KUDELSKI GROUP FINANCIAL STATEMENTS 2012

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011)

In CHF'000	Notes	2012	2011
Revenues	6	844 051	873 863
Other operating income	7	16 286	22 763
Total revenues and other operating income		**860 337**	**896 626**
Cost of material		-244 450	-240 414
Employee benefits expense		-368 665	-376 155
Other operating expenses	8	-147 720	-189 062
Operating income before depreciation, amortization and impairment		**99 502**	**90 995**
Depreciation, amortization and impairment	9	-63 797	-65 560
Operating income		**35 705**	**25 435**
Interest expense	10	-15 736	-16 578
Other finance income/(expense), net	11	2 079	-17 649
Share of results of associates	18	1 208	-281
Income / (Loss) before tax		**23 256**	**-9 073**
Income tax expense	12	-7 133	-8 615
Net Income / (loss) for the year		**16 123**	**-17 688**
Attributable to:			
- Equity holders of the company		16 275	-18 121
- Non controlling interests		-152	433
		16 123	**-17 688**

In CHF	Notes	2012	2011
Earnings / (Loss) per bearer share			
- basic and diluted	14	0.3027	-0.3372
Earnings / (Loss) per registered share (not listed)			
- basic and diluted	14	0.0303	-0.0338

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011)

In CHF'000	2012	2011
Net income / (loss)	16 123	-17 688
Currency translation differences	-7 098	5 645
Cash flow hedges	-66	-2 590
Net gain / (loss) on available-for-sale financial assets	98	-15
Total comprehensive income / (loss) for the year	**9 057**	**-14 648**
Attributable to:		
- Equity holders of the company	9 727	-14 713
- Non controlling interests	-670	65
	9 057	**-14 648**

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

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2012 AND 2011)

Assets

In CHF'000	Notes	31.12.2012	31.12.2011
Non-current assets			
Tangible fixed assets	15	154 758	166 355
Intangible assets	16	188 167	214 713
Investment property	17	1 571	–
Investments in associates	18	4 398	3 996
Deferred income tax assets	19	56 018	56 465
Financial assets and other non-current assets	20	74 145	88 549
Total non-current assets		**479 057**	**530 078**
Current assets			
Inventories	21	68 647	63 102
Trade accounts receivable	22	196 397	228 219
Other current assets	23	56 958	68 465
Financial assets (short term)	24	7	–
Cash and cash equivalents	25	110 086	289 591
Total current assets		**432 095**	**649 377**
Total assets		**911 152**	**1 179 455**

Equity and liabilities

In CHF'000	Notes	31.12.2012	31.12.2011
Capital and reserves			
Share capital	26	536 122	533 798
Reserves		-107 501	-113 225
Treasury shares	27	-290	-326
Equity attributable to equity holders of the parent		**428 331**	**420 247**
Non controlling interests		9 425	16 905
Total equity		**437 756**	**437 152**
Non-current liabilities			
Long-term financial debt	28	194 679	129 953
Deferred income tax liabilities	19	4 385	5 545
Employee benefits liabilities	31	35 015	32 386
Provisions for other liabilities and charges	32	504	2 298
Other long-term liabilities and derivative financial instruments	33	1 851	2 280
Total non-current liabilities		**236 434**	**172 462**
Current liabilities			
Short-term financial debt	34	74 083	383 376
Trade accounts payable	36	40 073	54 196
Other current liabilities	37	94 663	93 820
Current income taxes		1 904	2 067
Advances received from clients	38	14 362	16 497
Derivative financial instruments	39	–	2 540
Provisions for other liabilities and charges	32	11 877	17 345
Total current liabilities		**236 962**	**569 841**
Total liabilities		**473 396**	**742 303**
Total equity and liabilities		**911 152**	**1 179 455**

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

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011)

In CHF'000	Notes	2012	2011
Net income / (loss) for the year		**16 123**	**-17 688**
Adjustments for net income non-cash items:			
- Current and deferred income tax		7 133	8 615
- Interest expense and other finance income/(expense), net		9 861	13 765
- Allocation of the equity conversion component and transaction costs of convertible bond and borrowings		5 028	6 756
- Depreciation, amortization and impairment	9	63 797	65 560
- Change in fair value of financial assets at fair value through profit or loss		–	1 935
- Share of result of associates	18	-1 208	281
- Non-cash employee benefits expense		3 575	4 932
- Deferred cost allocated to income statement		21 142	18 143
- Additional provisions net of unused amounts reversed		7 277	7 514
- Non-cash government grant income		-4 098	-16 943
- Other non cash income/expenses		-99	-1 007
Adjustments for items for which cash effects are investing or financing cash flows:			
- Gain on sales of subsidiaries	7	-860	-1 575
- Other non operating cash items		112	-556
Adjustements for change in working capital:			
- Change in inventories		-7 544	20 368
- Change in trade accounts receivable		28 920	14 476
- Change in trade accounts payable		-11 567	-1 028
- Change in deferred costs and other net current working capital headings		-9 140	-23 105
Dividends received from associated companies	18	832	1 038
Interest paid		-13 272	-7 913
Interest received		2 143	1 833
Income tax paid		-7 660	-8 729
Cash flow from operating activities		**110 495**	**86 672**
Purchases of intangible fixed assets		-11 654	-20 218
Purchases of tangible fixed assets		-26 581	-57 898
Proceeds from sales of tangible and intangible fixed assets		703	3 676
Investment in financial assets and loans granted		-47	-3 618
Divestment of financial fixed assets and loan reimbursement		2 564	2 438
Acquisition of subsidiaries, net of cash acquired	40	–	-658
Disposal of subsidiaries, cash inflow		7 356	981
Disposal of associated companies	18	–	2 639
Acquisition of associated companies		–	-168
Cash flow used in investing activities		**-27 659**	**-72 826**
Reimbursement of convertible bond	35	-350 000	–
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-11 680	-38 695
Increase in bank overdrafts, long term loans and other non-current liabilities		112 449	131 019
Proceeds from employee share purchase program	44	143	71
Proceeds from non controlling interest		244	7 705
Dividends paid to non controlling interests		-7 054	-6 673
Dividends paid to shareholders	43	-5 359	-16 011
Cash flow from/(used in) financing activities		**-261 257**	**77 416**
Effect of foreign exchange rate changes on cash and cash equivalents		-1 084	-702
Net increase / (decrease) in cash and cash equivalents		**-179 505**	**90 560**
Cash and cash equivalents at the beginning of the year	25	289 591	199 031
Cash and cash equivalents at the end of the year	25	110 086	289 591
Net increase / (decrease) in cash and cash equivalents		**-179 505**	**90 560**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011)

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, 2011		**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**430 525**
Net loss for the year				-18 121				433	-17 688
Other comprehensive income for the year					-2 089	5 497		-368	3 040
Total comprehensive (loss) for the year		**–**	**–**	**-18 121**	**-2 089**	**5 497**	**–**	**65**	**-14 648**
Employee share purchase program	44	115							115
Dividend paid to shareholders	43			-16 011					-16 011
Dividend paid to controlling interests								-6 673	-6 673
Impact of transactions with non controlling interests								7 705	7 705
Restricted shares granted to employees	27			-163			163		
Restricted shares allocated over the vesting period	44			46					46
December 31, 2011		**533 798**	**59 036**	**-134 661**	**30 115**	**-67 715**	**-326**	**16 905**	**437 152**
Net income for the year				16 275				-152	16 123
Other comprehensive (loss) for the year					64	-6 612		-518	-7 066
Total comprehensive income for the year		**–**	**–**	**16 275**	**64**	**-6 612**	**–**	**-670**	**9 057**
Employee share purchase program	44	338	-137						201
Shares issue for employees		1 986	-1 160						826
Dividend paid to shareholders	43		-5 359						-5 359
Dividend paid to non controlling interests								-7 054	-7 054
Transfer equity component of convertible bond				33 470	-33 470				–
Reversal of put option on acquisition of non controlling interests					2 672				2 672
Impact of transactions with non controlling interests								244	244
Restricted shares granted to employees	27			-36			36		–
Restricted shares allocated over the vesting period	44			17					17
December 31, 2012		**536 122**	**52 380**	**-84 935**	**-619**	**-74 327**	**-290**	**9 425**	**437 756**

Following the redemption of the convertible bond in 2012, kCHF 33 470 have been transferred from fair value reserves to the retained earnings. After the expiration of the put option on non-controlling interests, kCHF 2 672 have been released to Fair value and other reserves. Fair value and other reserves as of December 31, 2012 include kCHF 0 (2011: kCHF 33 470) of equity component of the convertible bond, kCHF -72 (2011: kCHF -170) of unrealized gain/loss on available-for-sale financial assets and an unrealized gain of kCHF -547 (2011: kCHF -513) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

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

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all the years presented.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. 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.

