KUDELSKI GROUP
2012 ANNUAL REPORT

NAGRA
KUDELSKI GROUP

HIGHLIGHTS

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Total revenues of CHF 860.3 million sustained by strong emerging markets

2

Restructuring program completed resulting in CHF 86.8 million total savings

3

Net income of CHF 16.1 million

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Cyber security (Kudelski Security) and IP licensing initiatives on track

5

Display cards deployment exceeded expectations

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Foxtel and StarHub adopt the Group's new generation solutions

7

Continued extension of SKIDATA's global footprint

KEY FIGURES

2012 KEY FIGURES

In spite of a CHF 29.8 million decrease in revenue and a CHF 6.5 million reduction of other operating income, in 2012 the Kudelski Group delivered operating income of CHF 35.7 million, an increase of CHF 10.3 million from the previous year, and net income of CHF 16.1 million, reversing the CHF 17.7 million loss in 2011.

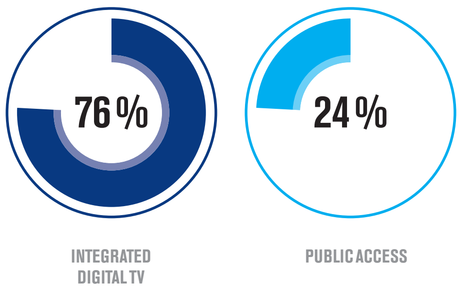
The successful completion of the restructuring program initiated in 2011 was the main driver of the turnaround in profitability. The restructuring program enabled the Group to achieve total savings of CHF 86.8 million, of which CHF 71.0 million were delivered in 2012. Restructuring charges of CHF 32.0 million were booked under employee benefits expenses and other operating expenses. Net of such restructuring charges, the Group achieved a better than expected operating income of CHF 67.7 million, as compared to CHF 35.3 million in 2011.

In million CHF	2012	2011	2010	2009	2008
Total revenues and other operating income	860.3	896.6	1 069.3	1 060.8	1 037,0
Operating income (net of restructuring charges for 2011 and 2012)*	67.7	35.3	110.0	73.3	18.5
Operating income	**35.7**	**25.4**	**110.0**	**73.3**	**18.5**
Net income	**16.1**	**-17.7**	**66.7**	**51.1**	**-7.0**

* No restructuring took place in 2008, 2009 and 2010

REVENUE BREAKDOWN — BY SECTOR

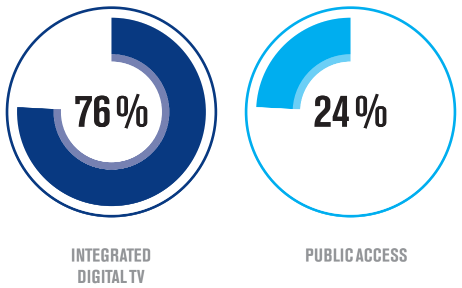
In thousand CHF	2012
Integrated Digital TV	641 339
Public Access	202 712
Total	**844 051**



