31, 2010
Deferred tax assets associated with					
– intangibles	26 704	3 668	-701	94	29 765
– employee benefits	5 210	874	–	-162	5 922
– tax losses	16 553	-1 053	–	-201	15 299
– provisions and other elements tax deductible when paid	6 141	-3 451	–	-202	2 488
– inter-company profit elimination	3 405	179	–	-500	3 084
– others	414	-202	–	-34	178
Total deferred tax assets (gross)	**58 427**	**15**	**-701**	**-1 005**	**56 736**
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-3 204	-974	–	26	-4 152
– provisions & accelerated tax depreciation	-2 293	348	–	266	-1 679
– others	-1 417	1 049	–	80	-288
Total deferred tax liabilities (gross)	**-6 914**	**423**	**–**	**372**	**-6 119**
Net deferred tax asset/(liability)	**51 513**	**438**	**-701**	**-633**	**50 617**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 795.9 million (2010: CHF 717.4 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 251.3 million (2010: CHF 244.2 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 544.6 million (2010: CHF 473.2 million) due to the unpredictability of future profits streams. The amount of unused tax losses carry forward which has not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2011	2010
Expiration within:		
One year	0.0	1.6
Two years	4.6	1.5
Three years	6.7	5.5
Four years	64.5	6.8
Five years	14.6	104.0
More than five years	454.2	353.8
Total	**544.6**	**473.2**

19. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

In CHF'000	Note	31.12.2011	31.12.2010
Available-for-sale financial assets:			
– equity instruments with no quoted market price (level 3)		4 523	4 572
– marketable securities (level 1)	23	245	385
Loan – third party		7 677	1 870
Loan – related party		1 229	350
State and government institutions		19 491	–
Deferred contract cost (long term portion)		50 750	59 858
Others		4 634	5 441
		88 549	**72 476**

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be measured reliably that are measured at cost net of impairment for kCHF 4 523 (2010: kCHF 4 572) and marketable securities for kCHF 245 (2010: kCHF 385) which have a maturity exceeding twelve months. Third party and related party loans are measured at amortized cost. The 2011 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity that has been discounted using a 9.3% rate, while the 2010 amount corresponds to the non-eliminated portion of a loan granted to a joint-venture company that was repaid in 2011. The effective interest rate on third party loans is 2.49% (2010: 2.25%). Others mainly consist of guarantee deposits.

Selected government grants for R&D projects have been classified as long term receivables as it will not be received within the next 12 months, in line with a newly introduced regulation.

20. INVENTORIES

In CHF'000	31.12.2011	31.12.2010
Raw materials	20 302	30 658
Work in progress	7 159	7 405
Finished goods	35 641	47 640
	63 102	**85 703**

The cost of inventories recognised as an expense includes kCHF 2 282 (2010: kCHF 2 240) in respect of write-downs of inventories and has been reduced by kCHF 386 (2010: kCHF 559) in respect of the reversal of such write-down.
Changes in inventories of finished goods and work in progress included in cost of material are kCHF 411 (2010: kCHF 1 371).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2011	31.12.2010
Trade accounts receivable	242 888	256 677
Less: provision for impairment	-27 885	-24 384
Trade accounts receivable related parties	4 919	7 680
Trade receivables – net	**219 922**	**239 973**
Amounts due from customers for contract work, of which kCHF -416 provision (2010: kCHF -453)	8 297	5 485
Total	**228 219**	**245 458**

Before accepting new customers, the Group performs a credit scoring to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed are regularly reviewed. Furthermore, for low value added business deliveries, the Group usually works on a back to back basis.

The following table summarizes the movement in the provision for impairment:

In CHF'000	2011	2010
January 1	**-24 384**	**-26 754**
Provision for impairment charged to income statement	-7 943	-4 071
Utilization	1 698	2 291
Reversal	3 045	3 773
Change in scope	14	–
Translation effects	-315	377
December 31	**-27 885**	**-24 384**

The creation and release of provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -7 943 (2010: kCHF -4 071). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

The following table contains details of the trade accounts receivables ageing that are not overdue under the contractual payment terms and an analysis of overdue amounts that are not impaired:

In CHF'000	31.12.2011	31.12.2010
Not overdue	144 549	157 800
Past due and not impaired:		
– not more than one month	30 039	26 484
– more than one month and not more than three months	22 171	26 672
– more than three months and not more than six months	11 485	9 538
– more than six months and not more than one year	5 387	11 295
– more than one year	6 291	8 184
Total trade accounts receivable, net	**219 922**	**239 973**

22. OTHER CURRENT ASSETS

In CHF'000	31.12.2011	31.12.2010
Loans third parties – short term portion	1 253	306
Prepaid expenses	6 534	6 943
Accrued income	6 640	1 226
State and government institutions	19 421	24 837
Advances to suppliers and employees	10 905	11 169
Deferred contract cost (short term portion)	18 350	19 329
Other receivables - third parties	4 661	2 445
Other receivables - related parties	701	–
	68 465	**66 255**

Loans are measured at amortized cost. The effective interest rate on short term loans was 4.18% (2010: 10.2%).

23. FINANCIAL ASSETS

In CHF'000	Note	31.12.2011	31.12.2010
Financial assets used for hedging:			
– derivative financial instruments (level 2)	37	–	1 411
Financial assets available-for-sale (short term portion):			
– marketable securities (level 1)		–	692
		–	**2 103**

Available-for-sale marketable securities include the following:

In CHF'000	Note	31.12.2011	31.12.2010
Asset-backed securities		245	385
Money market securities		–	692
		245	**1 077**
of which:			
– short term		–	692
– long term	19	245	385
		245	**1 077**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2011	31.12.2010
Cash at bank and in hand	275 943	167 254
Short term deposits	13 648	31 777
	289 591	**199 031**

The effective interest rate on short term deposits was 0.8% (2010: 0.7%). These deposits have an average maturity of 30 days. The Group only enters into transactions with high rated banks.

25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2011	31.12.2010
48'749'832 / 48'738'312 bearer shares, at CHF 10 each	487 498	487 383
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	533 798	**533 683**

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

AUTHORIZED SHARE CAPITAL

In CHF'000	2011	2010
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 4, 2012, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2011	2010
Conditional share capital as of January 1	107 755	109 503
Employee share purchase plan	-116	-88
Exercise of options	–	-7
Shares allotted to employees	–	-1 653
Conditional share capital as of December 31	**107 639**	**107 755**
Of which may be utilized as of December 31 for:		
– Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
– Options or share subscriptions to employees:		
763'924 / 775'444 bearer shares, at CHF 10 each	7 639	7 755
	107 639	**107 755**

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 000 000, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2008 General Assembly approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 17 477 820 consisting of 1 747 782 bearer shares of a nominal value of CHF 10.