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

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible 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. Any contingent consideration depending on the future financial performance of the acquired company ("earn out clause") is recognized at fair value at acquisition date using best management estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve month after the balance sheet date is discounted to its present value and disclosed within other long term liabilities. The Group recognizes non-controlling interest as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Transactions with non-controlling interests are accounted as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c)Disposal of subsidiaries

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

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not 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) 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.

(D) 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. 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 occurred; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Multiple element arrangements – service mode

The revenue for complete security solution arrangements 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 cli-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

ent'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.

(E) 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 contract maturity. The derivative financial instruments are entered into with high credit quality financial institutions, consistently with specific approval, limit and monitoring procedures.

(F) 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 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.

(G) 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 on a straight-line basis. 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 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

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balance sheet under technical equipment and machinery. These assets are depreciated over the shorter of the duration of the contract and the economic life of the individual components and the related expense is disclosed under depreciation.

(d) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(H) Intangible assets

(a) Goodwill

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 on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of associates is included in investments in associates. All Goodwill is considered to have an indefinite life and is at least annually tested for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Gains and losses on the disposal of an entity include the carrying amount of Goodwill relating to the entity sold.

(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 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

(I) Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for internal use. If part of a building is leased, it is accounted separately under investment property only if the portion of building could be sold separately and if the portion held for internal use is insignificant. Transfer are made to or from investment property only when there is a change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use – cost being equal to carrying value.

Investment property is carried at historical cost less provisions for depreciation and impairment. Similar accounting treatment ans subsequent measurement methodology is applied to investment property and building acquisitions or constructions and building improvements (note G).

(J) 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.

(c) Available-for-sale financial assets

Available-for-sale financial assets are 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. 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.

When there is no active market for financial assets (and for unlisted securities) , the Group establishes fair value at cost if it cannot be reliably estimated. 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.

(K) 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 value of inventories.

(L) 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.

(M) Trade accounts receivable

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

(N) 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.

(O) 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 2012

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

(Q) Borrowings
Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

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

(R) Compound financial instrument
Coumpound financial instruments issued by the Group comprise a convertible bond.

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 bond 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) 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's employee share purchase program allows certain employees to buy a specific number of shares at preferred conditions including a restriction to sell for a 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 value of the restriction to sell.

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

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

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

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

(W) 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, 2012.
The adoption of following standards had limited impact on the financial statements:
IFRS 7 - Financial Instruments: Disclosures (amendment) - (effective from 1 July 2011).

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.

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 2013 or later periods, but which the Group has not early adopted. The adoption of the following amendment will have a significant impact on the financial statements:

IAS 19 (amendment) – (effective from 1 January 2013) - Full value of the plan deficit or surplus. As the company currently uses the 'corridor approach', the adoption of the amendment will impact its financial statements. Had the company early adopted this amendment, it would have resulted in a higher Operating income of CHF 0.5 million and a lower net income of CHF -1.3 million while increasing employee benefit liabilities by CHF 25.2 million and reducing comprehensive income by CHF -23.9 million. This will further impact disclosures.

The following amendments will only have a limited impact on the financial statements or disclosures:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

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 subsidiaries, 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 measurements and disclosure about fair value measurements. It defines fair value, establishes 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 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 D, the Group provides complete security solutions generating recurring service revenues. Depending on the contract terms with each client, the Group may replace the assets made available or transferred to the client for security or economic reasons. Early replacement due to technical obsolescence would 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 also include payments made to customers which are subject to impairment reviews. In case of impairment of these assets ,the profitability of the Group could be affected through a reduction of the deferred costs and revenues.

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

Income tax, deferred tax assets and government grants
The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 19). 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. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, proportion of tax losses that could be offset with future profits or change in forfeiting periods, occurring after the accounts have been approved might affect the tax asset capitalized.
A tax audit may lead to significant adjustments, due to a rejection of key components of a tax return or a tax grant (e.g. related to transfer pricing).

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.

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.

(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. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

Other price risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial 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

BUSINESS COMBINATIONS IN 2012
No business combination arose in 2012.

BUSINESS COMBINATIONS IN 2011

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. See note 40 for cash flow impacts.

Contribution and Pro forma data including business combinations for all of the financial year
As no business combination occurred in 2012, there is no impact of the contribution of business combination to revenue and net income in 2012.
In 2011, the acquired businesses contributed net income of kCHF -1 751 to the Group for the period from acquisition dates to December 31, 2011.
If the acquisitions had occurred on January 1, 2011 the consolidated revenues and net income would have been approximately kCHF 873 914 and kCHF -17 735 respectively.

5. DIVESTMENTS

Arising in 2012
On December 13, 2012 the Group disposed of its 100% stake of the company Abilis Systems Sàrl. The gain on sale on this operation is kCHF 860.

Arising in 2011
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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

6. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker.
Group operating segments represent strategic business units that offer 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.
As result of the restructuring program announced in October 2011, the Group adapted its structures to the convergence between Digital Television and Internet Television and merged integrated Middleware & Advertising and Digital Television Solutions into one segment named Integrated Digital Television as of January 1, 2012. Key functions of both segments such as sales, service, marketing and administration were merged as a result. Prior period figures have been restated for comparison purposes.
Following the above change, the Group is organized operationally on a worldwide basis in 2 operating segments:
- Integrated Digital Television
- Public Access

These operating segments, which are reflected in internal management reporting, can be described as follows: The Integrated Digital Television division provides end-to-end integrated solutions including 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 and middleware software solutions for Set-top-Boxes and other consumer devices, enabling an advanced user experience. Advanced advertising solutions are part of Integrated Digital Television. The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.
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 measure of income statement presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that intersegment sales are eliminated only at the consolidation level.
Reportable segment assets include Total assets allocated by segment with the exclusion of intersegment balances which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance sheet assets.

In CHF'000	Integrated Digital Television 2012	Integrated Digital Television 2011	Public Access 2012	Public Access 2011	Total 2012	Total 2011
Total segment Revenues	**645 248**	**667 854**	**202 721**	**211 403**	**847 969**	**879 257**
Inter-segment revenues	-3 909	-5 293	-9	-101	-3 918	-5 394
Revenues from external customers	**641 339**	**662 561**	**202 712**	**211 302**	**844 051**	**873 863**
Depreciation and amortisation	-49 900	-52 893	-8 107	-8 918	-58 007	-61 811
Impairment	-3 297	-3 749	-2 493	–	-5 790	-3 749
Operating income - excluding corporate common functions	**43 754**	**31 129**	**9 151**	**12 461**	**52 905**	**43 590**
Corporate common functions					-17 200	-18 155
Interest expense and other Finance income/(expense), net					-13 657	-34 227
Share of result of associates					1 208	-281
Income / (Loss) before tax					**23 256**	**-9 073**
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Total segment Assets	**739 860**	**918 511**	**139 722**	**145 327**	**879 582**	**1 063 838**

In CHF'000	31.12.2012	31.12.2011
Total Segment Assets	879 582	1 063 838
Cash & Cash equivalents	25 190	110 717
Other current assets	1 857	377
Financial assets and other non-current assets	4 523	4 523
Total Assets as per Balance Sheet	**911 152**	**1 179 455**