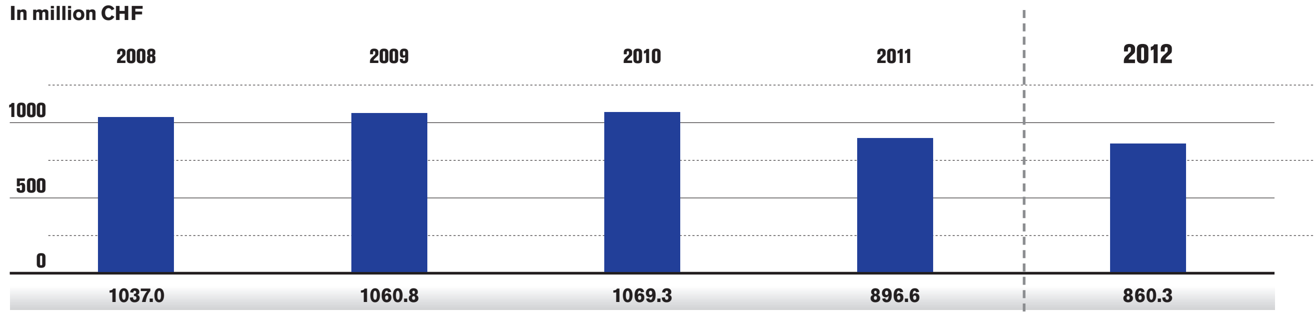
EMPLOYEE BREAKDOWN — BY ACTIVITY

Integrated Digital TV	76%
Public Access	24%
Total	**100%**

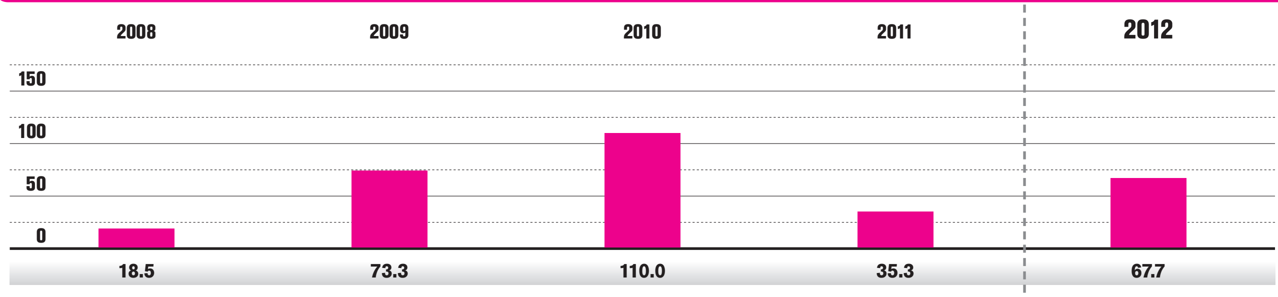
Total employees at 31.12.2012: **2931**



TOTAL REVENUES AND OTHER OPERATING INCOME

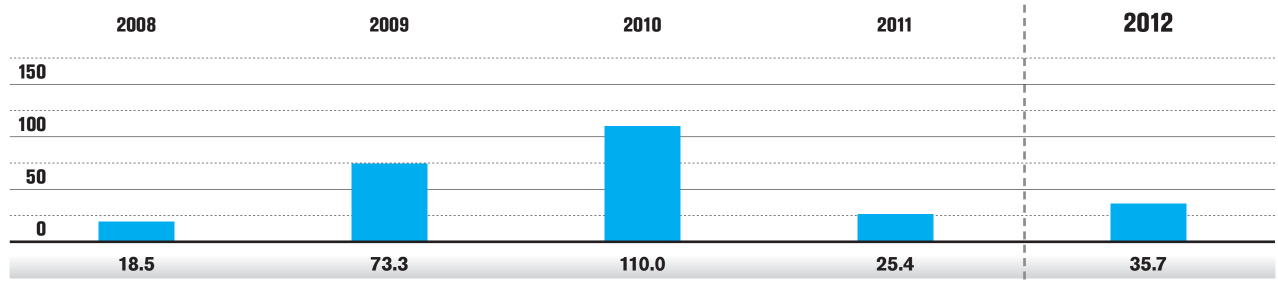


OPERATING INCOME (NET OF RESTRUCTURING CHARGES FOR 2011 AND 2012)*

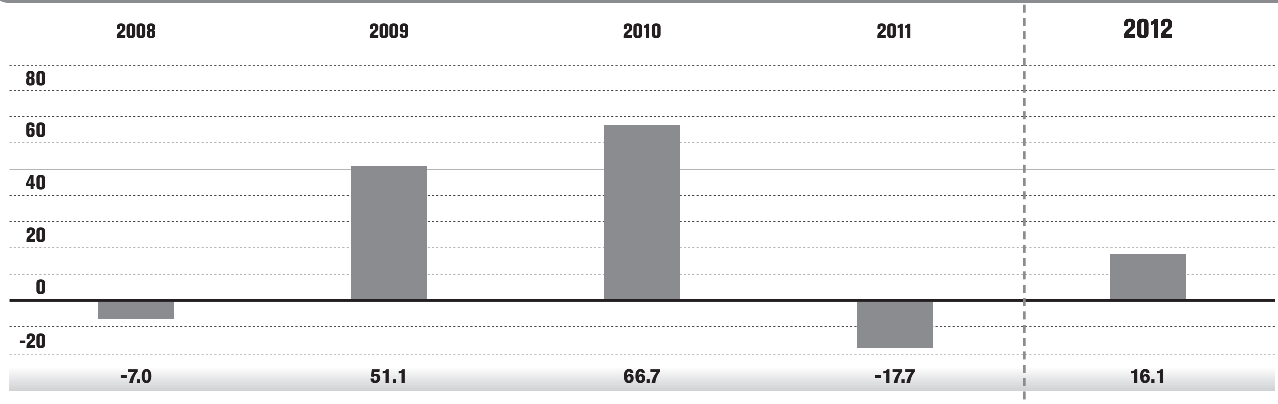


* No restructuring took place in 2008, 2009 and 2010

OPERATING INCOME



NET INCOME



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DEATH OF STEFAN KUDELSKI, FOUNDER OF THE KUDELSKI GROUP

Stefan Kudelski passed away on 26 January 2013 in his 84th year.

Founder of the Kudelski Group in 1951, Stefan Kudelski invented the first portable professional recorder, the renowned “Nagra”. This recorder, and the many other devices that followed, have revolutionized sound recording in the radio, motion picture and television industries.

Stefan Kudelski was a brilliant inventor and a pioneer. The values he stood for form the foundation of our company and its reputation today across the continents. Among those values, there was a determination to demonstrate that technological challenges described as impossible are always successfully achieved by teams that know no boundaries.


MINUTES REMAINING
BATT
TAPE
AUDIO 1
AUDIO 2

01

CHAIRMAN'S LETTER

Following a challenging year in 2011, the measures we took starting in October of that year began to deliver returns in 2012. Our FY 2012 total revenues and other operating income came in at CHF 860.3m, operating income before restructuring charges was CHF 67.7m, and our bottom line returned to positive territory, with a net profit for the year of CHF 16.1m.

The 4% year over year reduction in revenues partially reflects the divestments we made in 2011 and 2012 in connection with the reorganization of our activities. In addition, revenues were impacted by the effects of the crisis in Europe, especially in southern Europe. At the same time, we have strengthened our position in emerging markets, particularly in Latin America, India and Africa. In addition, the Group's profitability has been improved by the cost reduction measures taken in 2011 and 2012.