26. TREASURY SHARES

	Number of bearer shares	Book value in CHF'000
As of January 1, 2010	**20 155**	**380**
Sale of treasury shares	-20 155	-380
Acquisition of treasury shares	16 752	489
As of December 31, 2010	**16 752**	**489**
Treasury shares granted to employees	-5 584	-163
As of December 31, 2011	**11 168**	**326**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

27. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2011	31.12.2010
Bank loans		21 294	13 694
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	28	–	339 205
CHF 110 million 3% bond 2011/2016	29	108 659	–
		129 953	**352 899**

The effective interest rate on long term bank loans was 3.0% (2010: 3.7%). The CHF 350 million unsubordinated loan has been reclassified as short term in 2011 as it matures in less than 12 months.

28. CONVERTIBLE BOND 2005/2012

On October 5, 2005, Kudelski Financial Services Holding SCA issued a CHF 350 000 000 unsubordinated convertible bond due 2012, convertible into bearer shares of Kudelski SA. This bond has a denomination of CHF 5 000 nominal amount with an initial conversion price of CHF 67.76 per bearer shares of Kudelski SA with a nominal value of CHF 10. Bondholders may request conversion at any time from January 1, 2006 until September 12, 2012. The bond is callable at par value after October 5, 2010, subject to a 110% provisional call hurdle. If not converted prior to the date of maturity, the bonds will be redeemed at par value. Interest expense on the liability component of the bond is calculated on the effective yield basis using an effective rate of 3.2%.

Following the payment of the 2010 dividend in 2011 and in accordance with terms and conditions of the convertible bond, conversion price has been set at CHF 65.94 per bearer share (2010: 66.98).

The convertible bond is recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2011	2010
Face value of convertible bond issued on October 5, 2005	**350 000**	**350 000**
Transactions costs	-5 719	-5 719
Equity conversion component	-34 087	-34 087
Liability component on initial recognition on October 5, 2005	**310 194**	**310 194**
Cumulative Interest expense as of January 1	30 355	24 496
Interest expense for the year	11 708	11 546
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	-1 343	-1 343
Liability component as of December 31	**345 226**	**339 205**

It has been reclassified as short term in 2011 as it matures in less than 12 months. Transaction costs amounted to kCHF 6 337 of which kCHF 618 were allocated to the equity component of the convertible bond.

The above interest expense includes the following:

In CHF'000	2011	2010
Base interest (1.625%)	5 688	5 688
Allocation of the equity conversion component	5 203	5 041
Effective interest expense (effective yield rate of 3.2%)	**10 891**	**10 729**
Allocation of transaction costs	817	817
Interest expense	**11 708**	**11 546**

29. BOND 2011/2016

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016 with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounts to kCHF 110 312 less issuance costs of kCHF 1 786 totaling a net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%.

The bond is recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2011
Net proceed of bond issuance	**108 526**
Interest expense for the year:	
– interest	1 778
– amortization of transaction costs less premium	133
Interest paid	-1 650
Interest accrued (short term portion)	-128
Liability component as of December 31	**108 659**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

30. EMPLOYEE BENEFITS LIABILITIES

In addition to the social security plans mandated by the law, the Kudelski Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19. Retirement benefits are based on contributions, computed as a percentage of salary, adjusted for the age of the employee and shared approximately 46%/54% by employee and employer. In addition to retirement benefits, the plan provides death and long-term disability benefits to its employees. Liabilities and plan assets are determined every year by an independent actuary.

Abroad the Kudelski Group sponsors ten other long term employee benefit plans treated as defined benefit plans according to IAS 19. Liabilities and plan assets are determined every year by an independant local actuary.

Plan assets have been estimated at market fair value. Liabilities have been calculated according to the "Projected Unit Credit" method.

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

In CHF'000	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Fair value of plan assets	98 732	105 664	95 089	75 443
Defined benefit obligation	-149 230	-164 785	-129 496	-111 687
Funded status	**-50 498**	**-59 121**	**-34 407**	**-36 244**
Unrecognized gains/(losses)	-18 090	-31 336	-9 338	-14 537
Unrecognized prior service cost	-22	-48	–	–
Prepaid/(accrued) pension cost	**-32 386**	**-27 737**	**-25 069**	**-21 707**

The liability that is recognized in the balance sheet at December 31, 2011 amounts kCHF 32 386 (kCHF 27 737 at December 31, 2010).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2011 (respectively 2010):

In CHF'000	2011	2010
Service cost	-19 885	-16 452
Interest cost	-4 258	-4 318
Expected return on plan assets	4 755	4 279
Employees contributions	6 078	5 871
Amortization of gains/(losses)	-906	-94
Amortisation of prior service cost	-4	-2
Curtailment gain / (loss)	2 142	–
Net pension (cost)/income	**-12 078**	**-10 716**
Exchange rate difference	**191**	**1 126**
Employer contribution	**7 238**	**7 082**

The net pension cost for the financial year 2011 amounts kCHF 12 078 (kCHF 10 716 for the financial year 2010).
The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2011 and 2010 are as follows:

	31.12.2011	31.12.2010
Switzerland		
Discount rate	2.50%	2.50%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	0% 5 years, then 1%	1.00%
Expected long-term rate of return on plan assets	4.50%	4.50%
Turnover	4.5% on average	4.9% on average
Retirement age	according to the rules	according to the rules
Abroad		
Discount rate	4.69%	4.25%
Rate of future increase in compensations	3.16%	3.33%
Turnover	8.2% on average	9.0% on average
Retirement age	according to the law	according to the law

The changes in defined benefit obligation, fair value of plan assets and unrecognized gains/(losses) and unrecognized prior service cost during the year 2011 and 2010 are as follows:

A. Change in defined benefit obligation

In CHF'000	2011	2010
Defined benefit obligation as of 1.1.	**-164 785**	**-129 496**
Service cost	-19 885	-16 452
Interest cost	-4 258	-4 318
Change in assumptions	13 513	-18 232
Change in pension plan	–	-50
Actuarial gains/(losses)	6 334	-147
Acquisition	–	-160
Curtailment	13 862	–
Benefits payments	5 798	2 945
Exchange rate difference	191	1 125
Defined benefit obligation as of December 31,	**-149 230**	**-164 785**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

B. Change in fair value of plan assets

In CHF'000	2011	2010
Fair value of plan assets as of 1.1.	**105 664**	**95 089**
Expected return on plan assets	4 755	4 279
Employees' contributions	6 078	5 871
Employer's contribution	7 238	7 082
Plan assets gains/(losses)	-9 314	-3 712
Benefits (paid)/received	-5 797	-2 945
Curtailment	-9 892	–
Fair value of plan assets as of December 31,	**98 732**	**105 664**