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	2012	2011	31.12.2012	31.12.2011
Switzerland	36 665	41 141	163 832	214 242
United States of America	125 294	134 912	142 459	148 010
Brazil	96 309	70 672	216	22
France	82 809	90 352	22 751	14 567
Germany	66 468	59 044	4 549	5 676
Italy	46 446	67 113	682	820
Netherlands	43 582	40 438	252	260
Rest of the world	346 479	370 191	51 525	52 216
	844 051	**873 863**	**386 265**	**435 813**

Non-current assets exclude 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	2012	2011
Sale of goods	417 026	423 788
Services rendered	285 334	291 505
Royalties and licenses	141 691	158 570
	844 051	**873 863**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

7. OTHER OPERATING INCOME

In CHF'000	2012	2011
Government grants (research, development and training)	11 037	17 539
Indemnity received on surrender of lease and reversal of dilapidation costs	1 766	–
Gain/(Loss) on fixed assets sales proceeds	-112	-102
Earn-out adaptation	–	429
Gain on sale of subsidiares	860	1 574
Others	2 735	3 323
	16 286	**22 763**

8. OTHER OPERATING EXPENSES

In CHF'000	2012	2011
Development and engineering expenses	26 021	49 056
Travel, entertainment and lodging expenses	25 968	28 524
Legal, experts and consultancy expenses	19 824	24 936
Administration expenses	25 690	27 220
Building and infrastructure expenses	27 356	30 924
Marketing and sales expenses	11 071	11 156
Taxes other than income tax	5 318	2 696
Insurance, vehicles and others	6 472	14 550
	147 720	**189 062**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2012	2011
Land and buildings	15	6 374	6 462
Equipment and machines	15	26 250	30 402
Investment property	17	152	–
Total depreciation and impairment of tangible fixed assets		**32 776**	**36 864**
Intangible assets	16	31 021	28 696
Total amortization and impairment on intangible fixed assets		**31 021**	**28 696**
Depreciation, amortization and impairment		**63 797**	**65 560**

10. INTEREST EXPENSE

In CHF'000	Note	2012	2011
Interest expense:			
- Convertible bond 2005-2012	35	9 119	11 708
- Bond 2011-2016		3 553	1 911
- Other and bank charges		3 064	2 959
		15 736	**16 578**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2012	2011
Interest income		2 145	2 433
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		392	-10 453
Net foreign exchange transaction gains/(losses)	13	343	-8 979
Others		-801	-650
		2 079	**-17 649**

Changes in fair value of kCHF 98 (2011: kCHF -15) 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 392 (2011: kCHF-10 453) are disclosed under Net gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2012	2011
Current income tax		-6 542	-8 158
Deferred income tax	19	889	382
Other taxes		-1 480	-839
		-7 133	**-8 615**

Other taxes include non reimbursable withholding taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

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	2012	2011
Income before taxes	**23 256**	**-9 073**
Expected tax calculated at domestic tax rates in the respective countries	-8 280	187
Effect of income not subject to income tax or taxed at reduced rates	1 556	5 820
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	4 036	4 551
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-4 045	-19 197
Efffect of associates' result reported net of tax	116	317
Effect of disallowed expenditures	-698	-989
Effect of prior year income taxes	274	138
Effect of non-refundable withholding tax	-1 480	-839
Other	1 388	1 397
Tax expense	**-7 133**	**-8 615**

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 1 386 (2011: kCHF 1 373) and is disclosed under other in the above table.

The weighted average applicable tax rate is increasing from 2.06% in 2011 to 35.60% in 2012. In 2011, the low rate was caused by a change in the profitability mix of group subsidiaries in the different countries. Losses were 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	2012	2011
Sales	-4 427	3 377
Cost of material	1 559	-1 761
Other finance income/(expense) net	343	-8 979
Total exchange differences	**-2 525**	**-7 363**

14. EARNINGS PER SHARE (EPS)

Basic and diluted 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	2012	2011
Net (loss) / income attributable to bearer shareholders	14 873	-16 554
Net (loss) / income attributable to registered shareholders	1 402	-1 567
Total net income attributable to equity holders	**16 275**	**-18 121**
Weighted average number of bearer shares outstanding *	49 129 039	49 099 110
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (in CHF)		
Bearer shares	0.3027	-0.3372
Registered shares	0.0303	-0.0338

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 2012 and 2011, both the convertible bond and options were anti-dilutive, therefore diluted earnings per share equals basic earnings per share. Shares equivalent of 0 (2011: 5 307 856) relating to the convertible bond and 1 566 (2011: 946) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

* In early 2013 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

15. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2012	31.12.2011
Land and buildings	107 832	105 081
Equipment and machines	46 926	61 274
	154 758	**166 355**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
Gross values at cost				
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 January 1, 2012	**23 018**	**112 977**	**13 487**	**149 482**
Additions	52	10 357	1 532	11 941
Disposals and retirements	–	–	-1 952	-1 952
Transfer to Investment Property	-295	-2 403	–	-2 698
Currency translation effects	-186	-838	-119	-1 143
Reclassification & others	–	-317	288	-29
As of December 31, 2012	**22 589**	**119 776**	**13 236**	**155 601**
Accumulated depreciation and impairment				
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 January 1, 2012	**–**	**-34 090**	**-10 311**	**-44 401**
Systematic depreciation	–	-3 992	-1 454	-5 446
Impairment	–	–	-927	-927
Disposals and retirements	–	1	1 867	1 868
Transfer to Investment Property	–	977	–	977
Currency translation effects	–	67	93	160
Reclassification & others	–	210	-210	–
As of December 31, 2012	**–**	**-36 827**	**-10 942**	**-47 769**
Net book values as of December 31, 2011	**23 018**	**78 887**	**3 176**	**105 081**
Net book values as of December 31, 2012	**22 589**	**82 949**	**2 294**	**107 832**
Useful life in years	Indefinite	10 – 50	4 – 8	

2012 building improvements impairments relate to the closure of locations and premises following a restructuring program.

In CHF'000	31.12.2012	31.12.2011
Fire insurance value of buildings	130 211	118 105
Corporate buildings on land whose owner has granted a permanent and specific right of use	7 674	8 163

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
Gross values at cost			
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 January 1, 2012	**193 671**	**15 304**	**208 974**
Additions	13 319	1 321	14 640
Change in scope	-3 974	-827	-4 801
Disposals and retirements	-11 836	-1 328	-13 164
Currency translation effects	-814	-102	-916
Reclassification & others	1 434	-1 453	-19
As of December 31, 2012	**191 800**	**12 915**	**204 714**
Accumulated depreciation and impairment			
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 January 1, 2012	**-137 170**	**-10 531**	**-147 701**
Systematic depreciation	-23 493	-1 560	-25 053
Impairment	-1 181	-16	-1 197
Change in scope	2 270	450	2 720
Disposals and retirements	11 632	1 087	12 719
Currency translation effects	678	46	724
Reclassification & others	-1 167	1 167	–
As of December 31, 2012	**-148 431**	**-9 357**	**-157 788**
Net book values as of December 31, 2011	**56 501**	**4 773**	**61 273**
Net book values as of December 31, 2012	**43 369**	**3 558**	**46 926**
Useful life in years	2 – 10	4 – 7	

Technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. 2012 equipment impairments consist in either equipment in locations that have been closed following the restructuring program or equipment that is no longer used.