We began transforming the Kudelski Group in 2011, and several complementary objectives have now been achieved:

– *We significantly reduced our cost base in order to limit the impact of the strength of the Swiss franc and better optimize our cost structure for emerging markets. This generated savings of CHF 86.8m for the 2011-2012 period and CHF 151.8m between end-2010 and end-2012.*

– *We maintained our capacity to innovate and our R&D capabilities, but at a lower cost. We achieved this by replacing higher-cost external resources with internal teams located in emerging markets, especially India.*

– *We introduced integrated solutions tailored for emerging markets. This enables us to keep pace with operators' needs and strengthen our presence in emerging markets for the long term. Our R&D centers in India and China provide the proximity necessary to develop tailored solutions that address the particular needs of emerging markets.*

– *Our new Multiscreen Unit allows us to serve digital TV operators who want to add Internet and cloud capabilities to their service offering. Our value proposition is distinct from the competition because of the flexibility of our solutions and our ability to integrate technologies from various sources within the operator's platform.*

– *We launched our cyber security division in November 2012, positioning the Kudelski Group for future growth in this high-potential market. With a strong foundation built on 25 years of experience combating pay-TV piracy worldwide, Kudelski Security offers a compelling combination of proven solutions and expertise to the marketplace.*

– *We initiated our effort to monetize strategically our intellectual property portfolio, comprised of over 4000 patents worldwide. In addition, we have continued to invest in innovation and R&D as part of our overall intellectual property strategy.*

All of these initiatives were implemented simultaneously within a period of 18 months. It has been a great challenge to significantly reduce costs while at the same time focusing investment on high-potential sectors, and an even greater challenge to do all of this while continuing to deliver operational excellence on a daily basis. Nonetheless, we were able to successfully address these challenges through the dedication and commitment of our worldwide employee base, proving that the Kudelski Group is resilient even in the face of difficult economic times.

Even as we implemented these measures, we also continued to expand our business activities in digital TV markets on every continent, with a steady stream of new contract wins and new projects that will broaden our base and lay the foundation for future growth. For example:

– *In the Americas: DISH Networks (OTT), Sling (OTT), Entel (DTH) and Alianza with DirecTV (anti-piracy);*

– *In Europe: HD+ (OTT), Prisa TV (OTT), Jazztel (OTT), Cabovisão (cable);*

– *In the Asia-Pacific region: various operators in southern and western India (cable), Guandong Cable (cable), IMTV for Lippo Group (DTH) and Foxtel (DTH);*

– *In Africa: Canal Overseas (DTH), Comsat (DTH) and BTL (TNT).*

Our guidance for 2013 is for a return to top-line growth and improvement in net profit, driven by initiatives like our new digital TV solutions, display cards, SKIDATA's activities and to a lesser extent cyber security and IP monetization. The global macro environment will continue to be challenging, especially in southern Europe, which has been

hit by low consumer confidence and high unemployment. That is why we will continue to focus on emerging markets, with their promising medium- and long-term growth prospects.

Public Access should return to growth in 2013 in terms of both top-line and profitability, after a tough finish to 2012 primarily in the European Ski sector. The focus in 2013 will be on cloud-based solutions and to grow in markets outside Europe.

Given the positive results achieved as part of the Group's reorganization and the resulting improvement in profitability, the Board has decided to propose a CHF 0.10 increase in the dividend on bearer shares for approval at the Annual Shareholders' Meeting. This would bring the dividend to CHF 0.20 per bearer share. Technically, this is a distribution of CHF 0.20 per bearer share, with CHF 0.15 treated as a return of capital and CHF 0.05 paid from retained earnings. The distribution on each registered share will amount to CHF 0.02, with CHF 0.015 treated as a return of capital and CHF 0.005 paid from retained earnings.

Throughout the process of transforming the Kudelski Group, we have stayed on target and our people have demonstrated their capacity to meet challenges and buck any headwinds that come their way. We were able to accomplish this while also continuing to invest in the future growth of the Group. I would like to express my heartfelt thanks to our employees, who made this transformation possible while at the same time executing well on their day-to-day responsibilities.

On behalf of the entire Board, I would also like to thank our customers, our shareholders and our other stakeholders for their support during this past year. This support was a decisive success factor in a transformation that has better positioned the Kudelski Group for a world where emerging markets, cyber security and new forms of TV will be crucial growth drivers.

ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

02

FINANCIAL REVIEW

In spite of a CHF 29.8 million decrease in revenue and a CHF 6.5 million reduction of other operating income, in 2012 the Group delivered operating income of CHF 35.7 million, an increase of CHF 10.3 million from the previous year, and net income of CHF 16.1 million, reversing the CHF 17.7 million loss in 2011.

The successful completion of the restructuring program initiated in 2011 was the main driver of the turnaround in profitability. The restructuring program enabled the Group to achieve total savings of CHF 86.8 million, of which CHF 71.0 million were delivered in 2012. Restructuring charges of CHF 32.0 million were booked under employee benefits expenses and other operating expenses. Net of such restructuring charges, the Group achieved a better than expected operating income of CHF 67.7 million, as compared to CHF 35.3 million in 2011.

Net currency effects in 2012 had a positive impact on revenues and operating income, yet the absolute impact was materially lower than in previous years, as the average USD rate increased from 0.886 to 0.938, while the average EUR rate declined from 1.233 to 1.205.

Group revenues and profitability

Total annual revenues and other operating income declined from CHF 896.6 million to CHF 860.3 million, as revenue was down by CHF 29.8 million and other operating income by CHF 6.5 million compared to 2011.

Reported revenues declined by 3.4%, while constant currency revenues were 5.0% lower than in the previous year. The revenue reduction was partly driven by the 2011 divestments of the audio business, Polyright, EmbedICs, Medioh, and Nagra Thomson Licensing. The lower other operating income reflects a reduction of innovation subsidies to the Group's French operations ("Crédit d'Impôt Recherche").

