

# KUDELSKI GROUP FINANCIAL STATEMENTS 2001

CONSOLIDATED FINANCIAL STATEMENTS OF KUDELSKI GROUP  
FINANCIAL STATEMENTS OF KUDELSKI SA

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# FINANCIAL STATEMENTS 2001

CONSOLIDATED FINANCIAL STATEMENTS OF KUDELSKI GROUP

**KUDELSKI GROUP**

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

<b>ASSETS</b>	Notes	12.31.2001	12.31.2000
<b>Fixed assets</b>			
Intangible assets	(3.1)	24 757	12 165
<b>Financial assets</b>			
Long-term investments	(3.2)	11 704	202
Loans	(3.3)	34 266	2 457
<b>Tangible assets</b>			
Land and buildings	(3.4)	35 622	23 964
Fixtures and fittings	(3.5)	24 278	11 708
<b>Total fixed assets</b>		<b>130 627</b>	<b>50 496</b>
<b>Current assets</b>			
Inventories	(3.6)	54 129	29 129
Work in progress	(3.7)	412	3 855
Trade accounts receivable	(3.8)	292 279	184 949
Other receivables	(3.9)	28 469	21 844
Cash and cash equivalents	(3.10)	415 857	554 395
<b>Total current assets</b>		<b>791 146</b>	<b>794 172</b>
<b>TOTAL ASSETS</b>		<b>921 773</b>	<b>844 668</b>

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS 2001

The auditor's opinion, accounting policies and notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

**KUDELSKI GROUP**

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>12.31.2001</b>	<b>12.31.2000</b>
<b>Shareholders' equity</b>			
Share capital		512 941	499 310
Share premium and reserves		47 989	174 663
<b>Total shareholders' equity, Group's interest</b>		<b>560 930</b>	<b>673 973</b>
Minority interests		19 921	19 183
<b>Total shareholders' equity</b>	(3.11)	<b>580 851</b>	<b>693 156</b>
<b>Long-term liabilities</b>			
Provisions	(3.12)	41 276	4 319
Other long-term loans		3 800	5 077
<b>Total long-term liabilities</b>		<b>45 076</b>	<b>9 396</b>
<b>Current liabilities</b>			
Bank overdrafts		51 743	10 784
Trade accounts payable	(3.13)	111 445	76 470
Advances received from clients		13 600	10 419
Other payables		33 692	17 446
Short-term provisions	(3.14)	31 645	3 914
Accrued liabilities	(3.15)	53 721	23 083
<b>Total current liabilities</b>		<b>295 846</b>	<b>142 116</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>921 773</b>	<b>844 668</b>

The auditor's opinion, accounting policies and notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

**KUDELSKI GROUP**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**  
(in thousands of CHF)

	Notes	2001	2000
Sales	(4.1)	339 860	192 659
Sales on long-term contracts	(4.1)	99 969	160 749
Capitalization of new product development costs	(4.2)	15 616	6 119
<b>Total income</b>		<b>455 445</b>	<b>359 527</b>
6 Cost of goods and components sold	(4.3)	-185 651	-181 211
<b>Gross margin</b>		<b>269 794</b>	<b>178 316</b>
Salaries and wages		-86 609	-44 319
Operating expenses	(4.4)	-44 207	-23 535
Sales and administration costs	(4.5)	-36 731	-23 765
<b>EBITDA, Operating income before interest, taxes, depreciation and amortization</b>		<b>102 247</b>	<b>86 697</b>
Change in provisions		-3 075	123
Depreciation and amortization		-16 199	-11 415
<b>EBIT, Operating income</b>		<b>82 973</b>	<b>75 405</b>
Financial income	(4.6)	17 105	6 955
Financial expenses	(4.7)	-3 094	-904
Extraordinary income	(4.8)	17 909	—
Extraordinary expenses	(4.8)	-34 243	—
<b>Net income before tax and minority interests</b>		<b>80 650</b>	<b>81 456</b>
Income tax	(4.9)	-9 056	-8 513
<b>Net income of the Group</b>		<b>71 594</b>	<b>72 943</b>
Minority interests		492	-6 325
<b>NET INCOME</b>		<b>72 086</b>	<b>66 618</b>
<b>As a percentage of income</b>			
Operating income		18%	21%
Net income		16%	19%
<b>Earnings per share (in CHF)</b>			
Basic / diluted earnings per share	(4.10)	1.42	1.47

KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS 2001

The auditor's opinion, accounting policies and notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

**KUDELSKI GROUP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**  
(in thousands of CHF)

	Notes	2001	2000
<b>Operating cash flow</b>	(5.1)	<b>56 347</b>	<b>32 171</b>
Interest paid		-1 973	-904
Interest received		13 572	5 816
Tax paid		-13 332	-4 060
<b>Net cash from operating activities</b>		<b>54 614</b>	<b>33 023</b>
Investment of intangible assets		-20 684	-5 767
Investment of tangible assets		-14 707	-12 772
Investment in financial assets		-42 128	-2 487
Realized gain on financial investment		17 909	0
Acquisition of subsidiaries, cash outflow	(5.2)	-124 127	-4 374
<b>Net cash used in investing activities</b>		<b>-183 737</b>	<b>-25 400</b>
Increase in share capital and agio		0	488 016
Change in long-term loans		-9 968	-1 369
Payments from minority shareholders		931	150
Dividends paid to minority interests		-1 000	-1 000
<b>Net cash used in / from financing activities</b>		<b>-10 037</b>	<b>485 797</b>
Effect of exchange rate changes on cash and cash equivalents		622	-186
<b>Movement in cash and cash equivalents</b>		<b>-138 538</b>	<b>493 234</b>
Cash and cash equivalents at January 1		554 395	61 161
Cash and cash equivalents at December 31		415 857	554 395
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>		<b>-138 538</b>	<b>493 234</b>

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The auditor's opinion, accounting policies and notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

**KUDELSKI GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2001 AND 2000**

**1. GENERAL COMMENTS AND PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements for the years ended December 31, 2001 and 2000 are prepared in accordance with Swiss GAAP FER and give a true and fair view of the financial position and results of the Group.

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

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

**Subsidiaries**

Full consolidation has been applied to those companies in which the Group owns more than 50% of the share capital and voting rights.

