KUDELSKI GROUP FINANCIAL STATEMENTS 2011

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Assets

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

Equity and liabilities

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

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

CONSOLIDATED CASH FLOW STATEMENTS

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

(B) Group accounting

(a) Subsidiaries

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

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

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

(b) Joint ventures

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

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

(c) Associates

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

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

(C) Business combinations

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

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

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

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

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

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

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

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

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

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

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

(c) Royalties and licenses

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

(d) Multiple element arrangements – service mode

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

(e) Payment to customers

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

(f) Government grants

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

(g) Interest income

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

(G) Derivative financial instruments

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

(a) Derivatives that do not qualify for hedge accounting

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

(b) Fair value hedge

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

(c) Cash flow hedge

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

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

(H) Taxes

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

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

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

(I) Tangible fixed assets

(a) General

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

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

Technical equipment and machinery

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

Other equipment

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

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

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

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

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

(J) Intangible assets

(a) Goodwill

Arising after January 1, 2004

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

Arising before January 1, 2004

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

(b) Internal research and development

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

(c) External research and development

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

(d) Computer software

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

(e) Other intangibles in connection with business combinations

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

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

(K) Financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

(L) Inventories

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

(M) Deferred costs

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

(N) Trade accounts receivable

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

(O) Cash and cash equivalents

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

(P) Marketable securities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

(Q) Share capital
Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital and the nominal value of the share capital increase as well as incremental costs directly attributable to the issue of new shares or options of Kudelski SA are considered as share premium and are part of equity.
Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(R) Convertible bonds
Convertible bonds are initially recognized at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.
The fair value of the liability component of convertible bonds is determined using a market interest rate for an equivalent straight bond at inception. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. Issuance costs are allocated on a proportional basis to the liability component and are expensed over the convertible bond life.
As the convertible bonds issued do not entitle the issuer to deliver cash upon exercise of the conversion option, the equity component is measured at inception and is allocated to the reserves.

(S) Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Restructuring provision comprises employee termination payments, lease termination penalties and dilapidation costs.

(T) Contingent consideration
The purchase consideration for selected Group acquisitions may include contingent components, which depend on the future financial performance of the company acquired ("earn out clause"). It is based on the management's best estimate of the final consideration payable and is subject to a yearly review.
Where a portion of the contingent consideration for an acquisition is deferred to a date more than one year after the end of the current financial year, that portion is discounted to its present value and disclosed within other long term liabilities.

(U) Employee benefits
(a) Pension obligations
The Group operates a number of defined benefits and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.
The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligation is in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, amendments to the pension plan and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the average working life of the related employees.
The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

(b) Other long-term employee benefits
Other long-term employee benefits represent amounts due to employees under deferred compensation arrange-

ments mandated by certain jurisdictions in which the Group conducts its operations. Benefits cost is recognized on an accrual basis in the personnel expenses.

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

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

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

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

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

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

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

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

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

Annual IFRS improvement projects effective from 1 January 2011.

Following IFRICs were not relevant on Group's account:

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

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

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

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

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

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

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

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Complete security solutions generating recurring service revenues

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

In case of impairment this would affect the profitability of the Group by resulting in a reduction of the deferred costs and revenues.

Litigation and product liability provisions

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

Deferred tax assets

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

Retirement benefit plans

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

Impairment of Goodwill

Determining whether a Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which Goodwill has been allocated.

The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

3. FINANCIAL RISK MANAGEMENT

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

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

Market risk

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

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

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in Swiss francs. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.

It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion defined in the treasury policy of the exposure generated.

Net investments in Kudelski affiliates with a functional currency other than the Swiss Franc are of long-term nature: the Group does not hedge such foreign currency translation exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

(b) Interest rates

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

Other price risks

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

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a mean of mitigating the risk of financial loss from defaults. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial informations and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the department in charge annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited within a high rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS

Digital Television Solutions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

BUSINESS COMBINATIONS IN 2010

Digital Television Solutions

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

Public Access

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

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

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

Correction of previous purchase price

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

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

Contribution and Pro forma data including business combinations for all of 2011
The acquired businesses contributed net income of kCHF -1 751 (2010: kCHF -1 038) to the Group for the period from acquisition dates to December 31, 2011.
If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 873 914 (2010: kCHF 1 035 820) and kCHF -17 735 (2010: kCHF 64 549) respectively.

5. DIVESTMENTS

On December 31, 2011 the Group carved out its audio activity and sold these assets (mainly inventory and tangible fixed assets) to Audio Technology Switzerland SA for a consideration of CHF 2.3 million payable over a a period specified in a payment plan. The sale agreement also comprises an earn-out clause depending on the success of the carved-out business. This company is treated as a related party as Group Board members and Executives invested in that company.
On June 16, 2011, the Group disposed of its 50% stake of the joint venture Nagra Thomson Licensing for kCHF 536.
On July 18, 2011, the Group disposed of its 50% stake of the joint venture polyright SA for kCHF 575. Furthermore, the buyer repaid the loan and interest granted to the joint-venture at closing date.
On November 9, 2011, the Group disposed of its 25% stake of its associated company RTP, LLC, for kCHF 2 639.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

6. SEGMENT INFORMATION

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

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

The segment information for 2011 and 2010 is as follows:

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

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

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

GEOGRAPHICAL INFORMATION

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

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

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

REVENUE CATEGORIES

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

7. OTHER OPERATING INCOME

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

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

8. OTHER OPERATING EXPENSES

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

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

10. INTEREST EXPENSE

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

11. OTHER FINANCE INCOME/(EXPENSE), NET

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

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

12. INCOME TAX EXPENSE

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

Other taxes include non reimbursable withholding taxes.