The "Margin after cost of material" (a pro-forma, non-IFRS item) decreased by CHF 40.3 million to CHF 615.9 million. Relative to total revenues, margin after cost of material remained at a high level, with the reversion to the historical revenue mix and the lower other operating income driving a 1.6% reduction to 71.6%.

Personnel expenses decreased by CHF 7.5 million in 2012. Group headcount at the end of the year stood at 2 931 full time equivalents compared to 2 999 at the end of 2011. Between the end of 2010 and the end of 2012, headcount declined by 137, as the Group significantly rebalanced the geographic mix of its operations. Over this 24-month time period, the Group reduced Swiss-based headcount by 175 and US-based headcount by 66 units, while India-based headcount increased by 130. In the second half of 2012, however, the Group raised its headcount by 30, due to targeted hiring by SKIDATA and for the Group's new cyber security and IP licensing business lines.

In 2012, the Group achieved savings of CHF 41.4 million in other operating expenses, as compared to 2011. This 22% spending reduction follows the CHF 44.9 million reduction of other operating expenses in 2011. Over this two-year period, the Group achieved total savings of CHF 86.3 million in other operating expenses, representing 37% of the Group's 2010 spending base. Development and engineering expenses represent the main driver of these cost savings, with reductions of CHF 23.1 million in 2012, as compared to 2011, and CHF 31.0 million over the 2010-2012 period. The systematic replacement of expensive external resources with new lower cost internal resources was the key enabler of these cost savings. Legal and consultancy represented an additional area of cost reduction, with such costs declining by CHF 5.1 million compared to 2011 and by CHF 22.0 million over the 2010-2012 period.

The Group posted an operating income before depreciation and amortization of CHF 99.5 million in 2012, an increase of CHF 8.5 million from 2011. Depreciation, amortization and impairment decreased by CHF 1.8 million to CHF 63.8 million, resulting in operating income of CHF 35.7 million in 2012.

Net of the CHF 32.0 million in restructuring costs, the Group's operating income for 2012 was CHF 67.7 million, representing a CHF 32.4 million improvement from 2011.

2012 interest expense was CHF 15.7 million, which was CHF 0.8 million lower than the previous year, reflecting in particular a reduction in expense related to the convertible bonds which matured in October 2012. Further, interest expense included full year charges for the 5-year straight bond issued in 2011 and charges related to a new syndicated credit facility.

The positive net other finance income was primarily driven by CHF 2.1 million in interest income, while foreign exchange-related items had a minor impact in 2012. The CHF 7.1 million income tax expense recorded in 2012 primarily relates to income taxes paid by the Group's Nagra France and SKIDATA subsidiaries.

Overall, the Group generated CHF 16.1 million of net income in 2012, reversing the CHF 17.7 million loss from the previous year.

Integrated digital television

As a result of the restructuring measures announced on October 31, 2011, the Group merged the former Digital TV and Middleware & Advertising activities into an Integrated Digital TV unit (hereafter "iDTV"). Accordingly, these formerly separated segments are now reported as a single segment.

iDTV revenues on a constant currency basis declined by 5.7% in 2012, as compared with the prior year. For the full year 2012, the segment reported revenues of CHF 641.3 million, down by CHF 21.3 million from 2011.

The market downturn and weak consumer sentiment continued to affect European sales, which was CHF 268.2 million in 2012, down CHF 41.8 million from the previous year. In constant currency, this represents a 13.8% decline. Southern European markets experienced a noticeable downturn, with aggregate revenues from France, Italy, Spain and Portugal declining by CHF 34.4 million. This was partially offset by the continued growth of German satellite households, which increased by 3% year-on-year to 18.1 million at the end of 2012, and SES's switch-off of analog satellite broadcasting in April 2012.

Revenues from the Group's Americas region grew by 6.5% in 2012, or 1.6% in constant currency, reaching CHF 246.8 million, which was driven by a further year of strong demand for digital TV solutions in South America. Brazil continued to fuel growth, even on the back of the strong growth experienced in 2011. As previously announced, in 2011 a significant number of smartcards delivered in the last Dish/Echostar replacement cycle that are now inactive have reached the minimum period for which such cards have to pay a service fee, negatively impacting the year-on-year Dish-related revenue growth.

The Asia/Pacific and Africa region posted a 4.6% revenue growth or 1.1% in constant currency. Regional revenues in the first half of 2012 were CHF 53.8 million, while second half revenues increased to CHF 72.5 million. The Indian market delivered a particularly strong first half, while Africa was one of the key drivers fueling growth in the second half of the year. Compared to the previous year, Japan and Hong Kong posted a lower revenue base, the latter driven by a declining top line from Abilis, the Group's semi-conductor business unit, which was sold in December 2012.

Operating income for the iDTV segment recovered in 2012, improving by CHF 12.7 million to CHF 43.8 million. While the one-time restructuring costs of CHF 32 million in 2012 reduced the positive impact on operating income reported for the segment in 2012, the reduction of employee benefits and other operating expenses from the restructuring program represents the main driver of the segment's profitability improvement. Furthermore, the segment's depreciation, amortization and impairment was CHF 3.4 million lower than in the previous year.

Public Access

Public Access revenues declined by 4.1%, or 3.0% in constant currency, reaching CHF 202.7 million for the full year. The Group disposed of its 50% stake in Polyright SA on July 18, 2011: On an adjusted basis that removes the impact of Polyright, segment revenues in 2012 were close to the previous year.