In CHF'000	31.12.2012	31.12.2011
Fire insurance value of technical equipment and machinery	137 780	154 841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

16. INTANGIBLE ASSETS

In CHF'000	Technology	Customer lists, Trademarks & Brands	Software	Goodwill	Other intangibles	Total
Gross values at cost						
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 January 1, 2012	**114 063**	**3 467**	**64 326**	**135 765**	**404**	**318 025**
Additions	8 578	–	3 038	–	38	11 654
Disposals and retirements	-12 512	–	-2 861	–	-2	-15 375
Change in scope	-5 834	-27	-37	–	-38	-5 936
Currency translation effects	-648	-44	-271	-3 282	-2	-4 247
Reclassification & others	-3 145	–	3 193	–	–	48
As of December 31, 2012	**100 502**	**3 396**	**67 388**	**132 483**	**400**	**304 169**
Accumulated depreciation and impairment						
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 January 1, 2012	**-54 579**	**-2 396**	**-45 936**	**–**	**-401**	**-103 312**
Systematic amortization	-15 326	-211	-11 817	–	–	-27 354
Impairment	-3 097	–	-570	–	–	-3 667
Change in scope	2 568	27	29	–	–	2 624
Recovery of amortization on disposal and retirements	12 512	–	2 575	–	–	15 087
Currency translation effects	399	40	180	–	1	620
As of December 31, 2012	**-57 523**	**-2 540**	**-55 539**	**–**	**-400**	**-116 002**
Net book values as of December 31, 2011	**59 484**	**1 071**	**18 390**	**135 765**	**3**	**214 713**
Net book values as of December 31, 2012	**42 979**	**856**	**11 849**	**132 483**	**–**	**188 167**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2012 and 2011 technology impairments relate to developments which were either stopped or for which future cash flows became uncertain. 2012 and 2011 software impairment relates to software for which usage has been stopped.

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units which are defined, within the frame of the Group, as its operating segments.
As of January 1, 2012 Digital Television Solutions and Middleware & Advertising merged into Integrated Digital Television (see note 6). kCHF 128 066 have been allocated to Integrated Digital Television (2011: kCHF 102 307 to former Middleware and Advertising and kCHF 29 019 to former Digital Television Solutions) and kCHF 4 412 (2011: kCHF 4 442) to Public Access Solutions.

Integrated Digital Television

Comparatives information only includes the former Middleware & Advertising segment information. There is no comparative information available for the Digital Television Solutions segment. The 2012 Integrated Digital Television 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 9.5 % (2011: 10.0% used for former Middleware and Advertising). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 2.0% (2011: 2.5% used for former Middleware and Advertising) per annum growth. Revenue assumptions for the five-year plan were generated from existing products and existing customers and newly launched activities. Key assumptions reflect management best knowledge of the market, business evolution and past experience.

In 2012, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity, loss of key customers representing approximately 10% of recurring revenue. Based on such analyses and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in 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.

17. INVESTMENT PROPERTY

In late 2012, a building was transferred to investment property following a change in use. 2012 rental income and direct operating expenses for the investment property were kCHF 21 and kCHF 37 respectively. Fair value of the investement property is estimated at CHF 2.8 million corresponding to planned rental income capitalized at 9%.

In CHF'000	Investment property
Gross values at cost	
As of January 1, 2012	**–**
Transfer from tangible fixed assets	2 698
Currency translation effects	4
As of December 31, 2012	**2 702**
Accumulated depreciation and impairment	
As of January 1, 2012	**–**
Systematic amortization	-152
Transfer from tangible fixed assets	-977
Currency translation effects	-2
As of December 31, 2012	**-1 131**
Net book values as of December 31, 2011	**–**
Net book values as of December 31, 2012	**1 571**
Useful life in years	10 – 50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

18. INVESTMENTS IN ASSOCIATES

In CHF'000	2012	2011
At January 1	**3 996**	**7 624**
Acquisition of an associated company	–	100
Share of profit	1 208	-281
Sale of an associated company	–	-2 639
Dividends received	-832	-1 038
Currency translation effects	26	230
At December 31	**4 398**	**3 996**

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

		Interest held	
Name of associate	**Principal activity**	**2 012**	**2 011**
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
Hantory Co., Ltd, South Korea	Digital Television sales and service	49%	49%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2012	31.12.2011
Total assets	27 761	21 360
Total liabilities	15 836	11 078
Net assets	11 925	10 282
Group's share of associates' net assets	4 398	3 996

	2012	2011
Revenue	44 744	49 547
Result of the period	5 195	3 177
Group's share of associates' result for the period	1 208	-281

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.

19. 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	31.12.2012	31.12.2011
Deferred tax assets	56 018	56 465
Deferred tax liabilities	-4 385	-5 545
	51 633	**50 920**

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

In CHF'000	Note	2012	2011
At January 1		**50 920**	**50 617**
Exchange differences		-176	-79
Income statement (expense)/income	12	889	382
At December 31		**51 633**	**50 920**

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, 2012	Income statement effect	Currency translation effects	At December 31, 2012
Deferred tax assets associated with				
- intangibles	24 247	2 618	1	26 866
- employee benefits	7 053	511	-9	7 555
- tax losses	21 730	-6 126	-18	15 586
- provisions and other elements tax deductible when paid	1 117	2 985	-63	4 039
- inter-company profit elimination	2 846	-443	-99	2 304
- others	-54	-29	-1	-84
Total deferred tax assets (gross)	**56 939**	**-484**	**-189**	**56 266**
Deferred tax liabilities associated with				
- affiliates and allowances for Group companies	-4 159	21	2	-4 136
- provisions & accelerated tax depreciation	-1 655	1 157	8	-490
- others	-205	195	3	-7
Total deferred tax liabilities (gross)	**-6 019**	**1 373**	**13**	**-4 633**
Net deferred tax asset/(liability)	**50 920**	**889**	**-176**	**51 633**

And for the past year:

In CHF'000	At January 1, 2011	Income statement effect	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 2012

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 847.5 million (2011: CHF 795.9 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 247.7 million (2011: CHF 251.3 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 599.8 million (2011: CHF 544.6 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	2012	2011
Expiration within:		
One year	4.6	–
Two years	9.6	4.6
Three years	90.2	6.7
Four years	15.9	64.5
Five years	5.7	14.6
More than five years	473.8	454.2
Total	**599.8**	**544.6**

20. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

In CHF'000	31.12.2012	31.12.2011
Available-for-sale financial assets:		
- equity instruments with no quoted market price	4 523	4 523
- marketable securities (level 1)	295	245
Loan – third party	6 253	7 677
Loan – related party	1 323	1 229
State and government institutions	21 805	19 491
Deferred contract cost (long term portion)	37 371	50 750
Others	2 575	4 634
	74 145	**88 549**

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 (2011: kCHF 4 523) and marketable securities for kCHF 295 (2011: kCHF 245) which have a maturity exceeding twelve months. Third party and related party loans are measured at amortized cost. The 2012 and 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. The effective interest rate on third party loans is 3.11% (2011: 2.49%). Others mainly consist of guarantee deposits.

State and government institutions include government grants for R&D projects as it will not be received within the next 12 months.

21. INVENTORIES

In CHF'000	31.12.2012	31.12.2011
Raw materials	29 263	20 302
Work in progress	6 041	7 159
Finished goods	33 343	35 641
	68 647	**63 102**

The cost of inventories recognised as an expense includes kCHF 622 (2011: kCHF 2 282) in respect of write-downs of inventories and has been reduced by kCHF 1 781 (2011: kCHF 386) 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 -12 555 (2011: kCHF 411).

22. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2012	31.12.2011
Trade accounts receivable	202 881	242 888
Less: provision for impairment	-17 635	-27 885
Trade accounts receivable related parties	4 694	4 919
Trade receivables – net	**189 940**	**219 922**
Amounts due from customers for contract work, of which kCHF 0 of provision (2011: kCHF -416)	6 457	8 297
Total	**196 397**	**228 219**

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	2012	2011
January 1	**-27 885**	**-24 384**
Provision for impairment charged to income statement	-3 558	-7 943
Utilization	4 302	1 698
Reversal	10 011	3 045
Change in scope	–	14
Translation effects	-505	-315
December 31	**-17 635**	**-27 885**

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 -3 558 (2011: kCHF -7 943). 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	31.12.2012	31.12.2011
Not overdue	121 617	144 549
Past due and not impaired:		
- not more than one month	29 201	30 039
- more than one month and not more than three months	16 053	22 171
- more than three months and not more than six months	10 465	11 485
- more than six months and not more than one year	7 482	5 387
- more than one year	5 122	6 291
Total trade accounts receivable, net	**189 940**	**219 922**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

23. OTHER CURRENT ASSETS

In CHF'000	31.12.2012	31.12.2011
Loans third parties – short term portion	1 220	1 253
Prepaid expenses	8 057	6 534
Accrued income	3 077	6 640
State and government institutions	19 322	19 421
Advances to suppliers and employees	9 592	10 905
Deferred contract cost (short term portion)	11 621	18 350
Other receivables - third parties	3 086	4 661
Other receivables - related parties	983	701
	56 958	**68 465**

Loans are measured at amortized cost. The effective interest rate on short term loans was 5.0% (2011: 4.18%).