C. Change in unrecognized gains/(losses)

In CHF'000	2011	2010
Unrecognized gains/(losses) as of 1.1.	**-31 336**	**-9 339**
Amortization	906	94
Change in assumptions	13 513	-18 232
Actuarial gains / (losses)	6 334	-147
Plan assets gains / (losses)	-9 313	-3 712
Curtailment	1 806	–
Unrecognized gains/(losses) as of December 31,	**-18 090**	**-31 336**

D. Change in Unrecognized prior service cost

In CHF'000	2011	2010
Unrecognized prior service cost as of 1.1.	**-48**	**–**
Unrecognized prior service cost during the year	–	-50
Amortization	4	2
Exchange rate difference	1	–
Curtailment	21	–
Unrecognized gains/(losses) as of December 31,	**-22**	**-48**

The actual return on plan assets amounts to kCHF -4 559 in 2011 (kCHF 567 for the year 2010). The estimated employer's contribution to the pension plans for the financial year 2012 amount kCHF 6 470.

The categories of plan assets and their corresponding expected return at December 31, 2011 (respectively December 31, 2010) are as follows:

In CHF'000	Proportion in % 31.12.2011	Expected return 31.12.2011	Proportion in % 31.12.2010	Expected return 31.12.2010
Cash	12.1%	1.0%	4.9%	2.0%
Swiss bonds	27.8%	3.3%	28.6%	3.3%
Foreign bonds	7.2%	3.3%	7.8%	3.3%
Swiss shares	16.5%	7.0%	20.8%	7.0%
Foreign shares	22.4%	6.5%	24.2%	6.5%
Real estates	12.0%	4.5%	11.2%	4.5%
Structured products	2.0%	4.5%	2.5%	4.5%
Total	**100.0%**	**4.5%**	**100.0%**	**4.9%**

31. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2011	Total 2010
As of January 1	**1 060**	**9 515**	**1 936**	**12 511**	**10 189**
Additional provisions	6 622	925	343	7 890	8 622
Unused amounts reversed	–	–	-376	-376	-5 384
Used during the year	-128	-4	-323	-455	-415
Exchange differences	25	95	-47	73	-501
As of December 31	**7 579**	**10 531**	**1 533**	**19 643**	**12 511**
Thereof:					
– Short term	6 841	8 971	1 533	17 345	10 114
– Long term	738	1 560	–	2 298	2 397
	7 579	**10 531**	**1 533**	**19 643**	**12 511**

Restructuring provisions

Following the Group restructuring plan announced late 2011, provisions for restructuring have been recognised in the 2011 accounts. In 2010, restructuring provisions mainly include lease termination considered as onerous contract.

Legal fee and litigations

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for legal fee and lawsuit are valued according to the best management estimate principle.

Provision for warranty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

32. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2011	31.12.2010
Contingent consideration - long term portion		–	2 590
Loans granted by third parties		–	384
Other long-term liabilities		1 188	1 464
Derivative financial instruments	37	1 092	–
		2 280	**4 438**

The contingent consideration has been reclassified as short term in 2011. Loan granted by third parties bears a 3% interest rate in 2010.

33. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2011	31.12.2010
Short term bank borrowings		38 150	61 596
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	28	345 226	–
		383 376	**61 596**

The average effective interest paid in 2011 for short term bank borrowings was 1.83% (2010: 3.92%).

34. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2011	31.12.2010
Trade accounts payable – third parties	54 184	55 980
Trade accounts payable – related parties	12	–
	54 196	**55 980**

35. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2011	31.12.2010
Accrued expenses	69 083	73 477
Deferred income	8 776	9 033
Payable to pension fund	682	820
Contingent consideration - short term portion	2 075	435
Other payables	13 204	18 259
	93 820	**102 024**

36. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2011	31.12.2010
Amounts due to customers for contract work	2 242	4 610
Advances from clients	14 255	8 033
	16 497	**12 643**

37. DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Contract of underlying principal amount 31.12.2011	31.12.2010	Assets 31.12.2011	31.12.2010	Liabilities 31.12.2011	31.12.2010
Currency related instruments (level 2)						
– Over the counter currency options	27 625	28 050	–	1 411	2 524	456
– Cross currency swaps	1 696	14 025	–	–	16	–
Interests related instruments (level 2)						
– Interest rate swap	13 160	–	–	–	1 092	–
Total of derivatives financial instruments	**42 481**	**42 075**	**–**	**1 411**	**3 632**	**456**
Of which:						
– Short-term	29 321	42 075	–	1 411	2 540	456
– Long-term	13 160	–	–	–	1 092	–

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. Liabilities in connection with currency related instruments are classified as held-for-trading. Assets and interest related instruments qualify as cash flow hedge. The contractual maturity date of all the currency related instruments is less than one year while the interest related instruments have concomitant maturities with underlying loan agreements. The undiscounted planned cash inflow and outflow in connection with currency related instruments are kCHF 26 781 and kCHF 29 321 respectively (2010: kCHF 43 541 and kCHF 42 075).

38. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

In CHF'000	Notes	2011 Acquisitions	2010 Acquisitions
Tangible fixed assets		50	317
Intangible fixed assets (excluding goodwill)		322	3 324
Net working capital		-75	49
Deferred tax liabilities		–	-701
Long term liabilities		–	-151
Cash and cash equivalents		69	–
Fair value of net assets acquired for the Group	**4**	**366**	**2 838**
Goodwill		–	105
Impact of transaction with non controlling interests	4	–	27 696
Total acquisition costs		**366**	**30 639**
Of which:			
– cash consideration paid		366	30 639
– acquisition costs		–	–
		366	**30 639**
To adjust for:			
– prior years contingent considerations paid		361	2 129
– prior year acquisition costs paid		–	3 624
– correction of prior year purchase price		–	-2 384
– cash and cash equivalents acquired	4	-69	–
Net cash outflow from acquisitions		**658**	**34 008**
of which have been classified for cash flow statement purposes as follow:			
– investing activity (acquisition of subsidiaries, cash outflow):		658	2 688
– financing activity (acquisition of non controlling interests, cash outflow):		–	31 320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

39. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Kudelski family pool	**57%**	**57%**	**24%**	**24%**

The Kudelski family pool includes Stefan and André Kudelski (controlled by André Kudelski).