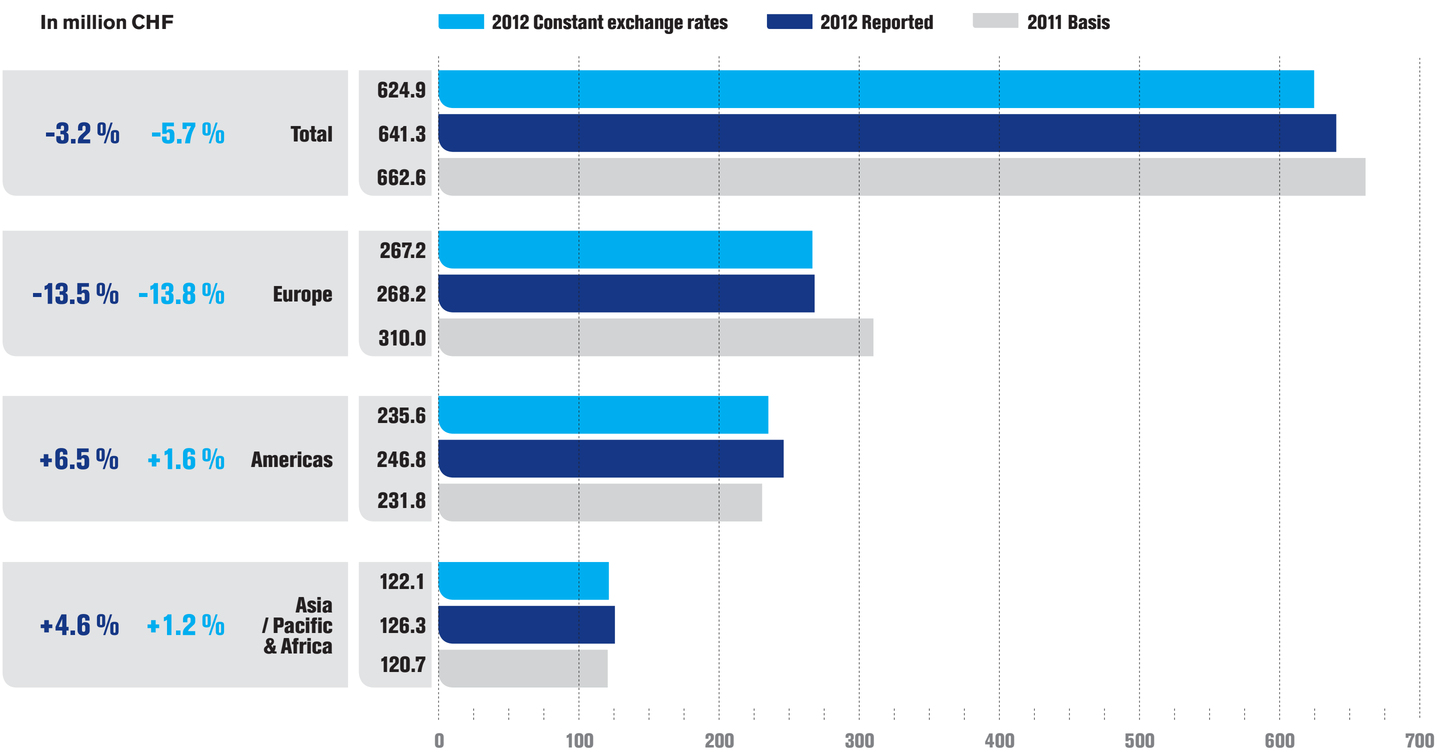
In Europe, constant currency revenues declined by 1.7% reaching CHF 161.2 million. Southern European markets also suffered in the Public Access sector, with total revenues from France, Italy, Spain and Portugal declining by CHF 3.2 million from the previous year. Revenues from Switzerland declined by CHF 3.6 million due primarily to the disposal of Polyright. Among the positive highlights, SKIDATA's new subsidiary in Russia was awarded important new deals in that region, including parking systems for the Bolshoi theater in Moscow and the first parking installation in Kazan.

In the Americas, revenues recovered in the second half of 2012 resulting in a 2.7% growth of reported revenues for the full year. SKIDATA continues to equip major North American stadiums and to grow its market share in the parking business. Furthermore, the factory acceptance test for a large US parking project was successfully passed, thus allowing for the recognition of related revenues. In Latin America, SKIDATA won the first stadium projects for the 2014 FIFA World Cup and entered new markets such as Peru, Colombia and Venezuela.