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

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

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

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

**Joint-ventures**

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

**Associates**

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



**KUDELSKI GROUP**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2001 AND 2000**
**SCOPE OF CONSOLIDATION**

Companies	Location	Activity	Percentage held		Consolidation method	
			2001	2000	2001	2000
Kudelski SA	CH-Cheseaux	Holding	—	—	—	—
Nagravision SA	CH-Cheseaux	Digital TV and audio production	100	100	FC	FC
NagraCard SA	CH-Cheseaux	Smartcards production and sales	100	100	FC	FC
Nagra Trading SA	CH-Cheseaux	Trading	100	100	FC	FC
Nagravision						
Iberica SL	ES-Madrid	Sales	100	100	FC	FC
Nagra France Sarl	FR-Paris	Sales	100	100	FC	FC
Nagra Kudelski						
(GB) Ltd	GB-St. Albans	Sales	100	100	FC	FC
Nagra Italia SRL	IT-Roma	Sales	100	100	FC	FC
Nagra Kudelski						
GmbH	DE-Munich	Sales	100	100	FC	FC
Nagra USA, Inc.	US-Nashville	Sales	100	100	FC	FC
Smartcards sales and pay TV						
NagraStar LLC	US-Englewood	site maintenance	50	50	FC	FC
Nagra Plus	CH-Cheseaux	Analog TV	50	50	FC	FC
Nagra-Futuris SA						
(form. Intelegis SA)	CH-Neuchâtel	Digital access broadband (DAB)	50	50	FC	FC
CH-						
NagraID SA	Chaux-de-Fonds	Identification security systems	100	50	FC	FC
CH-						
Thermoplex	Chaux-de-Fonds	Scrambling security	100	—	FC	—
F. Droz SA	Chaux-de-Fonds	systems-contactless	100	—	FC	—
MediaCrypt AG	CH-Zurich	Scrambling security systems	50	50	FC	FC
Précision Electronique						
Precel SA	CH-Neuchâtel	Electronics and mechanical	100	100	FC	FC
Political Rights SA						
(Polirights)	CH-Geneva	Secure interactive communication solutions for public administration	66	66	FC	FC
SportAccess						
Holding SA	CH-Sion	Holding	78	76	FC	FC
SportAccess						
Kudelski SA	CH-Sion	Access control system	55	54	FC	FC
SportAccess						
Kudelski AG	AT-Bregenz	Access control system	55	54	FC	FC

(FC: Full consolidation)

**KUDELSKI GROUP**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2001 AND 2000**
**SCOPE OF CONSOLIDATION**

Companies	Location	Activity	Percentage held		Consolidation method	
			2001	2000	2001	2000
Systems Ticketsysteme Vertriebs GmbH	DE-Kaufbeuren	Access control system	55	54	FC	FC
Systems Produktion AG	LI-Mauren	Access control system	55	54	FC	FC
Systems Ticketing AG	CH-Muri	Access control system	55	54	FC	FC
e-prica AG	CH-Lyss	Security system and smartcards in the health sector	50	—	FC	—
Livewire Communications, Inc.	US-Gainesville	Software development	100	—	FC	—
Leman Consuting SA	CH-Nyon	Advice in intellectual property	100	—	FC	—
TicketCorner AG	CH-Rümlang	Ticketing and entertainment	100	—	FC	—
Lysis International SA	CH-Lausanne	Holding	100	—	FC	—
Lysis SA	CH-Lausanne	Software development in audio-visual rights management	100	—	FC	—
Lysis Trading SA	CH-Lausanne	Sales	100	—	FC	—
Lysis America Ltd	US-Atlanta	Sales	100	—	FC	—
Lysis UK Ltd	GB-London	Software development and sales	100	—	FC	—
Lysis Asia Pte Ltd	SG-Singapore	Sales	100	—	FC	—
SkiData AG	AT-Gartenau	Mixed holding and access control system	100	—	FC	—
SkiData Benelux BV	NL-Capelle	Access control system	100	—	FC	—
Lepanto Technologie AG	AT-Gartenau	Access control system	100	—	FC	—
SkiData Sàrl (Italy)	IT-Bolzano	Access control system	100	—	FC	—
SkiData Scandinavia AB	SE-Kil	Access control system	100	—	FC	—
SkiData (Schweiz) AG	CH-Diepoldsau	Access control system	100	—	FC	—
SkiData Computer GmbH	DE-Landshut	Access control system	100	—	FC	—

**KUDELSKI GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2001 AND 2000**

**SCOPE OF CONSOLIDATION**

Companies	Location	Activity	Percentage held		Consolidation method	
			2001	2000	2001	2000
SkiData France Sàrl	FR-Argenteuil	Access control system	100	—	FC	—
SkiData France SA	FR-Meylan	Access control system	100	—	FC	—
Medatec Computer GmbH	AT-Hard	Access control system	85	—	FC	—
SkiData of America, Inc.	US-Los Angeles	Access control system	100	—	FC	—
SkiData Parking Services USA, LLC	US-Bound Brook	Access control system	100	—	FC	—
SkiData Nippon Co. Ltd	JP-Tokyo	Access control system	100	—	FC	—
Access Arena AG	CH-Rümlang	Destination management	41	—	EM	—
SwissAccess Group AG	CH-Saint-Gall	Ticketing and access control for Expo.02	25	—	EM	—
Digital Elektronik GmbH	AT-Gartenau	Access control system	25	—	EM	—
APT-SkiData Limited	GB-Middlesex	Access control system	26	—	EM	—
SkiData Parking Systems Ltd	HK-Hong Kong	Access control system	26	—	EM	—
Kabushiki Laisha Skidata	JP-Tokyo	Access control system	25	—	EM	—

(FC: Full consolidation)  
(EM: Equity Method)

**NON-CONSOLIDATED INVESTMENTS**

Companies	Location	Activity	Percentage held	
			2001	2000
Pay TV SA	CH-Lausanne	Pay TV	6	6
Nagra Travel Sàrl	CH-Cheseaux	Travel agency	100	100
A Novo Americas LLC	US-Delaware	Services	10	10

### Changes in scope of consolidation

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

- e-prica AG, Lyss, was established as a joint venture with the Swiss pharmaceutical group Galenica Holding SA. e-prica's activities are the development and marketing of data communication media, such as smart cards designed to guarantee the protection of sensitive data in the field of health.
- Livewire Communications Inc., Gainesville, is a software engineering company of which 100% was acquired in April 2001. It produces in particular set-top software, conditional access software and systems engineering and integration services for the US cable and satellite television markets.
- Leman Consulting SA, Nyon, in which a 100% interest is held, was established in May 2001. This company provides consulting in intellectual property.
- TicketCorner AG, Rümlang. This company provides ticketing and event organization services. 100 % was bought in May 2001.
- Lysis International SA, Lausanne. This company owns 100% of Lysis SA, Lausanne, Lysis Trading SA, Lausanne, Lysis America Ltd, Atlanta, Lysis UK Ltd, London and Lysis Asia Pte Ltd, Singapore. This group of companies is fully consolidated from April 2001. The company is active in the field of digital TV and audio-visual rights management and provides related software to network operators, broadcasters and content owners.

- NagralD SA and Thermoplex F. Droz SA, La Chaux-de-Fonds: the Group has increased its percentage holding in NagralD SA from 50% to 100% and 100% of Thermoplex F. Droz SA was acquired in October 2001. These entities are active in identification security systems, particularly in contactless chips and transponders.
- SkiData Group, Gartenau, in the area of Salzburg, is a group comprising by 16 entities providing access control systems. This Group is fully integrated into the scope of consolidation at 100% of held since September 2001.
- Access Arena AG, Rümlang. This company, in which a 41% interest is held, was established in December 2001 for the creation of a global digital platform that will link together providers and operators in the tourism industry of a given region.

In 2000 the consolidation scope was modified by the inclusion of the following entities:

- SportAccess Holding SA, Sion, in which a 76% interest is held, owns SportAccess Kudelski SA, which provides access control systems.
- Précision Electronique Precel SA, Neuchâtel: this company, in which a 100% interest is held, produces electronic and mechanical spare parts.
- Political Rights SA (Polirights), Geneva: this company, in which a 66% interest is held, offers secure interactive communication solutions for public administrations, such as e-voting and cyberadministration.
- Nagravisión Iberica SL, Madrid: this is a selling company for the Spanish market, in which a 100% interest is held.