24. FINANCIAL ASSETS

In CHF'000	31.12.2012	31.12.2011
Financial assets used for non hedging:		
- Financial instruments (level 2)	7	–
	7	**–**

25. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2012	31.12.2011
Cash at bank and in hand	107 412	275 943
Short term deposits	2 674	13 648
	110 086	**289 591**

The effective interest rate on short term deposits was 0.55% (2011: 0.75%). These deposits have an average maturity of 30 days. The Group only enters into transactions with high rated banks.

26. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2012	31.12.2011
48'982'155 / 48'749'832 bearer shares, at CHF 10 each	489 822	487 498
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	536 122	**533 798**

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	2012	2011
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 15, 2014, for the purpose of financing the full or partial acquisition of other companies

CONDITIONAL SHARE CAPITAL

In CHF'000	2012	2011
Conditional share capital as of January 1	107 639	107 755
Employee share purchase plan	-337	-116
Shares allotted to employees	-1 986	–
Conditional share capital as of December 31	**105 316**	**107 639**
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:		
531'601 / 763'924 bearer shares, at CHF 10 each	5 316	7 639
	105 316	**107 639**

27. TREASURY SHARES

	Note	Number of bearer shares	Book value in CHF'000
As of January 1, 2011		**16 752**	**489**
Treasury shares granted to employees	44	-5 584	-163
As of December 31, 2011		**11 168**	**326**
Treasury shares granted to employees	44	-1 250	-36
As of December 31, 2012		**9 918**	**290**

28. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2012	31.12.2011
Bank loans - long term	29	85 744	21 294
CHF 110 million 3% bond 2011/2016	30	108 912	108 659
Other long term financial liabilities		23	–
		194 679	**129 953**

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29. LONG TERM BANK LOANS

In CHF'000	31.12.2012	31.12.2011
Credit facility agreement	70 000	–
Mortgage - long term portion	15 372	16 920
Other long term bank loans	372	4 374
Total long term bank loans	**85 744**	**21 294**

The average effective interest rate on total long term bank loans was 2.8% (2011: 3.0%).

In 2012, the Group obtained a committed long term syndicated credit facility until March 2015 of CHF 145 million. As of December 31, 2012, the Group has drawn CHF 100 million of which CHF 70 million are classified as long term while CHF 30 million are classified as short term in the balance sheet.

On March 2011, a subsidiary entered into a five year term loan in the principal amount of USD 20 million to finance the acquisition of a building bearing an interest rate at Libor + 2.15% together with a monthly reimbursement of USD 100 000. The carrying amount in 2012 is kCHF 16 470 of which kCHF 15 372 is disclosed under long term while kCHF 1 098 is disclosed under short term liabilities. Shares of the subsidiary, as well as its rental income and assets have been given as collateral. Thus floating rate mortgage was partially fixed using an interest rate swap with concomitant maturities.

30. 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 amounted to kCHF 110 312 less issuance costs of kCHF 1 786 totaling an initial 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	2012	2011
Initial balance / Net proceed of bond issuance	**108 659**	**108 526**
Amortization of transaction costs less premium	253	133
Liability component as of December 31	**108 912**	**108 659**

31. EMPLOYEE BENEFITS LIABILITIES

In addition to the social security plans mandated by 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 revised every year by an independent actuary.

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

Plan assets have been estimated at fair market values. 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	31.12.2012	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Fair value of plan assets	115 075	98 732	105 664	95 089	75 443
Defined benefit obligation	-175 308	-149 230	-164 785	-129 496	-111 687
Funded status	**-60 233**	**-50 498**	**-59 121**	**-34 407**	**-36 244**
Unrecognized gains/(losses)	-25 242	-18 090	-31 336	-9 338	-14 537
Unrecognized prior service cost	24	-22	-48	–	–
Accrued pension cost	**-35 015**	**-32 386**	**-27 785**	**-25 069**	**-21 707**

The liability that is recognized in the balance sheet at December 31, 2012 amounts kCHF 35 015 (kCHF 32 386 at December 31, 2011).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2012 (respectively 2011):

In CHF'000	2012	2011
Service cost	-16 359	-19 885
Interest cost	-3 891	-4 258
Expected return on plan assets	4 443	4 755
Employees contributions	5 931	6 078
Amortization of gains/(losses)	-426	-906
Amortisation of prior service cost	2	-4
Curtailment gain / (loss)	493	2 142
Net pension (cost)/income	**-9 807**	**-12 078**
Exchange rate difference	**46**	**191**
Employer contribution	**7 132**	**7 238**

The net pension cost for the financial year 2012 amounts kCHF 9 807 (kCHF 12 078 for the financial year 2011).
The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2012 and 2011 are as follows:

	31.12.2012	31.12.2011
Switzerland		
Discount rate	2.15%	2.50%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	0% 1 year, then 1%	0% 5 years, then 1%
Expected long-term rate of return on plan assets	4.50%	4.50%
Turnover	4.2% on average	4.5% on average
Retirement age	according to the rules	according to the rules
Abroad		
Discount rate	3.25%	4.69%
Rate of future increase in compensations	2.84%	3.16%
Turnover	8.2% on average	8.2% on average
Retirement age	according to the law	according to the law

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The changes in defined benefit obligation, fair value of plan assets and unrecognized gains/(losses) and unrecognized prior service cost during the year 2012 and 2011 are as follows:

A. Change in defined benefit obligation

In CHF'000	2012	2011
Defined benefit obligation as of 1.1.	**-149 230**	**-164 785**
Service cost	-16 359	-19 885
Interest cost	-3 891	-4 258
Change in assumptions	-15 366	13 513
Change in pension plan	47	–
Actuarial gains/(losses)	4 530	6 334
Curtailment	493	13 862
Benefits payments	4 422	5 798
Exchange rate difference	46	191
Defined benefit obligation as of December 31,	**-175 308**	**-149 230**

B. Change in fair value of plan assets

In CHF'000	2 012	2 011
Fair value of plan assets as of 1.1.	**98 732**	**105 664**
Expected return on plan assets	4 443	4 755
Employees' contributions	5 931	6 078
Employer's contribution	7 132	7 238
Plan assets gains/(losses)	3 258	-9 314
Benefits (paid)/received	-4 421	-5 797
Curtailment	0	-9 892
Fair value of plan assets as of December 31,	**115 075**	**98 732**

C. Change in unrecognized gains/(losses)

In CHF'000	2 012	2 011
Unrecognized gains/(losses) as of 1.1.	**-18 090**	**-31 336**
Amortization	426	906
Change in assumptions	-15 366	13 513
Actuarial gains / (losses)	4 530	6 334
Plan assets gains / (losses)	3 258	-9 313
Curtailment	–	1 806
Unrecognized gains/(losses) as of December 31,	**-25 242**	**-18 090**

D. Change in Unrecognized prior service cost

In CHF'000	2 012	2 011
Unrecognized prior service cost as of 1.1.	**-22**	**-48**
Impact of change in pension plan	47	–
Amortization	-2	4
Exchange rate difference	–	1
Curtailment	–	21
Unrecognized gains/(losses) as of December 31,	**23**	**-22**

The actual return on plan assets amounts to kCHF 7 701 in 2012 (kCHF -4 559 for the year 2011). The estimated employer's contribution to the pension plans for the financial year 2013 amount kCHF 7 102.
The categories of plan assets and their corresponding expected return at December 31, 2012 (respectively December 31, 2011)

are as follows:

In CHF'000	Proportion in % 31.12.2012	Expected return 31.12.2012	Proportion in % 31.12.2011	Expected return 31.12.2011
Cash	7.0%	1.0%	12.1%	1.0%
Swiss bonds	27.3%	3.0%	27.8%	3.3%
Foreign bonds	8.5%	3.3%	7.2%	3.3%
Swiss shares	18.2%	6.5%	16.5%	7.0%
Foreign shares	19.6%	6.5%	22.4%	6.5%
Real estates	13.4%	4.5%	12.0%	4.5%
Structured products	6.0%	4.5%	2.0%	4.5%
Total	**100.0%**	**4.5%**	**100.0%**	**4.5%**

32. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2012	Total 2011
As of January 1	**7 579**	**10 531**	**1 533**	**19 643**	**12 511**
Additional provisions	7 687	39	806	8 532	7 890
Unused amounts reversed	–	-886	-369	-1 255	-376
Used during the year	-6 847	-7 673	-13	-14 533	-455
Exchange differences	14	-12	-8	-6	73
As of December 31	**8 433**	**1 999**	**1 949**	**12 381**	**19 643**
Thereof:					
- Short term	7 929	1 999	1 949	11 877	17 345
- Long term	504	–	–	504	2 298
	8 433	**1 999**	**1 949**	**12 381**	**19 643**

Restructuring provisions

Following the Group restructuring plan announced late 2011, provisions for restructuring have been recognised in the 2012 and 2011 accounts. Restructuring provisions also 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.
On March 2012, the Group paid kCHF 7 574 to settle a litigation. The 2011 financial statements included a provision for kCHF 8 460 to cover the risk, hence an amount of kchf 886 has been released in the income statement.

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.

33. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2012	31.12.2011
Other long-term liabilities		724	1 188
Derivative financial instruments	39	1 127	1 092
		1 851	**2 280**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

34. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2012	31.12.2011
Short term bank borrowings		74 075	38 150
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	35	–	345 226
Other short term financial liabilities		8	–
		74 083	**383 376**

The average effective interest paid in 2012 for short term bank borrowings was 1.58% (2011: 1.83%). Short term bank borrowings include the short-term portion of a credit facility agreement (see note 29) for kCHF 30 000 (2011: kCHF 0).

35. 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. The bond has been redeemed at par value on October 5, 2012. Interest expense on the liability component of the bond is calculated on the effective yield basis using an effective rate of 3.2%.

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

In CHF'000	2012	2011
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	36 375	30 355
Interest expense for the year	9 119	11 708
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	–	-1 343
Repayment	-350 000	–
Liability component as of December 31	**–**	**345 226**

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	2012	2011
Base interest (1.625%)	4 345	5 688
Allocation of the equity conversion component	4 150	5 203
Effective interest expense (effective yield rate of 3.2%)	**8 495**	**10 891**
Allocation of transaction costs	624	817
Interest expense	**9 119**	**11 708**

36. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2012	31.12.2011
Trade accounts payable – third parties	40 071	54 184
Trade accounts payable – related parties	2	12
	40 073	**54 196**

37. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2012	31.12.2011
Accrued expenses	70 010	69 083
Deferred income	13 434	8 776
Payable to pension fund	564	682
Contingent consideration - short term portion	–	2 075
Other payables	10 655	13 204
	94 663	**93 820**

38. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2012	31.12.2011
Amounts due to customers for contract work	2 099	2 242
Advances from clients	12 263	14 255
	14 362	**16 497**

39. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Currency related instruments (level 2)						
- Over the counter currency options	–	27 625	–	–	–	2 524
- Cross currency swaps	–	1 696	–	–	–	16
Interests related instruments (level 2)						
- Interest rate swap	12 810	13 160	–	–	1 127	1 092
Total of derivatives financial instruments	**12 810**	**42 481**	**–**	**–**	**1 127**	**3 632**
Of which:						
- Short-term	–	29 321	–	–	–	2 540
- Long-term	12 810	13 160	–	–	1 127	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. 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 0 and kCHF 0 respectively (2011: kCHF 26 781 and kCHF 29 321).

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40. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

In CHF'000	2011 Acquisitions
Tangible fixed assets	50
Intangible fixed assets (excluding goodwill)	322
Net working capital	-75
Cash and cash equivalents	69
Total costs of acquisition	**366**
To adjust for:	
- prior years contingent considerations paid	361
- cash and cash equivalents acquired	-69
Net cash outflow from acquisitions	**658**

41. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Kudelski family pool	57%	57%	24%	24%

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

42. RESEARCH AND DEVELOPMENT

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

In CHF'000	2012	2011
Research and development	196 505	214 270

43. DIVIDEND

The ordinary dividend paid in 2012 was kCHF 5 359 (2011: kCHF 16 011) which corresponds to a dividend of CHF 0.10 (2011: CHF 0.30) per bearer share and CHF 0.01 (2011: CHF 0.03) per registered share.
For the current year, the Board of Directors proposes a distribution of CHF 0.20 per bearer share and CHF 0.02 per registered share. The distribution to be paid is kCHF 10 722 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 CHF 0.15 distribution out of Capital contribution reserve and CHF 0.05 distribution out of retained earnings per bearer share (CHF 0.015 and CHF 0.005 per registred share respectively) 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.

44. 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 2012	Shares 2011
Shares underwritten by employees	28 110	9 600
Bonus shares and options from ESPP	5 622	1 920
Total employee share program	**33 732**	**11 520**

In CHF'000	Shares 2012	Shares 2011
Amount paid by employee	143	71
Booked corporate charges (excluding social charges)	58	44
	201	**115**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2012	Options 2011
In circulation on January 1	20		565
In circulation on January 1	15	6 691	6 691
Total in circulation on January 1		**6 691**	**7 256**
Rights forfeited		-4 768	-565
In circulation on December 31		**1 923**	**6 691**
- of which exercisable as of January 1	20	–	565
- of which exercisable as of December 31	20	–	–
- of which exercisable as of January 1	15	4 768	–
- of which exercisable as of December 31	15	1 339	4 768

SHARES ISSUED FOR EMPLOYEES

In 2012, 198 591 bearer shares of Kudelski SA were given to employees for no consideration as part of their remuneration, of which 120 890 include a seven-year blocking period and 77 701 include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 826. In 2011, no such distribution occurred.

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION OF OPENTV CORP

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. In 2012, 1 250 shares vested and were transferred to the employees. The expense of kCHF 17 (2011: kCHF 46) is charged to the income statement according to the vesting conditions.

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45. 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:

In CHF'000	Sale of goods and services 2012	2011	Purchase of goods and services 2012	2011	Amounts owed to related parties 31.12.2012	31.12.2011	Amounts owed by related parties 31.12.2012	31.12.2011
Hantory Co., Ltd	4 320	4 019	–	–	–	44	472	854
APT-Skidata Ltd	6 349	4 118	–	–	2	12	1 412	855
Skidata Parking System	6 989	8 269	–	–	–	–	1 351	2 860
SKIDATA India Private Limited	865	580	–	–	–	–	478	216
Resort Technology Partners LLC	–	3 940	–	–	–	–	–	–
iWedia SA	275	–	154	–	–	–	149	–
Total associated companies	**18 798**	**20 926**	**154**	**–**	**2**	**56**	**3 862**	**4 785**
Audio Technology Switzerland SA	–	1 930	–	–	–	–	2 516	1 930
Polyright SA	–	–	–	131	–	–	–	–
Nagra Thomson Licensing	–	–	–	231	–	–	–	–
Total other related and joint ventures	**–**	**1 930**	**–**	**362**	**–**	**–**	**2 516**	**1 930**

APT SkiData and SkiData Parking Ltd are sales representatives companies for SkiData Group.

In December 2011, 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. Polyright SA and Nagra Thomson Licensing were former joint ventures and were disposed of in 2011.