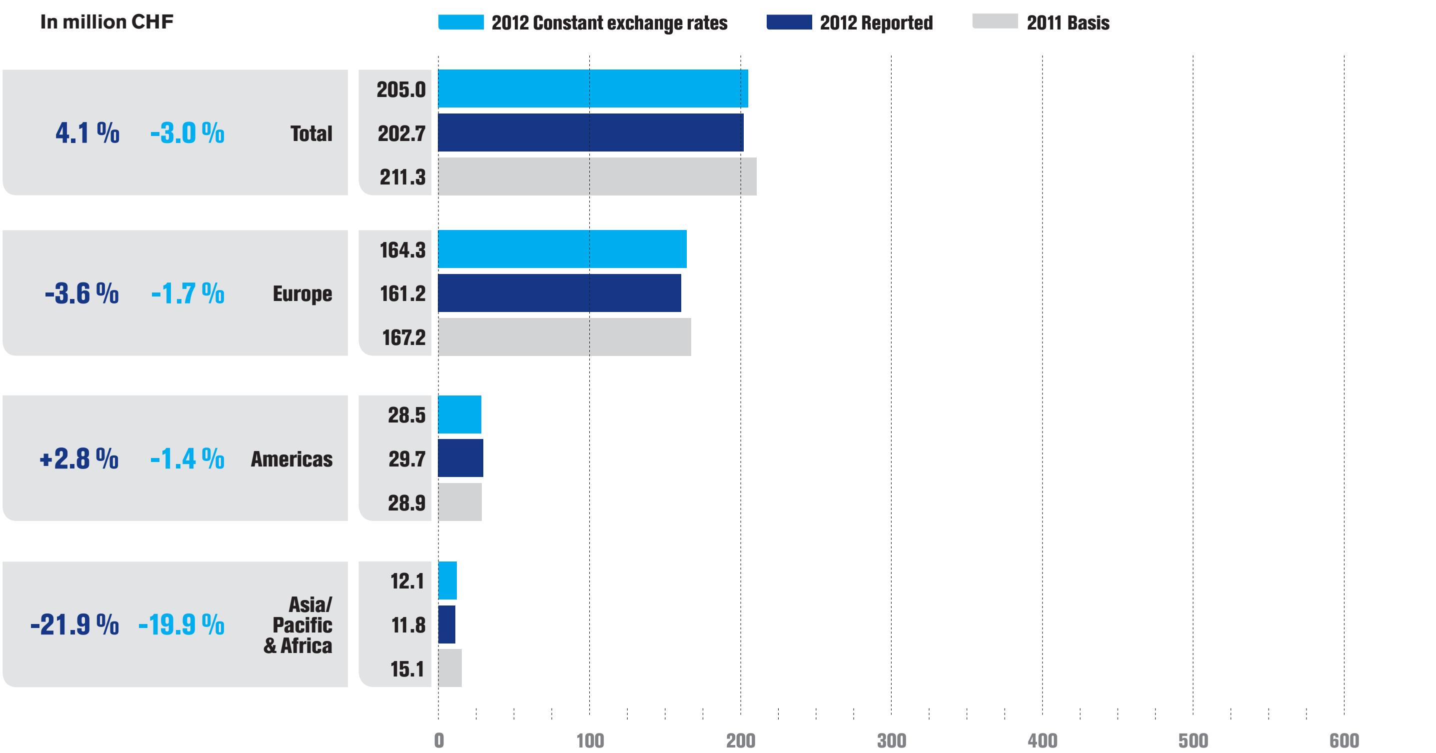
REVENUES BREAKDOWN

EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



While no material revenues were generated out of these markets in 2012, they are expected to start contributing to SKIDATA top line revenues beginning in 2013.

Sales in Asia/Pacific and Africa declined from CHF 15.1 million to CHF 11.8 million in 2012, primarily driven by the completion of some significant projects in 2011. In 2012, SKIDATA opened an office in South Africa and won its first projects in the Sub Saharan region and in Mauritius.

Public Access operating income in 2012 was CHF 3.3 million lower than in the previous year, mainly driven by the slowdown of the European ski business. In addition to the lower top line revenue, a CHF 1.7 million increase of depreciation, amortization and impairment due to the impairment of selected assets drove the reduction in operating income.

Balance sheet and cash flow

Total non-current assets in 2012 decreased by CHF 51.0 million to CHF 479.1 million. The CHF 11.6 million decrease of tangible fixed assets consists of a CHF 2.8 million net book value increase of land and buildings and a CHF 14.4 million decrease of equipment and machines. The increase in land and buildings is mainly due to a CHF 9.7 million investment in a new building hosting SmarDTV operations in France. The full depreciation over the 2011-2012 time period of assets made available to clients and generating recurring service revenues, including in particular smart cards and equipment, contributed to the decrease of equipment and machines.

Intangible fixed assets decreased by CHF 26.5 million, primarily driven by a CHF 16.5 million lower technology asset item and a CHF 6.6 million lower software asset item. This reduction reflects a lower level of capital expenses, the full amortization and impairment of selected items and the sale of Abilis in December 2012. The new CHF 1.6 million investment property position is due to a change in use of a building formerly used by a Group entity and now rented out to third parties. The CHF 14.4 million reduction of financial assets and other non-current assets is primarily driven by a CHF 13.4 million reduction of long-term deferred contract costs, including the ongoing release of deferred costs related to a capitalized asset linked to the Echostar contract. Similarly, short-term deferred contract cost (an item within other current assets) declined by CHF 6.8 million to CHF 11.6 million.

Total current assets decreased by CHF 217.3 million to CHF 432.1 million, as the Group's cash position was reduced due to the repayment of the CHF 350 million convertible bond: overall, cash and cash equivalents decreased by CHF 179.5 million to CHF 110.1 million at the end of 2012. In addition, a larger volume of Digital TV chips in stock led to a CHF 5.5 million increase in inventory to CHF 68.6 million. Compared to the end of June 2012, however, the Group reduced inventories by CHF 6.1 million. Trade accounts receivables continued to improve in 2012, with a CHF 31.8 million decrease to CHF 196.4 million, as compared to the end of 2011, and with past due amounts of more than one month declining by a further CHF 6.2 million to CHF 39.1 million at year end.