**KUDELSKI GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2001 AND 2000**

**Consolidation of capital / Treatment of goodwill**

The book value of investments has been eliminated against the share in the net assets of companies acquired or created. The purchase method is applied.

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

In accordance with Swiss GAAP FER 9 relating to financial statement disclosures, the theoretical effect of the amortization of the goodwill over a specified period is explained in note (3.11).

**Foreign currencies**

**Translation of financial statements**

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

**Foreign currency transactions**

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

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	Exchange rates	Average rates		Year-end rates	
		2001	2000	2001	2000
1	USD	1.69	1.69	1.68	1.64
1	GBP	2.43	2.55	2.42	2.41
1	EUR	1.51	1.56	1.48	1.52
100	JPY	1.39	—	1.28	—

**2. ACCOUNTING POLICIES AND VALUATION METHODS**

**Intangible assets**

Know-how represents knowledge acquired from third parties. The annual amortization of know-how depends on its economic life and the corresponding volume of sales. The useful life is from 4 to 8 years.

Developments of new products acquired from third parties together with patents are recorded at acquisition costs. Developments of new products created by the Group include directly incurred cost. Amortization is provided on a straight-line basis over the estimated useful life of 4 to 5 years. Amortization starts as soon as new products are commercialized.

Goodwill is booked directly against shareholders' equity in the year of acquisition and the theoretical effects of the accounting as an asset are mentioned in the notes. The theoretical useful life of goodwill is defined at acquisition and is generally from 10 to 20 years.

**Tangible assets**

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

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

**Technical equipment and machinery**

	Useful life years
Machinery and measurement instruments	4 – 7
Digital material and equipment	4 – 5
Computers and information networks	4
<b>Other equipment</b>	
Office furniture and equipment	5 – 7
Vehicles	4

**Leased tangible 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 associated obligations are included in short and long-term financial liabilities. Rentals payable under operating leases are charged to the income statement as incurred.

**Inventories**

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

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

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

**KUDELSKI GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2001 AND 2000**

**Work in progress**

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

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

**Trade accounts receivable**

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

An estimate is made for doubtful receivables at year-end. A specific provision is recognized for risks on debtors on long-term contracts.

**Cash and cash equivalents**

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

**Financial derivative instruments**

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

The instruments used during the year include forward foreign exchange contracts, currency swaps as well as zero cost option strategies with terms of between one and six months.

The derivative financial instruments are mainly utilized to cover the currency exposure of existing and anticipated receivables or payables in foreign currency.

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

#### Provisions

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

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

#### Deferred taxes

Some restatements made to the statutory accounts in order to bring them into line with the accounting principles of the Group create some temporary differences arising between the tax basis and the result stated for financial reporting purposes. These differences give rise to deferred taxes in the consolidated financial statements, which are recorded using the liability method.

A deferred tax asset is recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

#### Pension scheme

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



**KUDELSKI GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2001 AND 2000**  
(in thousands of CHF)

**3. NOTES TO THE CONSOLIDATED BALANCE SHEET**

**(3.1) Intangible assets**

	Know-how	Development of new products	Patents and other		
<b>Years ended December 31</b>				<b>2001</b>	<b>2000</b>
Gross values at January 1	21 443	27 603	3 561	52 607	46 793
Additions	7	17 542	3 135	20 684	5 767
Disposals	-1 000	-1 342	0	-2 342	-1 169
Changes in the scope of consolidation	0	0	3 269	3 269	1 218
Currency translation adjustment	0	-1 546	-744	-2 290	-2
<b>At December 31</b>	<b>20 450</b>	<b>42 257</b>	<b>9 221</b>	<b>71 928</b>	<b>52 607</b>
<b>Accumulated depreciation at January 1</b>	<b>20 607</b>	<b>18 811</b>	<b>1 024</b>	<b>40 442</b>	<b>35 153</b>
Systematic amortization	842	3 970	1 425	6 237	6 011
Amortization on disposals	-1 000	-1 342	0	-2 342	-1 169
Changes in the scope of consolidation	0	0	1 241	1 241	445
Currency translation adjustment	1	1 348	244	1 593	2
<b>At December 31</b>	<b>20 450</b>	<b>22 787</b>	<b>3 934</b>	<b>47 171</b>	<b>40 442</b>
<b>Net values at December 31</b>	<b>0</b>	<b>19 470</b>	<b>5 287</b>	<b>24 757</b>	<b>12 165</b>
Useful life in years	4 – 8	4 – 5	4 – 5		

**(3.2) Investments**

	<b>12.31.2001</b>	12.31.2000
Crossair AG, common stock	8 214	0
Associates	3 203	0
Non consolidated investments	183	202
Guarantee deposits and others	104	0
	<b>11 704</b>	<b>202</b>

The Group has taken part in the issuance of the new share capital of Crossair AG. The payment amounted to kCHF 10 000 and a write down of 1 786 kCHF has been directly posted against the retained earnings.

**KUDELSKI GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 2001 AND 2000**  
(in thousands of CHF)

**(3.3) Loans**

	12.31.2001	12.31.2000
Loan	30 857	0
Other	3 409	2 457
	<b>34 266</b>	<b>2 457</b>

This is a loan given to a client under specific conditions of interest, payment and guarantees. It should be paid back totally not later than the end of December 2002.

**(3.4) Land and buildings**

	Land	Buildings	Building improvements		
<b>Years ended December 31</b>				2001	2000
Gross values at January 1	7 176	14 743	5 985	27 904	18 810
Additions	2 407	768	2 307	5 482	7 126
Changes in the scope of consolidation	1 000	13 862	1 000	15 862	1 951
Currency translation adjustment	0	-196	-88	-284	17
<b>At December 31</b>	<b>10 583</b>	<b>29 177</b>	<b>9 204</b>	<b>48 964</b>	<b>27 904</b>
Accumulated depreciation at January 1	0	1 664	2 276	3 940	2 405
Systematic depreciation	0	718	1 742	2 460	1 491
Changes in the scope of consolidation	0	6 476	573	7 049	44
Currency translation adjustment	0	-118	11	-107	0
<b>At December 31</b>	<b>0</b>	<b>8 740</b>	<b>4 602</b>	<b>13 342</b>	<b>3 940</b>
<b>Net values at December 31</b>	<b>10 583</b>	<b>20 437</b>	<b>4 602</b>	<b>35 622</b>	<b>23 964</b>
Useful life in years	—	20–33	4–8		

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

	12.31.2001	12.31.2000
Land and buildings capitalized finance leases	8 343	0
Accumulated depreciation	-4 856	0
<b>Net book value</b>	<b>3 487</b>	<b>0</b>

Land and buildings pledged	1 010	1 026
Fire insurance values	38 227	33 047
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 482	2 352

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**(3.5) Fixtures and fittings**