40. RESEARCH AND DEVELOPMENT

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

In CHF'000	2011	2010
Research and development	214 270	238 011

41. DIVIDEND

The ordinary dividend paid in 2011 was kCHF 16 011 (2010: kCHF 15 958) which corresponds to a dividend of CHF 0.30 (2010: CHF 0.30) per bearer share and CHF 0.03 (2010: CHF 0.03) per registered share.
For the current year, the Board of Directors proposes a dividend of CHF 0.10 per bearer share and CHF 0.01 per registered share. The dividend to be paid is kCHF 5'338 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital. The proposal of the Board of Directors is to pay this dividend out of the newly created Capital contribution reserve and is subject to the approval of shareholders at the Annual General Meeting. It has not been included as a liability in these financial statements.

42. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

	Shares 2011	Shares 2010	Options 2010
Shares underwritten by employees	9 600	7 800	–
Bonus shares and options from ESPP	1 920	976	584
Total employee share program	**11 520**	**8 776**	**584**

In CHF'000	Shares 2011	Shares 2010	Options 2010
Amount paid by employee	71	142	–
Booked corporate charges (excluding social charges)	44	32	5
	115	**174**	**5**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF 2011	Options 2011	Options 2010
In circulation on January 1	20	565	1 292
In circulation on January 1	15	6 691	6 107
Total in circulation on January 1		**7 256**	**7 399**
New rights issued	15	–	584
Rights exercised	20	–	-723
Rights forfeited	20	-565	-4
In circulation on December 31		**6 691**	**7 256**
– of which exercisable as of January 1	20	565	–
– of which exercisable as of December 31	20	–	565
– of which exercisable as of January 1	15	–	–
– of which exercisable as of December 31	15	4 768	–

Shares issued for employees

In 2010, 165 335 bearer shares of Kudelski SA were given to employees for no consideration as part of their remuneration, of which 148 170 include a seven-year blocking period and 17 165 include a three year blocking period. The fair value recognized for this equity based compensation is, in 2010, kCHF 1 982. In 2011, no such distribution occured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

43. OPENTV CORP - SHARE BASED PAYMENTS

On March 26, 2010 OpenTV Corp completed the redemption of all of its outstanding Class A ordinary shares, other than such Class A shares held by Kudelski Group. Since that date OpenTV Corp is a wholly owned subsidiary of the Kudelski Group.

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION

Upon completion of OpenTV Corp's acquisition by the Kudelski Group, OpenTV Corp purchased 16 752 Kudelski SA bearer shares in 2010 in order to establish a retention plan for selected OpenTV employees. Such shares are subject to vesting condition lapsing with respect of one third on each anniversary date of June 30, 2011, June 30, 2012 and June 30, 2013 before such shares are transferred to the employees. The fair value of these shares amounted to kCHF 489 and was based on market price on the purchase date.

In 2011, following the departure of employees, 8 668 shares did and will not vest and were transferred to Kudelski SA while 5 584 shares vested and were transferred to the employees. The expense of kCHF 46 (2010: kCHF 135) is charged to the income statement according to the vesting conditions.

Before the full acquisition of the Group, OpenTV Corp, a subsidiary of the Group, recognizes compensation expenses for shares and share options granted to employees and board members as detailed below.

OTHER OPENTV CORP SHARE BASED PAYMENT

Prior to the full acquisition of OpenTV Corp in 2010, OpenTV Corp recognized compensation expenses for shares and share options granted to employee and board members as detailed below. Such plans are no longer valid since the full acquisition in 2010.

Stock option plan

In 2011 and 2010, no option was granted to employees and board members of OpenTV Corp. In 2010, Employees and board members of OpenTV Corp exercised 85 815 options with an average strike price of USD 1.16. In April 2010, OpenTV Corp accelerated its employee stock option vesting as a result of Kudelski's acquisition, and redeemed all its outstanding and vested stock options. The table below summarizes movements in options in 2011 and 2010:

	Options outstanding	Exercice price	Weighted average exercice price
		in USD	in USD
Balance, January 1, 2010	**4 697 728**	**–**	**4.65**
Options exercised	-85 815	1.03 – 1.51	1.16
Options redeemed	-4 611 913	1.03 – 82.06	4.66
Balance, December 31, 2010 and 2011	**–**	**–**	**0.00**

As of December 31, 2010 and 2011, OpenTV Corp did not have any stock options outstanding.

EMPLOYEE AND BOARD MEMBERS SHARE ALLOCATIONS

In March 2008, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's executive chairman. Such shares are restricted as to sale or transfer for a period of four years from the date of grant.

In November 2008, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's chief executive officer. The restriction as to sale or transfer of such shares lapse with respect to one-third of the restricted shares on each of March 5, 2009, 2010 and 2011. As of December 31, 2009, restrictions as to 33 333 of such shares lapsed and OpenTV Corp withheld 12 864 of such shares to satisfy applicable withholding tax liabilities.

In March 2009, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's chief executive officer. The restrictions as to sale or transfer for such shares lapse with respect to one-third of the restricted shares on each January 1, 2010, 2011 and 2012.

In January 2010, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's chief executive officer. The restrictions as to sale or transfer for such shares lapse with respect to one-third of the restricted shares on each January 1, 2011, 2012 and 2013.

Subsequently, OpenTV Corp removed the restrictions and redeemed all these shares in April 2010 as result of Kudelski's acquisition.

Pursuant to the company's share based compensation plan, upon a change in control in the company, outstanding stock options and stock award held by an employee become fully vested. The closing of the tender offer by the Kudelski Group qualified as a change of control as defined in the share based compensation plan. As a result, on November 25, 2009, OpenTV Corp accelerated all of the unvested shares causing the remaining share-based compensation expense to be recognized in the second half of 2009. Therefore the activity relating to OpenTV's unvested restricted shares during the years ended December 31, 2010 is as follows:

	Number of Shares	Weighted average Grant date fair value
Unvested share balance, January 1, 2010	**–**	**–**
Unvested restricted shares granted	100 000	1.55
Restriction removed as a result of Kudelski Group acquisition	-100 000	1.55
Unvested shares balance, December 31, 2011 and 2010	**–**	**0.00**

At December 31, 2011 and 2010, OpenTV Corp did not have any stock options outstanding.