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

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

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

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

13. NET FOREIGN EXCHANGE RESULT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

14. EARNINGS PER SHARE (EPS)

Basic earnings per share

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

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

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

Diluted earnings per share

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

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

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

15. TANGIBLE FIXED ASSETS

Tangible fixed assets comprise the following:

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

LAND AND BUILDINGS

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

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

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EQUIPMENT AND MACHINES

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

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

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

16. INTANGIBLE ASSETS

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

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

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

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

17. INVESTMENTS IN ASSOCIATES

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

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

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

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

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

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

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

18. DEFERRED INCOME TAXES

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for the past year:

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

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

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

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

19. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

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

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

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

20. INVENTORIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

21. TRADE ACCOUNTS RECEIVABLE

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

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

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

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

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

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

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

22. OTHER CURRENT ASSETS

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

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

23. FINANCIAL ASSETS

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

Available-for-sale marketable securities include the following:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

24. CASH AND CASH EQUIVALENTS

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

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

25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

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

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

AUTHORIZED SHARE CAPITAL

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

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

CONDITIONAL SHARE CAPITAL

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

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

26. TREASURY SHARES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

27. LONG TERM FINANCIAL DEBT

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

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

28. CONVERTIBLE BOND 2005/2012

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

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

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

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

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

The above interest expense includes the following:

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

29. BOND 2011/2016

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

30. EMPLOYEE BENEFITS LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

A. Change in defined benefit obligation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

B. Change in fair value of plan assets

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

C. Change in unrecognized gains/(losses)

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

D. Change in Unrecognized prior service cost

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

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

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

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

31. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

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

Restructuring provisions

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

Legal fee and litigations

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

Provision for warranty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

32. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

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

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

33. SHORT TERM FINANCIAL DEBT

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

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

34. TRADE ACCOUNTS PAYABLE

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

35. OTHER CURRENT LIABILITIES

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

36. ADVANCES RECEIVED FROM CLIENTS

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

37. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

38. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

39. PRINCIPAL SHAREHOLDERS

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

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

40. RESEARCH AND DEVELOPMENT

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

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

41. DIVIDEND

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

42. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

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

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

The following table summarizes the options part of this plan:

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

Shares issued for employees

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

43. OPENTV CORP - SHARE BASED PAYMENTS

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

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION

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

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

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

OTHER OPENTV CORP SHARE BASED PAYMENT

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

Stock option plan

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

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

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

EMPLOYEE AND BOARD MEMBERS SHARE ALLOCATIONS

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

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

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

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

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

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

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

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

OTHER SHARE BASED TRANSACTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

OPENTV SHARE BASED TRANSACTIONS IMPACTS

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

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

44. RELATED PARTIES

Trading transactions

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

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

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

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

45. COMPENSATION, SHAREHOLDINGS AND LOANS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

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

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

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

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

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

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

Convertible bond is disclosed in CHF nominal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for 2010:

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

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

46. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

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

47. CATEGORIES OF FINANCIAL INSTRUMENTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

And for 2010:

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

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

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

IFRS requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

49. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

50. SENSITIVITY ANALYSIS

Foreign currency

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

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

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

Interest rates

The sensitivity analysis below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates have been selected in order to report the sensitivity analysis corresponding to the treasury which represent management's assessment of the reasonably possible change in interest rates:

- USD: increase of 150 basis points and decrease of 50 basis points (2010: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2010: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 10 basis points (2010: 150 basis points increase or 50 decrease)

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:

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

Equity prices

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

51. COLLATERAL RECEIVED AND GIVEN

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

52. RISK CONCENTRATION

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

53. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

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

54. CAPITAL RISK MANAGEMENT

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

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

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

55. PRINCIPAL CURRENCY TRANSLATION RATES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

56. APPROVAL OF FINANCIAL STATEMENTS

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

57. PRINCIPAL OPERATING COMPANIES

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

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

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

58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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

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

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 4 to 63), for the year ended 31 December 2011.

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

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

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

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

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

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

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

pwc

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz
Audit expert
Auditor in charge

Stéphane Jaquet
Audit expert

Lausanne, February 22, 2012

BALANCE SHEETS AT DECEMBER 31, 2011 AND 2010

ASSETS

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

SHAREHOLDERS' EQUITY AND LIABILITIES

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

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

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

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

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2011

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

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

NOTES TO THE FINANCIAL STATEMENTS 2011

1. GENERAL COMMENTS

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

FINANCIAL FIXED ASSETS

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

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

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

TREASURY SHARES

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

NOTES TO THE FINANCIAL STATEMENTS 2011

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

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

M = merged company

L = liquidated company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

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

3.3 CASH AND CASH EQUIVALENTS

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

3.4 CHANGE IN SHAREHOLDERS' EQUITY

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

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

NOTES TO THE FINANCIAL STATEMENTS 2011

TREASURY SHARES

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

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

COMPOSITION OF SHARE CAPITAL

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

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

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

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

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

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

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

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

MAJOR SHAREHOLDERS

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

3.5 BOND

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

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

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

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

NOTES TO THE FINANCIAL STATEMENTS 2011

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

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

4.3 ADMINISTRATIVE AND OTHER EXPENSES

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

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

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

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

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

5. COMMITMENTS AND CONTINGENCIES

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

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 65 to 73), for the year ended 31 December 2011.

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

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

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

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

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

PricewaterhouseCoopers SA

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

Lausanne, February 22, 2012

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