	Technical equipment and machinery	Other equipment		
<b>Years ended December 31</b>			<b>2001</b>	<b>2000</b>
Gross values at January 1	18 374	3 710	22 084	13 838
Additions	7 080	2 145	9 225	5 646
Changes in the scope of consolidation	26 990	573	27 563	2 675
Currency translation adjustment	-856	880	24	-75
<b>At December 31</b>	<b>51 588</b>	<b>7 308</b>	<b>58 896</b>	<b>22 084</b>
Accumulated depreciation at January 1	8 831	1 545	10 376	5 671
Systematic depreciation	6 375	1 127	7 502	3 914
Changes in the scope of consolidation	16 517	118	16 635	864
Currency translation adjustment	-619	724	105	-73
<b>At December 31</b>	<b>31 104</b>	<b>3 514</b>	<b>34 618</b>	<b>10 376</b>
<b>Net values at December 31</b>	<b>20 484</b>	<b>3 794</b>	<b>24 278</b>	<b>11 708</b>
Useful life in years	4 – 7	4 – 7		
<b>Fire insurance value</b>			<b>12.31.2001</b>	<b>12.31.2000</b>
Other fixed assets			34 259	25 500

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

	<b>12.31.2001</b>	<b>12.31.2000</b>
Fixtures and fittings capitalized finance leases	863	0
Accumulated depreciation	-32	0
<b>Net book value</b>	<b>831</b>	<b>0</b>

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**(3.6) Inventories**

	12.31.2001	12.31.2000
Raw material and components	18 786	5 195
Devices in production	10 208	2 594
Finished goods, smartcards and digital material	32 555	22 872
	<b>61 549</b>	<b>30 661</b>
Less: provision	-7 420	-1 532
	<b>54 129</b>	<b>29 129</b>

The change in scope of consolidation accounts for kCHF 27 263 (2000: kCHF 2 023) of the increase in net inventories.

**(3.7) Work in progress**

	12.31.2001	12.31.2000
Work in progress on long-term contracts	412	3 855

**(3.8) Trade accounts receivable**

	12.31.2001	12.31.2000
Trade accounts receivable	228 458	139 433
Due from customers on long-term contracts	76 955	53 311
./. provision for bad debts	-9 271	-4 950
./. provision for bad debts on long-term contracts	-3 863	-2 845
	<b>292 279</b>	<b>184 949</b>

The change in scope of consolidation accounts for kCHF 93 119 (2000: kCHF 7 156) of the increase in net trade accounts receivable.

**(3.9) Other receivables**

	12.31.2001	12.31.2000
Other receivables	9 930	19 930
Accruals	5 965	1 914
Deferred tax asset	12 574	0
	<b>28 469</b>	<b>21 844</b>

The change in scope of consolidation accounts for kCHF 9 379 of the increase in deferred tax asset.

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**(3.10) Cash and cash equivalent**

Cash at bank and in hand	12.31.2001 47 630	12.31.2000 34 881
Short-term deposits	368 227	519 514
	415 857	554 395

**Derivative financial instruments**

The following table presents the contract or notional amount and the carrying values of derivatives financial instruments at December 31, 2001 and 2000, analyzed by contract type. The contract amount or notional amount shows the volume of the underlying transaction at balance sheet date and not the total amount exposed to the risk. The carrying value shows the profit or loss, which these contracts could generate at the expiration date on the basis of the market value at December 31, 2001 and 2000.

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	Forwards and swaps	Options	2001	2000
<b>Years ended December 31</b>			<b>2001</b>	<b>2000</b>
Contract notional amount	56 550	16 600	73 150	41 600
Positive replacement value	—	214	214	1 656
Negative replacement value	-584	—	-584	—
<b>Carrying value of assets (liabilities)</b>	<b>-584</b>	<b>214</b>	<b>-370</b>	<b>1 656</b>

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**(3.11) Change in Shareholders' equity**

	Share capital	Share premium	Other reserves	Goodwill	Consolidated shareholders' equity, Group's interest	Minority interests	Total shareholders' equity
<b>At January 1, 2000</b>	41 599	19 359	78 894	0	139 852	14 356	154 208
Issuance of share capital	457 711	41 598			499 309		499 309
Expense on issuance of share capital		-11 159			-11 159		-11 159
Change in scope of consolidation				-21 119	-21 119	150	-20 969
Dividends paid to minority interests					0	-1 000	-1 000
Currency translation adjustment			472		472	-648	-176
Net income			66 618		66 618	6 325	72 943
<b>At December 31, 2000</b>	<b>499 310</b>	<b>49 798</b>	<b>145 984</b>	<b>-21 119</b>	<b>673 973</b>	<b>19 183</b>	<b>693 156</b>
Shares issued for employees	617				617		617
Change in scope of consolidation	13 014			-196 426	-183 412	1 842	-181 570
Dividends paid to minority interests					0	-1 000	-1 000
Currency translation adjustment			-548		-548	388	-160
Write down of Crossair AG shares			-1 786		-1 786		-1 786
Net income			72 086		72 086	-492	71 594
<b>At December 31, 2001</b>	<b>512 941</b>	<b>49 798</b>	<b>215 736</b>	<b>-217 545</b>	<b>560 930</b>	<b>19 921</b>	<b>580 851</b>

**Theoretical effect of the amortization of goodwill**

Goodwill is booked against shareholders' funds under the Group accounting policies.

If the goodwill had been capitalized as an asset and amortized over a defined period, an additional expense of kCHF 5 634 would have been included in the 2001 income statement (2000: kCHF 632), whereas the shareholders' equity and the total assets would have increased by kCHF 211 236 (2000: kCHF 20 487). No asset impairment test was performed as per Swiss GAAP FER 20.

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**Composition of share capital**

	12.31.2001	12.31.2000
46 664 068 bearer shares of CHF 10 each	466 641	—
46 300 000 registered shares of CHF 1 each	46 300	—
4 543 100/378 481 bearer shares of CHF 100 each	—	454 310
4 500 000/375 000 registered shares of CHF 10 each	—	45 000
	<b>512 941</b>	<b>499 310</b>

May 28, 2001, the nominal value of shares was split by 1:10.

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**Conditional share capital**

	11 009	928
Conditional share capital as at January 1		
Share capital increase as per amended statutes of August 17, 2000	—	10 214
Shares allotted to employees	-617	-133
<b>Conditional share capital as at December 31</b>	<b>10 392</b>	<b>11 009</b>

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an extraordinary General meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000 by the issuance of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by Kudelski Group at the end of January 2002 are explained in note (3.21).

**Authorized share capital**

3 828 632 bearer shares of CHF 10 each	38 286	—
3 200 000 registered shares of CHF 1 each	3 200	—
500 000 bearer shares of CHF 100 each	—	50 000
450 000 registered shares of CHF 10 each	—	4 500
<b>Authorized share capital as at December 31</b>	<b>41 486</b>	<b>54 500</b>

The change in authorized share capital is as follows:

Authorized share capital as at January 1	54 500	0
Share capital increase as per amended statutes of August 17, 2000	—	54 500
Shares allotted for acquisition purpose	-13 014	0
<b>Authorized share capital as at December 31</b>	<b>41 486</b>	<b>54 500</b>

May 28, 2001, the nominal value of shares was split by 1:10.