OTHER SHARE BASED TRANSACTIONS

In 2010, OpenTV Corp converted its non controlling interests in its subsidiary, OpenTV Inc., into OpenTV Corp shares for kCHF 47. After the conversion, there are no remaining minority shares from OpenTV Inc. outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

OPENTV SHARE BASED TRANSACTIONS IMPACTS

The impact of OpenTV Corp share based transactions on the Group financial statements is as follows:

In CHF'000	Retained earnings	Translation difference	Income statement	Retained earnings	Translation difference	Income statement
	2011	2011	2011	2010	2010	2010
Stock option and share based compensation expense recognized	–	–	–	–	–	–
Redeem of restricted shares and options	–	–	–	1 101	–	-1 101
Exercise of options	–	–	–	-108	–	108
Conversion by minority into OpenTV Corp shares				44		
Impact of shares cancelled for withholding tax purposes						
Total in OpenTV Corp books	**–**	**–**	**–**	**1 037**	**–**	**-993**
Acceleration of vesting period considered as acquisition cost	–	–	–	–	–	993
Total in Kudelski Group books	**–**	**–**	**–**	**1 037**	**–**	**–**

44. RELATED PARTIES

Trading transactions

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

	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
In CHF'000	**2011**	**2010**	**2011**	**2010**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**
Hantory Co., Ltd	4 019	2 633	–	–	44	–	854	696
APT-Skidata Ltd	4 118	4 391	–	–	12	–	855	875
Skidata Parking System	8 269	10 128	–	–	–	–	2 860	2 032
SKIDATA India Private Limited	580	2 393	–	–	–	–	216	838
Resort Technology Partners LLC	3 940	2 425	–	–	–	–	–	3 023
Tickercorner Group	–	28	–	–	–	–	–	–
Audio Technology Switzerland SA	1 930	–	–	–	–	–	1 930	–
Total associated companies	**22 856**	**21 998**	**–**	**–**	**56**	**–**	**6 715**	**7 464**
Polyright SA	–	71	131	75	–	17	–	407
Nagra Thomson Licensing	–	64	231	–	–	–	–	–
Total joint ventures	**–**	**135**	**362**	**75**	**–**	**17**	**–**	**407**

APT SkiData and SkiData Parking Ltd are sales representatives companies for SkiData Group. Polyright SA and Nagra Thomson Licensing were disposed of in 2011, while Ticketcorner was sold in 2010.

Audio Technology Switzerland acquired the audio business carved out from Kudelski. Audio Technology Switzerland is considered as a related party as Kudelski Board members and Executives invested in the company. The amount owed by such related party corresponds to the amortized cost value of inventory and fixed assets transfered. An independent third-party assessment identified a price range: the transaction price lies within such range.

45. COMPENSATION, SHAREHOLDINGS AND LOANS

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2011 and 2010 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Other CHF	Total 2011 CHF
Board of Directors					
Kudelski André, chairman	551 000	–	–	–	551 000
Smadja Claude, vice chairman	130 000	–	–	–	130 000
Bucher Norbert, member	60 000	–	–	–	60 000
Dassault Laurent, member	40 000	–	–	–	40 000
Foetisch Patrick, member	60 000	–	–	103 511	163 511
Lescure Pierre, member	120 000	–	–	–	120 000
Kudelski Marguerite, member	50 000	–	–	–	50 000
Zeller Alexandre, member	50 000	–	–	–	50 000
Total board members	**1 061 000**	**–**	**–**	**103 511**	**1 164 511**
Management					
Kudelski André, CEO	563 500	2 329 527	115 000	31 238	3 342 750
Other management members	3 338 449	1 617 730	75 838	128 956	5 454 350
Total Management	**3 901 949**	**3 947 257**	**190 838**	**160 194**	**8 797 100**
Former board members					
Kudelski Stefan, founder and “Président d'honneur“	205 020	–	–	–	205 020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Other CHF	Total 2010 CHF
Board of Directors					
Kudelski André, chairman	547 200	–	–	–	547 200
Smadja Claude, vice chairman	190 775	–	–	–	190 775
Bucher Norbert, member	60 000	–	–	–	60 000
Dassault Laurent, member	40 000	–	–		40 000
Foetisch Patrick, member	60 000	–	–	176 782	236 782
Lescure Pierre, member	120 000	–	–	–	120 000
Kudelski Marguerite, member	50 000	–	–	–	50 000
Zeller Alexandre, member	50 000	–	–	–	50 000
Total board members	**1 117 975**	**–**	**–**	**176 782**	**1 294 757**
Management					
Kudelski André, CEO	555 000	3 130 000	110 000	28 800	5 025 080
Other management members	3 630 298	2 352 855	51 761	155 297	6 764 343
Total Management	**4 185 298**	**5 482 855**	**161 761**	**184 097**	**11 789 423**
Former board members					
Kudelski Stefan, founder and "Président d'honneur"	205 020	–	–	–	205 020

Share allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 120 890 (2010: 148 170) bearer shares granted to certain management members are subject to a 7 year blocking period and 69 948 (2010: 13 591) bearer shares are subject to a 3 year blocking period. 2011 shares allotments were only granted in early 2012.

Compensation does not include reimbursement for business expenses incurred in the performance of their service as well as representation allowances as these are not considered compensation.

At December 31, 2011 and 2010, no guarantees, loans, advances or borrowings in favor of members of the Board of Directors and members of the management or parties closely related to such persons were granted.

As of December 31, 2011, the members of the Board of Directors and members of the management had following interest in the company (without including shares from 2011 variable compensation - issued in 2012):

	31 december 2011			
	Registered shares	Bearer shares	Options	Convertible bond
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	8 034 311	–	–
Smadja Claude, vice chairman	–	1 300	–	–
Bucher Norbert, member	–	1 700	–	–
Dassault Laurent, member	–	2 000	–	–
Foetisch Patrick, member	–	1 000	–	–
Lescure Pierre, member	–	2 000	–	–
Kudelski Marguerite, member	–	3 005 112	–	–
Zeller Alexandre, member	–	7 200	–	–
Total board members	**46 300 000**	**11 054 623**	**–**	**–**
Management				
Kudelski André, CEO	see above	see above	see above	see above
Saladini Mauro, CFO		140 245	880	125 000
Roy Pierre, COO	–	45 711	–	–
Egli Charles, CEO Public Access	–	82 902	120	–
Gani Lucien, General Counsel (until March 2011)	–	36 906	160	–
Osadzinski Alex, EVP Product	–	5 656	–	–
Pitton Yves, SVP Business Development	–	33 822	200	–
Goetschmann Nicolas, Corporate Secretary	–	24 979	240	–
Burke John, SVP head of Human Resources	–	32 490	1 300	–
Mark Beariault, General Counsel (since April 2011)	–	1 000	–	–
Total Management	**–**	**403 711**	**2 900**	**125 000**

Convertible bond is disclosed in CHF nominal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for 2010:

	31 december 2010			
	Registered shares	Bearer shares	Options	Convertible bond
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	8 034 311	–	–
Smadja Claude, vice chairman	–	1 300	–	–
Bucher Norbert, member	–	1 700	–	–
Dassault Laurent, member	–	2 000	–	–
Foetisch Patrick, member	–	1 000	–	–
Lescure Pierre, member	–	2 000	–	–
Kudelski Marguerite, member	–	3 005 112	–	–
Zeller Alexandre, member	–	7 200	–	–
Total board members	**46 300 000**	**11 054 623**	**–**	**–**
Management				
Kudelski André, CEO	see above	see above	see above	see above
Saladini Mauro, CFO	–	159 921	880	125 000
Roy Pierre, COO	–	47 711	–	–
Egli Charles, CEO Public Access	–	82 902	120	–
Gani Lucien, General Counsel	–	36 906	160	–
Osadzinski Alex, EVP Product	–	5 656	–	–
Pitton Yves, SVP Business Development	–	33 822	200	–
Goetschmann Nicolas, Corporate Secretary	–	24 979	240	–
Burke John, SVP head of Human Resources	–	32 490	1 300	–
Total Management	**–**	**424 387**	**2 900**	**125 000**

At December 31, 2011 and 2010, Marguerite Kudelski together with another family member as well as their respective descendants are the beneficial owners, through a common investment structure, of 3 000 000 Kudelski SA bearer shares, which represent 3.2% of the company's voting rights.

46. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2011	2010
Within one year	4 829	7 855
In the second to fifth year inclusive	16 276	23 027
	21 105	**30 882**

47. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2011:

Assets as per balance sheet date December 31, 2011 (in CHF'000)	Note	Derivatives used for hedging	Available-for-sale	Loans and receivables	Total 31.12.2011
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		4 523		4 523
– marketable securities	19		245		245
– long term loans	19			8 906	8 906
– guarantee deposits	19			4 634	4 634
Trade accounts receivable	21			219 922	219 922
Other current assets:					
– Loans	22			1 253	1 253
Cash and cash equivalents	24			289 591	289 591
		–	**4 768**	**524 306**	**529 074**

Liabilities as per balance sheet date December 31, 2011 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2011
Long term financial debt	27			129 953	129 953
Short term financial debt	33			383 376	383 376
Trade accounts payable	34			54 196	54 196
Other payables	35			13 204	13 204
Derivative financial instruments (short and long term)	37	1 092	2 540		3 632
		1 092	**2 540**	**580 729**	**584 361**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for 2010:

Assets as per balance sheet date December 31, 2010 (in CHF'000)	Note	Derivatives used for hedging	Available-for-sale	Loans and receivables	Total 31.12.2010
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		4 572		4 572
– marketable securities	19		385		385
– long term loans	19			2 220	2 220
– guarantee deposits	19			5 441	5 441
Trade accounts receivable	21			239 973	239 973
Other current assets:					
– Loans	22			306	306
Financial assets:					
– marketable securities	23		692		692
– derivatives	23	1 411			1 411
Cash and cash equivalents	24			199 031	199 031
		1 411	5 649	446 971	454 031

Liabilities as per balance sheet date December 31, 2010 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2010
Long term financial debt	27		352 899	352 899
Other long term liabilities	32		384	384
Short term financial debt	33		61 596	61 596
Trade accounts payable	34		55 980	55 980
Other payables	35		18 259	18 259
Derivative financial instruments	37	456		456
		456	489 118	489 574

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In CHF'000	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Financial liabilities				
– CHF 350 million unsubordinated convertible bond	345 226	349 514	339 205	345 597
– CHF 110 million bond	108 659	107 287	–	–

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

49. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

The following table analyses the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for the convertible bond in 2011.

In CHF'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Convertible bond	355 688	5 688	–	355 688	–	–	-10 462	-22 171	345 226	339 205
Bond	3 300	–	123 200	–	–	–	-17 841		108 659	
Long term bank loans	498	379	22 924	14 235		–	-2 128	-920	21 294	13 694
Long term loans – third parties	–	11	–	360	–	34	–	-21	–	384
Short term financial debt	38 352	62 219					-202	-623	38 150	61 596
Trade accounts payable	54 196	55 980							54 196	55 980
Other payables	13 204	18 259							13 204	18 259
Total	**465 238**	**142 536**	**146 124**	**370 283**	**–**	**34**	**-30 633**	**-23 735**	**580 729**	**489 118**

In spite of convertible bond maturing within less than 12 months, the Group has a stong cash position and credit facilities sufficient to provide for these payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

50. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 15% (2010: 15%) increase and decrease to the USD and a 15% (2010: 15%) increase or decrease to the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a here above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit where the foreign currency strengthens against the relevant currency.

In CHF'000	USD 2011	USD 2010	EUR 2011	EUR 2010
Post-tax net income				
– Increase	-1 816	15 187	14 868	3 992
– Decrease	2 571	-17 882	-13 985	-3 992
Equity (post-tax effect)				
– Increase	14 286	20 928	3 175	31 112
– Decrease	-14 286	-19 740	-3 175	-31 112

Interest rates

The sensitivity analysis below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates have been selected in order to report the sensitivity analysis corresponding to the treasury which represent management's assessment of the reasonably possible change in interest rates:
- USD: increase of 150 basis points and decrease of 50 basis points (2010: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2010: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 10 basis points (2010: 150 basis points increase or 50 decrease)

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:
- post-tax profit for the year ended December 31, 2011 would increase by kCHF 2 332 and decrease by kCHF 415 (2010: increase by kCHF 1 334 /decrease by kCHF 445). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 399 and decrease by kCHF 129 (2010: increase by kCHF 10 / decrease by 3) . In 2011, the amount is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting while in 2010 available-for-sale marketable securities were linked to debt instruments.

Equity prices

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

51. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2011	31.12.2010
Guarantee in favor of third parties	31 502	90 720

52. RISK CONCENTRATION

At December 31, 2011 and 2010, no financial asset exposure was more than 10% of the financial assets, with the exception of cash balances deposited within a high rated bank.

53. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2011 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

54. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow-to-net financial debt ratio as at 31 December 2011 was 38.7% (2010: 69.2%).

55. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2011	2010	2011	2010
1 USD	0.9400	0.9350	0.8860	1.0400
1 EUR	1.2150	1.2500	1.2330	1.3800
1 GBP	1.4500	1.4500	1.4150	1.6100
1 SGD	0.7240	0.7300	0.7050	0.7650
1 AUD	0.9550	0.9540	0.9140	0.9600
100 MYR	29.7000	30.4000	28.9700	32.3700
100 SEK	13.6200	13.9100	13.6500	14.4500
100 CNY	14.9400	14.2000	13.7200	15.4000
100 JPY	1.1213	1.1500	1.1125	1.1900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

56. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on February 22, 2012.

57. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Method	Percentage held 2011	Percentage held 2010
Digital Television solutions					
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	Full consolidation	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	Full consolidation	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	Full consolidation	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	Full consolidation	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	Full consolidation	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	Full consolidation	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	Full consolidation	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	Full consolidation	50	50
Nagra Thomson Licensing SA	FR – Paris	Intellectual property management	Joint-venture	–	50
Public Access solutions					
SkiData Group	AT – Gartenau	People and car access systems	Full consolidation	100	100
Polyright SA	CH – Sion	Multifunction chipcard system	Joint-venture	–	50
Middleware & Advertising					
OpenTV Group *	US - Delaware	Middleware for set-top-boxes and advertising solutions	Full consolidation	100	100
Nagra Media UK (former Quative)	UK – London	IPTV solutions	Full consolidation	100	100
Corporate					
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	Full consolidation	100	100
Kudelski Financial Services SCA	LU – Luxemburg	Finance, convertible bearing company	Full consolidation	100	100

Full consolidation method applied
Joint-venture accounting applied
Equity method of accounting applied

* Including amongst other OpenTV Interactive Software (Beijing) Co. Ltd, China, OpenTV Australia Pty Ltd, Australia, Nagra Media Japan K.K., Japan.

58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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

Global risk management

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

Financial Risk Management

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 52 to 111), for the year ended 31 December 2011.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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

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

pwc

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Stéphane Jaquet Audit expert

Lausanne, February 22, 2012

BALANCE SHEETS AT DECEMBER 31, 2011 AND 2010

ASSETS

In CHF'000	Notes	31.12.2011	31.12.2010
Fixed assets			
Financial fixed assets			
Investments	3.1	426 816	404 637
Loans to Group companies		706 292	670 773
Total fixed assets		**1 133 108**	**1 075 410**
Current assets			
Accounts receivable from Group companies		34 038	54 724
Other accounts receivable and accruals	3.2	1 464	1 058
Treasury shares	3.4	74	–
Cash and cash equivalents	3.3	10 992	31 664
Total current assets		**46 568**	**87 446**
Total assets		**1 179 676**	**1 162 856**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2011	31.12.2010
Shareholders' equity			
Share capital		533 798	533 683
Legal reserve:			
– General reserve		45 349	84 122
– Capital contribution reserve		43 304	–
– Reserve for treasury shares		326	489
Retained earnings		374 521	304 285
Net income		-25 930	90 615
Total shareholders' equity	**3.4**	**971 368**	**1 013 194**
Long-term liabilities			
Loans from Group companies		82 883	97 420
Bonds		110 000	–
Total long-term liabilities		**192 883**	**97 420**
Current liabilities			
Short-term loans from Group companies		14 395	25 662
Other liabilities and accruals		1 030	543
Bank, short term borrowings		–	24 310
Bank overdraft		–	1 727
Total current liabilities		**15 425**	**52 242**
Total liabilities		**208 308**	**149 662**
Total shareholders' equity and liabilities		**1 179 676**	**1 162 856**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2011

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

In CHF'000	Notes	2011	2010
Royalty income and other		58	1 087
Financial income	4.1	85 684	122 857
Gain/(Loss) on sale of investments	4.2	-425	399
Administrative and other expenses	4.3	-6 326	-6 910
Financial expenses and exchange result	4.4	-9 524	-7 630
Impairment of financial fixed assets and release of provision for impairment	4.5	-95 397	-19 123
(loss)/Income before tax		**-25 930**	**90 680**
Income tax		–	-65
Net (loss)/income		**-25 930**	**90 615**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2011

In CHF'000	General reserve	Capital contribution reserve	Retained earnings
Balance brought forward from previous year	88 653	–	374 358
Initial recognition of Capital contribution reserve	-43 304	43 304	–
Decrease of treasury shares reserve	–	–	163
Net result	–	–	-25 930
Total available earnings	**45 349**	**43 304**	**348 591**
Proposal of the Board of Directors:			
Ordinary dividend:			
– CHF 0.10 on 48'749'832* bearer shares	–	-4 875	–
– CHF 0.01 on 46'300'000 registered shares	–	-463	–
General reserve allocation	64 651	–	-64 651
Balance to be carried forward	**110 000**	**37 966**	**283 940**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2011 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital.

NOTES TO THE FINANCIAL STATEMENTS 2011

1. GENERAL COMMENTS

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The statutory financial statements of Kudelski SA are prepared in accordance with the requirements of the Swiss Code of Obligations. These financial statements were prepared under the historical cost convention and on an accrual basis.

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 generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

EXCHANGE RATE DIFFERENCES

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement, whilst a net gain is deferred.

TREASURY SHARES

Treasury shares are measured at the lesser of their acquisition cost and their stock market value. In compliance with Article 659 a para 2 of the Swiss Code of Obligations, the company allocated a total corresponding to the acquisition value of treasury shares to a separate reserve for shares held by the company and its affiliates.

NOTES TO THE FINANCIAL STATEMENTS 2011

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2011	2010
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	kCHF	12 000	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	UK – St. Albans	Sales and support	kGBP	1	100	100
Nagravision GmbH	DE – Hildesheim	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	1 010	100	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	100
Polyright SA	CH - Sion	Physical access	kCHF	2 000	–	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	kCHF	1 000	100	100
Kudelski Financial Services Holding SCA	LU – Luxembourg	Finance	kCHF	37 050	M	100
Kudelski Luxembourg Sàrl	LU – Luxembourg	Finance	kEUR	13	L	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	–
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Kudelski Malaysia SDN. BHD.	MA – Kuala Lumpur	Services	kMYR	–	L	100
Abilis Systems Sàrl	CH – Plan-les-Ouates	Research & development for mobile phones	kCHF	20	100	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Software integration for Digital TV	KCNY	100	100	100
Nagra Media UK (former Quative)	UK – London	IPTV Solutions	KGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Services	kEUR	25	100	100
Nagravision Italy Srl	IT – Bolzano	Services	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	50	50
EnMedia Software Technologies Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	–
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	50 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	–
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Trading for DTV	kCNY	5 000	100	–
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Middleware and advertising	kUSD	5 270	100	–
OpenTV UK Ltd	UK – London	Middleware and advertising	kGBP	100	100	–
OpenTV GmbH (Switzerland)	CH - Stans	Middleware and advertising	CHF	100	100	–
OpenTV Netherlands B.V.	NL - Amsterdam	Middleware and advertising	kEUR	18	100	–
Nagra Media Japan K.K.	JP - Tokyo	Middleware and advertising	kJPY	10 000	100	–

M = merged company

L = liquidated company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2011	31.12.2010
Other accounts receivable	4	417
Prepaid expenses and accrued income	1 341	602
Withholding tax	119	39
	1 464	**1 058**