Key management compensation

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

In CHF'000	2012	2011
Salaries and other short-term employees benefits	7 764 993	9 173 911
Post-employments benefits	77 189	261 450
Other long term benefits	–	–
Share-based payments	871 403	787 700
	8 713 585	**10 223 061**

The Group Executive management has changed from January 1st, 2012. 2012 and 2011 shares allotments were only granted early in following year but are part of the compensation. See note 46 for additional information.

46. COMPENSATION, SHAREHOLDINGS AND LOANS

This note provides with information required by article 663 b bis of the Swiss Code of Obligations. In implementing the new Group strategy, Group Executive Management has been simplified to better focus on Integrated Digital Television activities. From January 1st, 2012, the Group Executive Management consists of André Kudelski, Mauro Saladini, Pierre Roy and Alex Osadzinski. Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2012 and 2011 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 2012 CHF
Board of Directors					
Kudelski André, chairman	551 000	–	–	–	551 000
Smadja Claude, vice chairman	100 000	–	–	–	100 000
Bucher Norbert, member	50 000	–	–	–	50 000
Dassault Laurent, member	40 000	–	–	–	40 000
Deiss Joseph, member	40 000	–	–	–	40 000
Foetisch Patrick, member	50 000	–	–	190 563	240 563
Kudelski Marguerite, member	50 000	–	–	–	50 000
Lescure Pierre, member	120 000	–	–	–	120 000
Zeller Alexandre, member	50 000	–	–	–	50 000
Total board members	**1 051 000**	**–**	**–**	**190 563**	**1 241 563**
Management					
Kudelski André, CEO	563 500	3 083 000	80 000	31 257	4 200 957
Other management members	1 529 865	1 248 069	50 502	67 739	3 193 876
Total Management	**2 093 365**	**4 331 069**	**130 502**	**98 996**	**7 394 833**
Former board members					
Kudelski Stefan, founder and honorary Chairman	205 020	–	–	–	205 020

	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
Kudelski Marguerite, member	50 000	–	–	–	50 000
Lescure Pierre, member	120 000	–	–	–	120 000
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 honorary Chairman	205 020	–	–	–	205 020

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Share allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 112 309 (2011: 120 890) bearer shares granted to certain management members are subject to a 7 year blocking period and 18 193 (2011: 69 948) bearer shares are subject to a 3 year blocking period. 2012 and 2011 shares allotments were only granted early in the following year.

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, 2012 and 2011, 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, 2012, the members of the Board of Directors and members of the management had following interest in the company (without including shares from 2012 variable compensation - issued in 2013):

	31 december 2012			
	Registered shares	Bearer shares	Options	Convertible bond
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	8 149 311	–	–
Smadja Claude, vice chairman	–	1 300	–	–
Bucher Norbert, member	–	1 700	–	–
Dassault Laurent, member	–	2 000	–	–
Deiss Joseph, member	–	1 000	–	–
Foetisch Patrick, member	–	1 000	–	–
Kudelski Marguerite, member	–	3 005 112	–	–
Lescure Pierre, member	–	2 000	–	–
Zeller Alexandre, member	–	7 200	–	–
Total board members	**46 300 000**	**11 170 623**	**–**	**–**
Management				
Kudelski André, CEO	see above	see above	see above	–
Saladini Mauro, CFO		159 783	-50	–
Roy Pierre, COO	–	52 880	–	–
Osadzinski Alex, EVP Product	–	5 656	–	–
Total Management	**–**	**218 319**	**-50**	**–**

Convertible bond is disclosed in CHF nominal value.

And for 2011:

	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	–	–
Kudelski Marguerite, member	–	3 005 112	–	–
Lescure Pierre, member	–	2 000	–	–
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**

At December 31, 2012 and 2011, 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. Options existing in 2011 were granted as part of the ESPP (see note 44).

47. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 012	2 011
Within one year	1 601	4 829
In the second to fifth year inclusive	11 342	16 276
	12 943	**21 105**

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48. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2012:

Assets as per balance sheet date December 31, 2012 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2012
Financial assets and non current assets:					
- equity instruments with no quoted market price	20		4 523		4 523
- marketable securities	20		295		295
- long term loans	20			7 576	7 576
- guarantee deposits	20			2 575	2 575
Trade accounts receivable	22			189 940	189 940
Other current assets:					
- Loans	23			1 220	1 220
Financial assets instruments	24	7			7
Cash and cash equivalents	25			110 086	110 086
		7	**4 818**	**311 397**	**316 222**

Liabilities as per balance sheet date December 31, 2012 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2012
Long term financial debt	28			194 679	194 679
Short term financial debt	34			74 083	74 083
Trade accounts payable	36			40 073	40 073
Other payables	37			10 655	10 655
Derivative financial instruments (short and long term)	39	1 127	–		1 127
		1 127	**–**	**319 490**	**320 617**

And for 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	20		4 523		4 523
- marketable securities	20		245		245
- long term loans	20			8 906	8 906
- guarantee deposits	20			4 634	4 634
Trade accounts receivable	22			219 922	219 922
Other current assets:					
- Loans	23			1 253	1 253
Cash and cash equivalents	25			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	28			129 953	129 953
Short term financial debt	34			383 376	383 376
Trade accounts payable	36			54 196	54 196
Other payables	37			13 204	13 204
Derivative financial instruments (short and long term)	39	1 092	2 540		3 632
		1 092	2 540	580 729	584 361

49. 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 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Financial liabilities				
- CHF 350 million unsubordinated convertible bond	–	–	345 226	349 514
- CHF 110 million bond	108 912	113 025	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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

50. 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
	2 012	2 011	2 012	2 011	2 012	2 011	2 012	2 011	2 012	2 011
Convertible bond	–	355 688	–	–	–	–	–	-10 462	–	345 226
Bond	3 300	3 300	119 900	123 200	–	–	-14 288	-17 841	108 912	108 659
Long term bank loans	1 621	498	88 111	22 924	–		-3 988	-2 128	85 744	21 294
Long term loans – third parties	–	–	–	–	–	–	–	–	–	–
Short term financial debt	74 083	38 352						-202	74 083	38 150
Trade accounts payable	40 073	54 196							40 073	54 196
Other payables	10 655	13 204							10 655	13 204
Total	**129 732**	**465 238**	**208 011**	**146 124**	**–**	**–**	**-18 276**	**-30 633**	**319 467**	**580 729**

The Group has a stong cash position and credit facilities sufficient to provide for these payments.

51. 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 10% (2011: 15%) increase and decrease to the USD and a 5% (2011: 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.

	USD		EUR	
In CHF'000	**2 012**	**2 011**	**2 012**	**2 011**
Post-tax net income				
- Increase	4 638	-1 816	3 385	14 868
- Decrease	-4 638	2 571	-3 385	-13 985
Comprehensive income (post-tax effect)				
- Increase	9 676	14 286	1 044	3 175
- Decrease	-9 676	-14 286	-1 044	-3 175

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 40 basis points (2011: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2011: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 25 basis points (2011: 100 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, 2012 would decrease by kCHF 346 and increase by kCHF 100 (2011: increase by kCHF 2 332 /decrease by kCHF 415). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 388 and decrease by kCHF 101 (2011: increase by kCHF 399 / decrease by 129). The other comprehensive income impact is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting.

Equity prices

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

52. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2012	31.12.2011
Guarantee in favor of third parties	27 391	31 502

53. RISK CONCENTRATION

At December 31, 2012 and 2011, no financial asset exposure was more than 10% of the financial assets, with the exception of cash balances deposited within a high rated bank.

54. 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 2012 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

55. 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 2012 was 69.6% (2011: 38.7%).

56. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 012	2 011	2 012	2 011
1 USD	0.9150	0.9400	0.9377	0.8860
1 EUR	1.2070	1.2150	1.2052	1.2330
1 GBP	1.4800	1.4500	1.4861	1.4150
1 SGD	0.7490	0.7240	0.7506	0.7050
1 AUD	0.9500	0.9550	0.9711	0.9140
1 BRL	0.4470	0.5040	0.4814	0.5300
100 INR	1.6700	1.7600	1.7567	1.9000
100 SEK	14.0600	13.6200	13.8518	13.6500
100 CNY	14.6850	14.9400	14.8619	13.7200
100 JPY	1.0630	1.1213	1.1756	1.1125

57. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on February 27, 2013.

58. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2012	2011
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes and advertising solutions	100	100
Public Access				
SkiData Group	AT – Gartenau	People and car access systems	100	100
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100
Kud SA	LU – Luxemburg	Finance	100	100

These principal companies are all subsidiaries.

59. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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 4 to 52), for the year ended 31 December 2012.

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 2012 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.

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 27, 2013

BALANCE SHEETS AT DECEMBER 31, 2012 AND 2011

ASSETS

In CHF'000	Notes	31.12.2012	31.12.2011
Fixed assets			
Financial fixed assets			
Investments	3.1	402 760	426 816
Loans to Group companies		779 057	706 292
Total fixed assets		**1 181 817**	**1 133 108**
Current assets			
Accounts receivable from Group companies		147 453	34 038
Other accounts receivable and accruals	3.2	2 943	1 464
Treasury shares	3.4	74	74
Cash and cash equivalents	3.3	25 189	10 992
Total current assets		**175 659**	**46 568**
Total assets		**1 357 476**	**1 179 676**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2012	31.12.2011
Shareholders' equity			
Share capital		536 122	533 798
Legal reserves:			
- General reserve		110 000	45 349
- Capital contribution reserve		37 945	43 304
- Reserve for treasury shares		290	326
Retained earnings		283 976	374 521
Net income		-21 186	-25 930
Total shareholders' equity	**3.4**	**947 147**	**971 368**
Long-term liabilities			
Loans from Group companies		27 276	82 883
Bonds	3.5	110 000	110 000
Bank, long term borrowings	3.6	70 000	–
Total long-term liabilities		**207 276**	**192 883**
Current liabilities			
Short-term loans from Group companies		170 596	14 395
Bank, short term borrowings	3.6	30 000	–
Other liabilities and accruals		2 457	1 030
Total current liabilities		**203 053**	**15 425**
Total liabilities		**410 329**	**208 308**
Total shareholders' equity and liabilities		**1 357 476**	**1 179 676**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2012

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

In CHF'000	Notes	2012	2011
Royalty income and other		2	58
Financial income	4.1	46 272	85 684
Loss on sale of investments	4.2	-27 883	-425
Administrative and other expenses	4.3	-4 996	-6 326
Financial expenses and exchange result	4.4	-7 936	-9 524
Impairment of financial fixed assets	4.5	-26 613	-95 397
(loss)/Income before tax		**-21 154**	**-25 930**
Income tax		-32	–
Net (loss)/income		**-21 186**	**-25 930**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2012

In CHF'000	Capital contribution reserve	Retained earnings
Balance brought forward from previous year	37 945	283 940
Decrease of treasury shares reserve	–	36
Net result	–	-21 186
Total available earnings	**37 945**	**262 790**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.20 on 48'982'155* bearer shares (of which CHF 0.15 out of capital contribution reserve and CHF 0.05 out of retained earnings)	-7 347	-2 449
- CHF 0.02 on 46'300'000 registered shares (of which CHF 0.015 out of capital contribution reserve and CHF 0.005 out of retained earnings)	-695	-232
Balance to be carried forward	**29 903**	**260 109**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2012 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 2012

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 2012

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2012	2011
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	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	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	UK – St. Albans	No activity	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
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
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Abilis Systems Sàrl	CH – Plan-les-Ouates	Research & development for mobile phones	kCHF	20	0	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Software integration	kEUR	25	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	50	50
Nagravision India Pvt Ltd (former En-Media Software Technologies Pvt Ltd)	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Holding	kUSD	5 270	100	100
OpenTV UK Ltd	UK – London	No activity	kGBP	100	100	100
OpenTV GmbH (Switzerland)	CH - Stans	Sales	CHF	100	M	100
OpenTV Netherlands B.V.	NL - Amsterdam	Sales and support	kEUR	18	100	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100

M = merged company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2012	31.12.2011
Prepaid expenses	2 788	1 341
Withholding tax	150	119
Other accounts receivable	5	4
	2 943	**1 464**

Prepaid expenses include the difference between nominal value and net proceeds less issuance cost of the bond (note 3.5) for kCHF 1 088 (2011: kCHF 1 340) and transaction costs relating to the CHF 145 million credit facility agreement (note 3.6) for kCHF 1 701 (2011: kCHF 0). These amounts are allocated against income statement over the periods of the borrowings.

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2012	31.12.2011
Cash at bank and in hand	25 189	10 992
	25 189	**10 992**

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contri-bution reserve	Reserve for treasury shares	Available earnings	Total Sharehold-ers' equity
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**
General reserve allocation		64 651			-64 651	–
Dividend			-5 359			-5 359
Share capital increase	2 324					2 324
Release of reserve for treasury shares				-36	36	–
Net Income					-21 186	-21 186
As of December 31, 2012	**536 122**	**110 000**	**37 945**	**290**	**262 790**	**947 147**

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. In 2011, 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 2012

TREASURY SHARES

	Number of bearer shares	Reserve for treasury shares
		CHF '000
As of December 31, 2010	**16 752**	**-489**
Treasury shares granted to employees	-5 584	163
As of December 31, 2011	**11 168**	**-326**
Treasury shares granted to employees	-1 250	36
As of December 31, 2012	**9 918**	**-290**

Reserve for treasury corresponds to the purchase consideration for the treasury shares purchased by Kudelski SA and its affiliates. As of December 31, 2012 8 668 (2011: 8 668) treasury shares were owned by Kudelski SA and 1 250 (2011: 2 500) by affiliated companies for a purchase cost of kCHF 253 (2011: 253) and kCHF 37 (2010: kCHF 73) respectively.

The value for treasury shares presented under current assets as of December 31, 2012 and 2011 correspond to the purchase consideration of kCHF 253 less impairment of kCHF 179.

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2012	31.12.2011
48'982'155 / 48'749'832 bearer shares, at CHF 10 each	489 822	487 498
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	536 122	**533 798**

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	2012	2011
Conditional share capital as of January 1	107 639	107 755
Employee share purchase plan	-337	-116
Exercise of options		–
Shares allotted to employees	-1 986	–
Conditional share capital at December 31	**105 316**	**107 639**
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:		
531'601 / 763'924 bearer shares, at CHF 10 each	5 316	7 639
	105 316	**107 639**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2012	31.12.2011
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 15, 2014, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
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.

The bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs amounting to kCHF 1 474 is considered as a prepaid expense and allocated against the income statement over the period of the bond.

3.6 BANK , LONG TERM BORROWINGS

In 2012, the Group obtained a committed long term syndicated credit facility until March 2015 of CHF 145 million. As of December 31, 2012 the Group has drawn CHF 100 million of which CHF 70 million are classified as long term while CHF 30 million are classified as short term in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS 2012

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2012	2011
Dividends received from Group subsidiaries	40 149	53 876
Interest income third parties	346	733
Interest on loans to Group subsidiaries	5 777	31 075
	46 272	**85 684**

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2012 loss relates to the sale of Abilis Systems Sàrl, Plan-les-Ouates while the 2011 loss relates to the sale of Polyright SA.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2012	2011
Administrative expenses	-3 309	-4 630
Taxes other than income tax	-1 687	-1 696
	-4 996	**-6 326**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2012	2011
Net currency exchange result	-1 919	-1 302
Interest on loans from Group subsidiaries	-1 182	-4 907
Interest expenses and bank charges	-4 835	-3 315
	-7 936	**-9 524**

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

In CHF'000	2012	2011
Allocation to provisions on Group investments and loans	-26 613	-95 218
Value adjustment on treasury shares	–	-179
	-26 613	**-95 397**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2012	31.12.2011
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	–	350 000
Commitment in favor of third parties	1 489	1 666
	1 489	**351 666**
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 59 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 54 to 62), for the year ended 31 December 2012.

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 2012 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.

pwc

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 27, 2013

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