Total equity increased marginally by CHF 0.6 million to CHF 437.8 million, reflecting the CHF 16.1 million of net income, the CHF 5.4 million dividend paid to shareholders and the CHF 7.1 million paid to non-controlling interests in 2012.

Total non-current liabilities increased by CHF 64.0 million in 2012 due to an increase in long-term financial debt to CHF 194.7 million. In 2012, the Group secured a CHF 145 million syndicated credit facility aimed at financing the repayment of the outstanding convertible bond and drew down CHF 100 million of this facility, of which CHF 70 million were booked as long-term financial debt and CHF 30 million as short-term financial debt. The Group reduced total current liabilities by CHF 332.9 million to CHF 237.0 million, mainly through a CHF 309.3 million reduction of short-term debt to CHF 74.1 million. The declining short-term debt balance was driven by the repayment of the CHF 350 million convertible bond. In addition, the Group reduced trade accounts payable by CHF 14.1 million to CHF 40.1 million, with the iDTV units, Nagravision and Nagra France, contributing CHF 11.6 million of this decrease, reflecting the material savings in other operating expense items such as development and engineering expenses. Provisions for other liabilities and charges were CHF 7.2 million lower, mainly reflecting the use of CHF 7.6 million for the settlement of a litigation.

In 2012, the Group generated cash flows from operating activities of CHF 110.5 million, representing an increase of CHF 23.8 million from the previous year. The Group used CHF 27.7 million of cash for investing activities. This included purchases of tangible and intangible assets for an aggregate amount of CHF 38.2 million and a cash inflow of CHF 7.4 million in connection with the sale of the Group's Abilis subsidiary. Cash used for financing activities amounted to CHF 261.3 million. This includes the impact of the CHF 350 million cash outflow for the repayment of the convertible bond, which matured in

October 2012, the CHF 100 million cash inflow from a new syndicated credit facility, the CHF 5.4 million Kudelski SA dividend and the CHF 7.1 million dividend paid to non-controlling interests. The effect of foreign exchange rate changes on cash and cash equivalents was negligible in 2012.

Outlook

In spite of the deconsolidation of Abilis, a subsidiary disposed of on December 13, 2012, the Group targets growing top line revenues from its iDTV segment. Growth initiatives, including new Digital TV solutions, NagraID Security's display cards and to a lesser extent the new Cyber Security and IP licensing business lines, are forecasted to drive the segment's top line growth. In the core Digital TV market, weak fundamentals in Europe will continue to affect volumes. In 2013, iDTV's profitability will fully benefit from the effects of the restructuring program, as all restructuring costs have been booked in 2011 and 2012. Moreover, the Group expects a further positive operating income impact from a reduction of the segment's depreciation and amortization compared to previous years.

In the Public Access segment, the Group expects growth to recover to historical levels as well as a positive development of profitability.

03 STRATEGIC OVERVIEW

THE TECHNOLOGICAL REVOLUTION IN DIGITAL TV CARRIES WITH IT BOTH OPPORTUNITY AND RISK. THE STRATEGIC CHOICES MADE BY THE KUDELSKI GROUP SEVERAL YEARS AGO ARE NOW PROVING THEIR WORTH. TODAY, THE GROUP IS POSITIONED TO OFFER ITS TV-OPERATOR CLIENTS THE SOLUTIONS THEY NEED TO MAKE THE MOST OF THESE TRANSFORMATIONS.

INTEGRATED DIGITAL TELEVISION

A fast-evolving environment

Digital convergence has become part of our everyday lives. After the era of personal computers, smartphones and, more recently, touchscreen tablets have contributed to accelerate the transition to an interconnected world in which content is consumed and shared between various types of screens anytime and anywhere.

Even the home has become digital with its own domestic network. The TV set is more and more often connected to the internet. Television can now be consumed in a new way: new-generation TVs are not just used to receive linear TV programming but they also allow consumers to access a variety of digital and video content based on individual preferences, live or on demand.

Digital TV operators in a multimedia, multi-screen environment

These technological evolutions enable pay TV operators to rethink their business models to better position themselves in a sector where competition has broadened and which includes new market players such as telecom operators and internet companies.

In this new digital universe, TV providers have some clear advantages. In particular, they have a solid subscriber base that can be expanded thanks to new, multiscreen offerings. They also have many years of experience in marketing, securely broadcasting and managing high value-added (premium) content. Finally, by combining broadcast and hybrid OTT broadband technologies, they can create highly efficient networks compared to the other convergence players.

Operators must continually adapt their infrastructure to the new possibilities offered by the Internet; this means in particular implementing interactive platforms for the delivery of content that can be accessed via heterogeneous screens and networks.

With its wide range of solutions, the Kudelski Group can address the emerging needs of operators in a globalized ecosystem.

TODAY, THE KUDELSKI GROUP IS A GLOBAL PLAYER IN THE DIGITAL MEDIA ECOSYSTEM. OUR INTEGRATED SOLUTIONS ALLOW SERVICE PROVIDERS TO MANAGE ALL TYPES OF CONTENT AND SERVICES OVER INCREASINGLY COMPLEX NETWORKS AND PROVIDE THEIR SUBSCRIBERS WITH A COHERENT USER EXPERIENCE ACROSS ALL DEVICES.

OTT and hybrid networks

Over-The-Top (OTT) technologies represent a promising business-development driver. OTT means broadband delivery of content without the internet service provider being involved and without the need for dedicated infrastructures. OTT is different from classical internet television delivery via dedicated networks (IPTV) which requires heavy and costly infrastructure.