**Major shareholders**

	Voting rights		Shareholdings	
	12.31.2001	12.31.2000	31.12.2001	31.12.2000
Kudelski Family	64%	64%	34%	35%
Dassault Group	4%	4%	6%	7%

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**(3.12) Provisions**

	Litigation provision	Legal fees lawsuits and risks on contracts	Deferred taxes liability	Other	2001	2000
<b>Years ended December 31</b>						
At January 1	0	2 100	941	1 278	4 319	3 683
Additional provisions		30 036	492		30 528	797
Change in scope of consolidation	10 000		54		10 054	0
Reversed amounts		-2 100	-825	-700	-3 625	-161
<b>At December 31</b>	<b>10 000</b>	<b>30 036</b>	<b>662</b>	<b>578</b>	<b>41 276</b>	<b>4 319</b>

The legal fees provision has been created to cover all the costs relating to the legal actions taken against Group companies, mainly in the United States. The provision for litigation of kCHF 10 000 concerns the newly acquired companies and covers preexisting litigation.

Additional comments on legal cases are detailed in note (3.20)

**Deferred tax liability**

	12.31.2001	12.31.2000
Tax liabilities by temporary differences category:		
Investments	536	116
Tangible fixed assets	126	0
Inventories	0	500
Trade accounts receivable	0	325
	<b>662</b>	<b>941</b>

**(3.13) Trade accounts payable**

	12.31.2001	12.31.2000
Trade accounts payable	80 644	56 951
Due to suppliers on long-term contracts	30 801	19 519
	<b>111 445</b>	<b>76 470</b>

The change in scope of consolidation accounts for kCHF 37 216 (2000: kCHF 3 628) of the increase in trade accounts payable.



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**(3.14) Short term provisions**

	12.31.2001	12.31.2000
Currency risk provision	1 488	0
Restructuring provision	30 157	3 914
	<b>31 645</b>	<b>3 914</b>

Restructuring provisions are booked on the acquisition of new subsidiaries. In 2001, the use of restructuring provisions covers mainly personnel costs and other charges connected with the on going restructuring.

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**(3.15) Accrued liabilities**

	12.31.2001	12.31.2000
Income tax liabilities	13 938	11 114
Capital tax liabilities	927	1 899
Accrued liabilities	37 077	10 070
Accrued income	1 779	0
	<b>53 721</b>	<b>23 083</b>

The change in scope of consolidation accounts for kCHF 22,508 (2000: kCHF 942) of the increase in accrued liabilities.

**(3.16) Other information**

	12.31.2001	12.31.2000
Guarantees in favor of third-parties	10 754	57 976
Current assets pledged to secure own commitments	536	1 451
Penalty risk for non accomplishment of contracts	p.m.	p.m.
Pension fund liability	1 018	808
Off balance sheet lease commitments:		
□ Less than 1 year	223	401
□ More than 1 year and less than 5 years	361	466
Employees	1 275	425

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**(3.17) Retirement benefit plan**

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

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

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

The following table sets forth the status of the pension plan and the amount recognized in the consolidated balance sheet at December 31, 2001 respectively 2000, in accordance with Swiss GAAP FER 16:

	2001	2000
Fair value of plan assets	38 385	31 868
Projected benefit obligation	-46 560	-34 440
<b>Funded status</b>	<b>-8 175</b>	<b>-2 572</b>
Unrecognized transition asset	-460	-494
Unrecognized net (gains) / losses	9 591	3 555
<b>Prepaid pension cost</b>	<b>956</b>	<b>489</b>

The prepaid pension cost that should be recognized in the consolidated balance sheet at December 31, 2001 amounts to kCHF 956 (kCHF 489 at December 31, 2000). However, the Kudelski Group has decided not to activate the surplus of the pension funds.

Abroad, the Group does not sponsor significant defined benefit plans.

The main assumptions used for the calculation of the pension cost and the projected benefit obligation for the years 2001 respectively 2000 are the following:

	2001	2000
Discount rate	5.5%	5.5%
Rate of future increase in compensation	4.0%	4.0%
Rate of future increase in current pensions	2.0%	2.0%
Interest rate credited on savings accounts	5.5%	5.5%
Expected long-term rate of return on plan assets	6.0%	6.0%
Retirement age: males / females	65 / 62 years	65 / 62 years
Turnover (on average)	5.0%	5.0%

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According to Swiss GAAP FER 16, if the surplus had been activated, the following amount should have been recorded as net pension cost in the income statement of the financial year 2001, respectively 2000:

	2001	2000
Expected return on plan assets	2 156	1 703
Service cost	-3 358	-1 738
Interest cost	-2 138	-1 532
Amortization of gains / (losses)	-7	0
Amortization of transition asset	34	34
Employees' contributions	1 804	938
<b>Net pension (cost) / income</b>	<b>-1 509</b>	<b>-595</b>
<b>Employer contributions (cost)</b>	<b>-1 976</b>	<b>-1 084</b>

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As the Group has decided not to activate the surplus of the pension funds, the net pension cost for the financial year 2001 amounts to kCHF 1 976 (kCHF 1 084 for 2000).

**(3.18) Related parties**

There are no material business transactions with related parties in accordance with Swiss GAAP FER 15.

**(3.19) Compensation of members of Board of Directors and Executive management**

**Compensation of non-executive members of Board of Directors**

Non-executive Directors of Kudelski Group received a total amount in cash of compensation in 2001 of kCHF 240.

Directors are also reimbursed for travel and other related expenses associated with the performance of their duties.

**Compensation of members of Executive management**

The global compensation given to the members of Executive management includes a salary and a bonus based on individual performance and the achievement of Group aims. In 2001, members of Executive management received a total monetary remuneration of kCHF 5 697.

### (3.20) Legal and arbitration proceedings

The Group is subject to three lawsuits – alleged infringement of patents – before the American and German Courts. Provisions have been made for these legal proceedings.

Nagravision SA and NagraStar LLC are subject to a pending lawsuit before the Federal Tribunal of the District of Delaware. The claimants are IPPV Entreprise, LLC and MAAST, Inc., and the Defendants are EchoStar Communication Corp., Nagravision SA and NagraStar LLC.

The Claimants say that EchoStar Communication Corp., Nagravision SA and NagraStar LLC have breached several of their patents, which is denied by the Defendants. At December 31, 2001, no definitive quantification of the outcome had been made. Since April 2002, the situation has developed favorably for the defendants.

### (3.21) Subsequent events

On January 25, 2002, an extraordinary general Meeting of Kudelski SA shareholders approved an increase of conditional share capital of kCHF 60 000 by the issuance of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries.

#### The main characteristics of the convertible bonds are the following:

Kudelski Financial Services S.C.A. (the issuer), a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of kUSD 325 000. The initial conversion price is CHF 127.50 per bearer share of Kudelski SA. Kudelski SA guarantees this issuance unconditionally and irrevocably.

The bonds have a denomination of USD 1 000 each, the issue price was 100%; the interest rate is 2.25% per annum, calculated on the nominal amount of the bonds and payable semi-annually in arrears on January 31, and July 31, in each year commencing on July 31, 2002. The yield to maturity is 3% per annum on a semi-annual basis.

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

The convertible bond is quoted at the Luxembourg stock exchange, the ISIN value number is XS0140968842.