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2011	31.12.2010
Cash at bank and in hand	10 992	31 664
	10 992	**31 664**

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contribution reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2009	**531 935**	**81 507**	**–**	**380**	**322 532**	**936 354**
General reserve allocation		2 193			-2 193	–
Dividend					-15 958	-15 958
Share capital increase	1 748	422				2 170
Allocation to reserve for treasury shares			–	489	-489	–
Release of reserve for treasury shares			–	-380	380	–
Merger premium					13	13
Net income					90 615	90 615
As of December 31, 2010	**533 683**	**84 122**	**–**	**489**	**394 900**	**1 013 194**
General reserve allocation		4 531			-4 531	–
Dividend					-16 011	-16 011
Share capital increase	115					115
Release of reserve for treasury shares				-163	163	–
Transfer of general legal reserve to capital contribution reserve		-43 304	43 304			–
Net loss					-25 930	-25 930
As of December 31, 2011	**533 798**	**45 349**	**43 304**	**326**	**348 591**	**971 368**

As of January 1, 2011 a new Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of new capital contribution reserve, created out of aditional paid in capital since January 1, 1997. The Federal Tax Administration has approved that CHF 43 303 914 capital contribution qualify under this law. As a consequence Kudelski SA reclassified such amounts from the general reserve to the capital contribution reserve.

NOTES TO THE FINANCIAL STATEMENTS 2011

TREASURY SHARES

	Number of bearer shares	Reserve for treasury shares
		CHF '000
As of December 31, 2009	**20 155**	**-380**
Sale of treasury shares (Kudelski SA)	-20 155	380
Acquisition of treasury shares (affiliated companies)	16 752	-489
As of December 31, 2010	**16 752**	**-489**
Treasury shares granted to employees	-5 584	163
As of December 31, 2011	**11 168**	**-326**

Reserve for treasury corresponds to the purchase consideration for the treasury shares purchased by Kudelski SA and its affiliates. As of December 31, 2011 8 668 (2010: 0) treasury shares were owned by Kudelski SA and 2 500 (2010: 16 752) by affiliated companies for a purchase cost of kCHF 253 (2010: 0) and kCHF 73 (2010: kCHF 489) respectively.
The value for treasury shares presented under current assets in the Kudelski SA balance sheet has been impaired for kCHF 179 (2010: 0).

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2011	31.12.2010
48'749'832 / 48'738'312 bearer shares, at CHF 10 each	487 498	487 383
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	533 798	**533 683**

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

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2011	2010
Conditional share capital as of January 1	107 755	109 503
Employee share purchase plan	-116	-88
Exercise of options	–	-7
Shares allotted to employees	–	-1 653
Conditional share capital at December 31	**107 639**	**107 755**
Of which may be utilized as of December 31 for:		
– Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
– Options or share subscriptions to employees:		
763'924 / 775'444 bearer shares, at CHF 10 each	7 639	7 755
	107 639	**107 755**

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 million, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2008 General Meeting approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 17 477 820 consisting of 1 747 782 bearer shares of a nominal value of CHF 10.

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2011	31.12.2010
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 4, 2012, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Kudelski family pool	57%	57%	24%	24%

3.5 BOND

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

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2011	2010
Dividends received from Group subsidiaries	53 876	92 224
Interest income third parties	733	664
Interest on loans to Group subsidiaries	31 075	29 743
Other financial income	–	226
	85 684	**122 857**

Other financial income relates to the gain on sales of treasury shares.

NOTES TO THE FINANCIAL STATEMENTS 2011

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

Kudelski SA sold its 10% stake in Thema SAS in 2010, which resulted in a gain of kCHF 399. The 2011 loss relates to the sale of Polyright SA.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2011	2010
Administrative expenses	-4 630	-5 120
Taxes other than income tax	-1 696	-1 790
	-6 326	**-6 910**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2011	2010
Net currency exchange result	-1 302	-2 209
Interest on loans from Group subsidiaries	-4 907	-1 384
Interest expenses and bank charges	-3 315	-4 037
	-9 524	**-7 630**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS AND RELEASE OF PROVISION FOR IMPAIRMENT

In CHF'000	2011	2010
Allocation to provisions on Group investments and loans	-95 218	-48 991
Reversal of provisions on Group investments and loans	–	29 868
Value adjustment on treasury shares	-179	–
	-95 397	**-19 123**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2011	31.12.2010
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	350 000	350 000
Commitment in favor of third parties	1 666	385
	351 666	**350 385**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

Kudelski SA, as the ultimate parent company of the Kudelski Group, is fully integrated into the Group-wide internal risk assessment process. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of Kudelski SA. Disclosure of the Group-wide risk assessment procedures are described in note 58 to the Group's consolidated financial statements.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 113 to 121), for the year ended 31 December 2011.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz
Audit expert
Auditor in charge

Stéphane Jaquet
Audit expert

Lausanne, February 22, 2012

INTERNET LINKS

GROUP WEB SITE
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www.nagra.com/investors.html

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This report contains forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. These statements are subject to known and unknown risks and uncertainties and could be affected by other factors that could cause actual results, plans and objectives to differ materially from those expressed or implied in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, performance of the financial markets, competitive factors and changes in laws and regulations.

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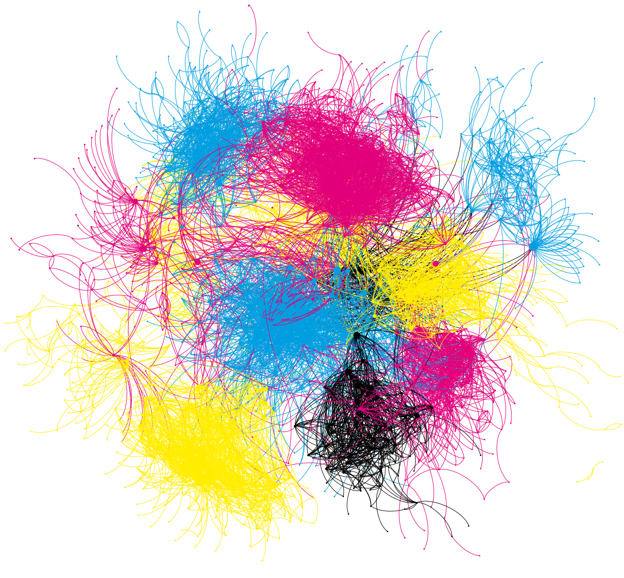
This report is published in French and translated into English, except for the Financial Statements which are only published in English. Except for the Financial Statements, the French version prevails.



This image symbolizes a world where connectivity is growing exponentially

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