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**4. NOTES TO THE CONSOLIDATED INCOME STATEMENT**

**(4.1) Segmental analysis**

Geographical segment information is as follows:

	Europe	America	Asia and Oceania	Africa	
Sales	189 784	126 742	22 716	618	339 860
Sales on long term contracts	70 010	19 315	10 644	0	99 969
	<b>259 794</b>	<b>146 057</b>	<b>33 360</b>	<b>618</b>	<b>439 829</b>

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Product group segment information is as follows:

	TV and broadband internet	Physical access and data access	
Sales	216 260	123 600	339 860
Sales on long term contracts	99 969	0	99 969
	<b>316 229</b>	<b>123 600</b>	<b>439 829</b>

**(4.2) Capitalization of new product development costs**

This balance represents internally developed products, which were capitalized in 2001 and 2000. The change of this balance is detailed in note (3.1) of the present document.

Internally developed generic projects of kCHF 5,174 (2000: kCHF 3 004) were capitalized; the remaining balance of kCHF 10,442 (2000: kCHF 3 115) represents work done by third parties.

**(4.3) Cost of goods and components sold**

	2001	2000
Purchase of goods and components	-173 410	-191 710
Change in inventories	-12 241	10 499
	<b>-185 651</b>	<b>-181 211</b>

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**(4.4) Operating expenses**

	2001	2000
Expenses on projects – external fees	-15 892	-10 848
Capital and other taxes	-1 433	-1 484
Other operating expenses	-26 882	-11 203
	<b>-44 207</b>	<b>-23 535</b>

**(4.5) Sales and administration costs**

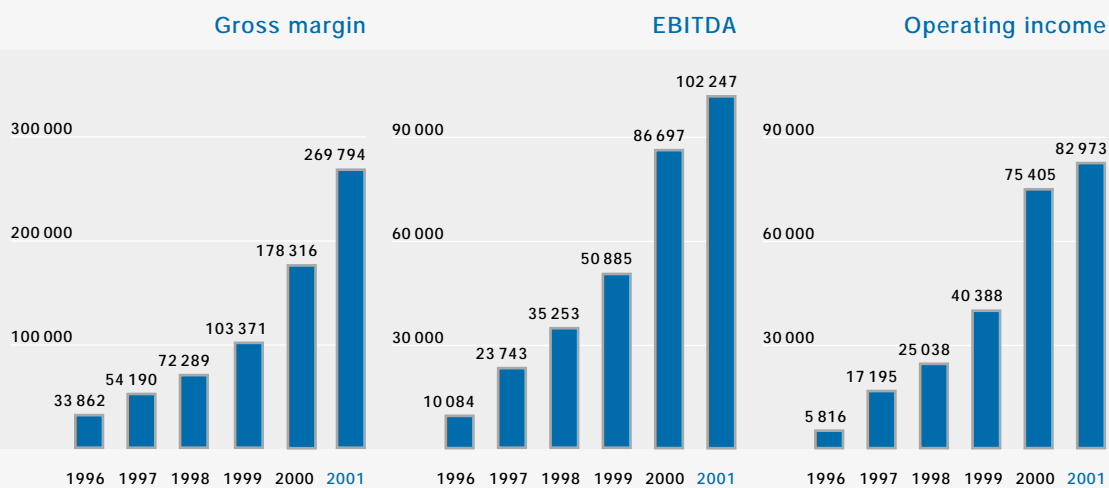
	2001	2000
Administration costs	-8 308	-2 325
Promotion and sales costs	-15 500	-17 159
Third-party fees and other	-12 923	-4 281
	<b>-36 731</b>	<b>-23 765</b>

**Change in gross margin, in EBITDA and in EBIT**

The gross margin, expressed as a percentage of total income, grew by 9.64 points to reach 59.24% against 49.60% for 2000.

EBITDA is defined as operating income before interest, tax, depreciation of tangible fixed assets and amortization of intangible assets. This value increased in 2001 by 17.94% compared to the previous financial year.

The operating income, EBIT, expressed as a percentage of total income, grew in 2001 by 10.04%, compared to the previous financial year amounting, to reach kCHF 82 973.



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**(4.6) Financial income**

	2001	2000
Interest income	14 840	6 955
Exchange gains	2 265	0
	<b>17 105</b>	<b>6 955</b>

**(4.7) Financial expenses**

	2001	2000
Interest expense	-2 063	-902
Exchange losses	-578	-2
Other financial expenses	-344	0
Share of results of associated companies	-109	0
	<b>-3 094</b>	<b>-904</b>

**(4.8) Extraordinary items**

	2001	2000
Extraordinary profit	17 909	0
Extraordinary expenses	-34 243	0
	<b>-16 334</b>	<b>0</b>

The extraordinary profit represents a realized gain on sale of Kudelski SA shares during the year 2001.

The extraordinary expenses are comprised of expenses and advanced payment of legal fees related to the lawsuits in the United States, kCHF 4 207, and the allocation to the provision for legal fees for lawsuits and risks on contracts of kCHF 30 036. These items are detailed in notes (3.12) and (3.20).

**(4.9) Income tax**

	2001	2000
Switzerland	-7 142	-5 926
Other countries	-7 626	-2 748
Change in deferred taxes	5 712	161
	<b>-9 056</b>	<b>-8 513</b>

Capital taxes disclosed under operating expenses amount to kCHF 1 433 (2000: 1 484).

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	2001	2000
<b>(4.10) Earnings per share (EPS)</b>		
<b>Basic / diluted earnings per share (in CHF)</b>	<b>1.42</b>	<b>1.47</b>
Net income	<b>72 086</b>	66 618
Weighted average number of bearer shares (pro rata temporis)	<b>46 097 704</b>	40 743 540

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

The prior year figures have been restated following the share split that took place in 2001.



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**5. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

<b>(5.1) Operating cash flow</b>	<b>2001</b>	<b>2000</b>
<b>Net income, Group's interest</b>	<b>72 086</b>	<b>66 618</b>
Interest income	-17 105	-6 955
Interest expense	2 985	904
Gain realized on financial investment	-17 909	0
Income tax	9 056	8 513
Shares allotted to employees	617	133
Depreciation and amortization	16 199	11 415
Change in long-term provisions	27 400	-1 426
Change in deferred tax liability	-5 635	-161
Minority interest in net income	-492	6 325
<b>Cash flow</b>	<b>87 202</b>	<b>85 366</b>
Change in inventories	12 486	-10 499
Change in work in progress	3 443	-231
Change in trade accounts receivable	-58 679	-66 188
Change in other assets	15 842	-13 174
Change in trade accounts payable	-6 511	19 317
Change in other liabilities	27 330	23 666
Change in short-term provisions	-24 766	-6 086
<b>Operating cash flow</b>	<b>56 347</b>	<b>32 171</b>

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**(5.2) Acquisition of subsidiaries, cash outflow**

The Group made, during the year 2001, six acquisitions of companies or groups of companies for a total amount of kCHF 285 104; this amount was paid partially in cash and the balance in bearer shares, that is 1 301 368 shares of an average market value of CHF 104. The fair value of assets and liabilities identifiable at acquisition date were as follows:

	2001	2000
Intangible fixed assets	2 028	773
Tangible fixed assets	19 741	3 718
Financial fixed assets	2 969	22
Net working capital	-5 932	1 871
Restructuring provision	-55 983	-10 000
Long term provisions	-10 000	-1 616
Long term liabilities	-12 108	-11 512
Cash and cash equivalents	25 635	3 023
<b>Fair value of net assets acquired</b>	<b>-33 650</b>	<b>-13 721</b>
<b>Goodwill</b>	<b>196 426</b>	<b>21 118</b>
<b>Total acquisition costs</b>	<b>162 776</b>	<b>7 397</b>
Minus:		
Cash and cash equivalents acquired	-25 635	-3 023
Shares allotted	-13 014	0
<b>Acquisition of subsidiaries, cash outflow</b>	<b>124 127</b>	<b>4 374</b>
Detail of acquisition cost:		
Acquisition of subsidiaries, net of cash acquired	124 127	4 374
Cash and cash equivalents acquired	25 635	3 023
<b>Liquidity</b>	<b>149 762</b>	<b>7 397</b>
Shares allotted (at nominal value)	13 014	0
<b>Total</b>	<b>162 776</b>	<b>7 397</b>
Average market value of shares allotted	135 342	0

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

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) of Kudelski SA for the year ended December 31, 2001.

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

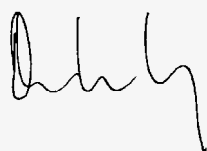
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Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from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

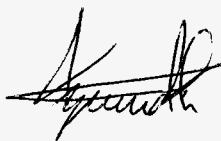
In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss GAAP FER and comply with Swiss law.

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

PricewaterhouseCoopers SA



D. Lustenberger



Ph. Tzaud

Lausanne, April 16, 2002



# FINANCIAL REPORT 2001

FINANCIAL STATEMENTS OF KUDELSKI SA

**KUDELSKI SA**

**BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

<b>ASSETS</b>	<b>Notes</b>	<b>12.31.2001</b>	<b>12.31.2000</b>
<b>Fixed assets</b>			
<b>Financial assets</b>			
Investments	(3.1)	192 642	30 398
Other long-term investments	(3.2)	10 000	0
Loans to Group companies		53 750	14 467
<b>Total fixed assets</b>		<b>256 392</b>	<b>44 865</b>
<b>Current assets</b>			
Accounts receivable from Group companies		170 454	93 748
Other accounts receivable	(3.3)	1 821	11 879
Cash and cash equivalents	(3.4)	309 507	497 833
<b>Total current assets</b>		<b>481 782</b>	<b>603 460</b>
<b>TOTAL ASSETS</b>		<b>738 174</b>	<b>648 325</b>

The auditor's opinion and notes set out on pages 42 to 49 form an integral part of these financial statements.

**KUDELSKI SA**

**BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	Notes	<b>12.31.2001</b>	<b>12.31.2000</b>
<b>Shareholders' equity</b>			
Share capital		512 941	499 310
General reserve		53 589	52 082
Retained earnings		57 466	28 835
Net income		82 574	30 138
<b>Total shareholders' equity</b>	(3.5)	<b>706 570</b>	<b>610 365</b>
<b>Long-term liabilities</b>			
Provisions	(3.6)	6 060	3 306
<b>Total long-term liabilities</b>		<b>6 060</b>	<b>3 306</b>
<b>Current liabilities</b>			
Short-term loans from Group companies		9 449	29 462
Other liabilities		4 769	3 344
Accrued liabilities		11 326	1 848
<b>Total current liabilities</b>		<b>25 544</b>	<b>34 654</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>738 174</b>	<b>648 325</b>

KUDELSKI SA

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

(in thousands of CHF)

	Notes	2001	2000
Financial income	(4.1)	92 229	33 707
<b>Total income</b>		<b>92 229</b>	<b>33 707</b>
Administrative and other expenses	(4.2)	-3 166	-2 867
Financial expenses	(4.3)	-1 243	-767
Provision for impairment of financial assets	(4.4)	-2 754	0
Release of provision for exchange rate differences		0	65
<b>Net income before tax</b>		<b>85 066</b>	<b>30 138</b>
Income tax	(4.5)	-2 492	0
<b>NET INCOME</b>		<b>82 574</b>	<b>30 138</b>

KUDELSKI SA FINANCIAL STATEMENTS

The auditor's opinion and notes set out on pages 42 to 49 form an integral part of these financial statements.



**KUDELSKI SA**

**PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2001**

(in thousands of CHF)

Balance brought forward from previous year

57 466

Net income

82 574

**TOTAL AVAILABLE EARNINGS**

**140 040**

Proposal by the Board of Directors:

General reserve allocation

4 130

Balance to be carried forward

135 910

**TOTAL AVAILABLE EARNINGS**

**140 040**

**1. GENERAL COMMENTS**

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries, associated companies and joint ventures. The financial statements are presented in accordance with the requirements of the Swiss Code of Obligations. They are also prepared under the historical cost convention and on the accruals basis.

**2. ACCOUNTING POLICIES**

**Financial assets**

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

**Cash and cash equivalents**

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

**Exchange rate differences**

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

**3. NOTES TO THE BALANCE SHEET**

**(3.1) Investments**

Companies	Location	Activity	Share capital	Percentage held	
				2001	2000
Nagravision SA	CH-Cheseaux	Digital TV and audio production	kCHF 12 000	100	100
NagraCard SA	CH-Cheseaux	Smartcards production and sales	kCHF 100	100	100
Nagra Trading SA	CH-Cheseaux	Trading	kCHF 100	100	100
Nagravision Iberica SI	ES-Madrid	Sales	kEUR 3	100	100

**KUDELSKI SA**
**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001 AND 2000**

Companies	Location	Activity	Share capital	Percentage held		
				2001	2000	
Nagra France Sàrl	FR-Paris	Sales	kEUR	53	100	100
Nagra Kudelski (GB) Ltd	GB-St. Albans	Sales	kGBP	1	100	100
Nagra Italia SRL	IT-Roma	Sales	kEUR	10	100	100
Nagra Kudelski GmbH	DE-Munich	Sales	kEUR	25	100	100
Nagra USA, Inc.	US-Nashville	Sales	kUSD	10	100	100
Nagra Plus	CH-Cheseaux	Analog TV	kCHF	2 000	50	50
Nagra-Futuris SA (form. Intelegis SA)	CH-Neuchâtel	Digital access broadband (DAB)	kCHF	1 000	50	50
NagraID SA	CH-Chaux-de-Fonds	Identification security systems	kCHF	4 000	100	50
MediaCrypt AG	CH-Zurich	Scrambling security systems	kCHF	3 000	50	50
Précision Electronique						
Preceel SA	CH-Neuchâtel	Electronics and Mechanical	kCHF	100	100	100
Political Rights SA (Polirights)	CH-Geneva	Secure interactive communication solutions for public administration	kCHF	450	66	66
SportAccess Holding SA	CH-Sion	Access control systems	kCHF	8 144	78	76
e-prica AG	CH-Lyss	Security system and smartcards in the health sector	kCHF	500	50	—
Livewire Communications, Inc.	US-Gainesville	Software development	kUSD	1	100	—
Leman Consulting SA	CH-Nyon	Advice in intellectual property	kCHF	100	100	—
TicketCorner AG	CH-Rümlang	Ticketing and entertainment	kCHF	2 000	100	—
Lysis International SA	CH-Lausanne	Holding	kCHF	3 360	100	—
SkiData AG	AT-Gartenau	Mixed holding and access control system	kEUR	3 634	100	—
Access Arena AG	CH-Rümlang	Destination management	kCHF	1 000	41	—
Pay TV SA	CH-Lausanne	Pay television	kCHF	490	6	6
Nagra Travel Sàrl	CH-Cheseaux	Travel agency	kCHF	50	100	100
A Novo Americas LLC	US-Delaware	Services	kUSD	200	10	10

**KUDELSKI SA**

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

**(3.2) Other long-term deposits**

This is the investment in Crossair AG.

**(3.3) Other accounts receivable**

Withholding tax

Prepaid expenses

Other accounts receivable

**12.31.2001**

**1 018**

**748**

**55**

**1 821**

**12.31.2000**

**10 659**

**1 139**

**81**

**11 879**

**(3.4) Cash and cash equivalents**

Cash at bank and in hand

Short term deposits

**12.31.2001**

**1 463**

**308 044**

**309 507**

**12.31.2000**

**1 283**

**496 550**

**497 833**

**(3.5) Change in shareholders' equity**

	Share capital	General reserve	Available earnings	Total shareholders' equity
<b>At December 31, 1999</b>	41 599	21 644	28 835	92 078
Share capital increase	457 711	30 438		488 149
Net income			30 138	30 138
<b>At December 31, 2000</b>	499 310	52 082	58 973	610 365
General reserve attribution		1 507	-1 507	0
Share capital increase	13 631			13 631
Net income			82 574	82 574
<b>At December 31, 2001</b>	512 941	53 589	140 040	706 570

**KUDELSKI SA****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

**Composition of share capital**

	<b>12.31.2001</b>	<b>12.31.2000</b>
46 664 068 bearer shares of CHF 10 each	<b>466 641</b>	—
46 300 000 registered shares of CHF 1 each	<b>46 300</b>	—
4 543 100/378 481 bearer shares of CHF 100 each	—	454 310
4 500 000/375 000 registered shares of CHF 10 each	—	45 000
	<b>512 941</b>	<b>499 310</b>

May 28, 2001, the nominal value of shares was split by 1:10.

**Conditional share capital (Article 6 of statutes)**

	<b>12.31.2001</b>	<b>12.31.2000</b>
Conditional share capital as at January 1	<b>11 009</b>	928
Share capital increase as per amended statutes of August 17, 2000	—	10 214
Shares issued	<b>-617</b>	-133
<b>Conditional share capital as at December 31</b>	<b>10 392</b>	<b>11 009</b>

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

**KUDELSKI SA**

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

<b>Authorized share capital (Article 7 of statutes)</b>	<b>2001</b>	<b>2000</b>
3 828 632 bearer shares of CHF 10 each	38 286	—
3 200 000 registered shares of CHF 1 each	3 200	—
500 000 bearer shares of CHF 100 each	—	50 000
450 000 registered shares of CHF 10 each	—	4 500
<b>Authorized share capital as at December 31</b>	<b>41 486</b>	<b>54 500</b>
The change in authorized share capital is as follows:		
Authorized share capital as at January 1	54 500	0
Share capital increase as per amended statutes of August 17, 2000	—	54 500
Shares allotted for acquisition purposes	-13 014	0
<b>Authorized share capital as at December 31</b>	<b>41 486</b>	<b>54 500</b>

46

May 28, 2001, the nominal value of shares was split by 1:10.

**Majors shareholders**

	<b>Voting rights</b>		<b>Shareholdings</b>	
	12.31.2001	12.31.2000	12.31.2001	12.31.2000
Kudelski Family	64%	64%	34%	35%
Dassault Group	4%	4%	6%	7%

**(3.6) Provisions**

	<b>12.31.2001</b>	<b>12.31.2000</b>
Provision on sale of investment	1 856	1 856
Provisions on return on investments	2 418	1 450
Provision on valuation of other long-term investments	1 786	0
	<b>6 060</b>	<b>3 306</b>

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

The provision on valuation of other long-term investments was created by charging the result for the year, to cover the decrease in value of Crossair AG shares.

**KUDELSKI SA****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001 AND 2000**

(in thousands of CHF)

**4. NOTES TO INCOME STATEMENT****(4.1) Financial income**

	<b>2001</b>	<b>2000</b>
Dividends received from Group companies	<b>61 000</b>	26 000
Financial revenues	<b>18 365</b>	0
Interest income third-party	<b>11 963</b>	5 869
Interest on loans to Group companies	<b>642</b>	1 838
Net exchange gains	<b>259</b>	0
	<b>92 229</b>	<b>33 707</b>

**(4.2) Administrative and other expenses**

	<b>2001</b>	<b>2000</b>
Administrative expenses	<b>-1 924</b>	-1 581
Taxes other than income tax	<b>-1 242</b>	-1 286
	<b>-3 166</b>	<b>-2 867</b>

**(4.3) Financial expenses**

	<b>2001</b>	<b>2000</b>
Interest on loans from Group companies	<b>-1 120</b>	-765
Interest expense	<b>-102</b>	0
Other	<b>-21</b>	-2
	<b>-1 243</b>	<b>-767</b>

**(4.4) Provision for impairment of financial assets**

	<b>2001</b>	<b>2000</b>
Losses on investments	<b>-968</b>	0
Impairment of long-term investments	<b>-1 786</b>	0
	<b>-2 754</b>	<b>0</b>

**(4.5) Income tax**

	<b>2001</b>	<b>2000</b>
Income tax	<b>-2 492</b>	0

**5. COMMITMENTS AND CONTINGENCIES**

**Commitments in favor of third-parties**

Guarantees in favor of third-parties

**Other commitments**

Penalty risk for non-accomplishment of contracts

Subordinated loans in favor of Group companies

Comfort letters signed in favor of Group companies

	31.12.2001	31.12.2000
	3 492	0
	p.m.	p.m.
	p.m.	p.m.
	p.m.	p.m.

**6. SUBSEQUENT EVENTS**

On January 25, 2002, an extraordinary general Meeting of Kudelski SA shareholders approved an increase of conditional share capital of kCHF 60 000 by the issuance of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and it's subsidiaries.

**The main characteristics of the convertible bonds are the following:**

Kudelski Financial Services S.C.A. (the issuer), a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of kUSD 325 000. The initial conversion price is CHF 127.50 per bearer share of Kudelski SA. Kudelski SA guarantees this issuance unconditionally and irrevocably.

The bonds have a denomination of USD 1 000 each, the issue price was 100%; the interest rate is 2.25% per annum, calculated on the nominal amount of the bonds and payable semi-annually in arrears on January 31, and July 31, in each year commencing on July 31, 2002. The yield to maturity is 3% per annum on a semi-annual basis.

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

The convertible bond is quoted at the Luxembourg stock exchange, the ISIN value number is XS0140968842.



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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Kudelski SA for the year ended December 31, 2001.

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

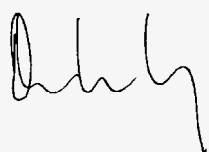
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Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.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

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

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

PricewaterhouseCoopers SA



D. Lustenberger



Ph. Tzaud

Lausanne, April 16, 2002

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**KUDELSKI SA**

22, route de Genève

1033 Cheseaux

Switzerland

Tel. +41 21 732 0101

Fax +41 21 732 0100

[info@nagra.com](mailto:info@nagra.com)

[www.nagra.com](http://www.nagra.com)