The Kudelski Group has developed a range of solutions to address the needs of hybrid broadcast and broadband platforms. These include a home gateway which receives programs over the broadcast network and then converts the signal for broadband distribution to the various connected devices within the home, ensuring content security throughout the distribution chain.

New-generation middleware

OpenTV5, the Kudelski Group's new generation middleware platform, also fits within this now-converged space that includes both traditional digital TV and the internet. OpenTV5 combines the flexibility of the internet with the efficiency of broadcast, drawing on more than 15 years of experience.

Open TV5 is an innovative platform that helps operators build a multiscreen offering and generate new types of revenues. This solution won the Best Middleware & CPE Technology Award at the Connected World Awards that were held as part of the 2012 International Broadcasting Convention in Amsterdam.

Innovations are driving rapid changes in the market and are helping shape the future of the entire industry. The Kudelski Group is striving to be proactive and to play a key role in innovation by continually investing substantially in research and development. and providing operators involved in content distribution with solutions that are tailored to address their needs in the new ecosystem.

Security: a solid base

Although the Kudelski Group has continued to broaden its skillsets and offerings over the last decade, security remains a fundamental area of expertise for the Group. It is on this basis that we have built solutions that have been deployed by numerous operators worldwide. Today, the Group leverages this exceptional know-how and experience to enable the development of new cross-device, multi-network concepts without compromising on security.

A range of security technologies has been developed and implemented, depending on the operators' objectives, service offering, and the applications they wish to deploy. This enables our Group to deliver the most appropriate solution both technologically and economically, tailored to the specific needs of each market. This differentiated approach is one of the keys to our Group's successes in emerging markets such as Latin America, Africa and Asia.

From security to federated platforms

Today, the Kudelski Group is a global player in the digital media ecosystem. Its integrated solutions allow service providers to manage all types of content and services over increasingly complex networks and provide their subscribers with a coherent user experience across all devices.

The Group's open-architecture solutions can easily be integrated in an operator's existing technological infrastructure. This agnostic approach represents a significant strategic advantage as it gives operators optimal flexibility to develop their infrastructure.

Our position at the heart of the digital TV ecosystem has changed over the years. From a conditional access technology provider, the Group has become a key player in the digital TV ecosystem, ensuring its long-term sustainability, and a driver of the industry. Through its innovative solutions, it also contributes to enhance the competitiveness of its customers in their markets. Going beyond technology, we strive to make the use of our solutions as simple and accessible for operators as possible, so that they can concentrate their efforts on growing their businesses.

Pre-integrated solutions enable the accelerated launch of new technologies; they also make those technologies more accessible, in particular in emerging markets.

Fighting piracy and cyber crime

Digital content – and particularly premium content – is a preferred target of pirate attacks. Risks are multiplied by increasing interconnection between broadcast and broadband. The internet is an especially potent risk vector because of its open nature.

Content owners such as Hollywood studios have high security requirements for the delivery of their products. The security solutions developed by the Kudelski Group are tailored to address those needs and to anticipate the new requirements of rights holders. Kudelski's solutions are studio-approved and provide the optimal level of security for each platform, content type and network.

In 2012, the Group created a unit specifically dedicated to cyber security – Kudelski Security – to expand its piracy-fighting activities beyond digital TV. This move is part of the Group's strategic development plan to leverage its experience in digital TV by offering a new protection paradigm to anyone exposed on the internet.

Through this entity, the Kudelski Group is also a co-founder of Alianza, an anti-piracy alliance in South America that brings together 20 leaders in the digital TV industry. This initiative aligns anti-piracy efforts throughout Latin America, fighting against all forms of content piracy and embracing all players from the high value content production and distribution industries.

New organizational structure for the Integrated Digital TV Division

In order to remain in step with the developments in the TV industry and to adjust to a changing macroeconomic environment, the Kudelski Group is constantly adapting its organizational structure. In 2012, we carried out an in-depth transformation designed to simplify our structure, reduce our cost base and rethink our strategic priorities.

Three Product units were created:

- Content & Asset Security (CAS), responsible for consolidating and optimizing our conditional access activity and in charge of the content protection solutions (DRM);
- Middleware, which includes interactivity platforms and user experience;
- Multiscreen, which develops multiscreen technologies.

Solutions & Services, which facilitates interaction between Product Units and leads the scope definition of multi-module solutions for customers.

The new organizational structure will allow us to optimize our reactivity and to tighten the time-to-market of our solutions. It will also enable us to reduce operational expenses and deployment costs.

NAGRA PUBLIC ACCESS

The activities of the Public Access segment are essentially carried out by the Group's affiliated company SKIDATA, based in Salzburg, Austria.

SKIDATA designs and markets comprehensive solutions to manage access to ski lifts, stadiums, fairs, amusement parks and parking facilities such as car parks at international airports and shopping malls. SKIDATA manages large-scale, complex projects that involve technological challenges as well as innovative marketing and new business models.

Nagra Public Access accounts for close to a quarter of the Kudelski Group's revenues and it has positive growth prospects, in particular outside Europe.

Nagra Public Access has been on the cutting-edge for 35 years. It provides operators with constantly evolving solutions that are easy to roll out, simple to manage and powered by the latest technology. SKIDATA's latest cloud-based solutions are an example of that drive to innovate and meet market needs. SKIDATA has also expanded its service offering in order to position itself as a partner that can leverage its expertise and know-how to help its customers implement their projects and grow their business.

Over the last several years, SKIDATA has also been working to expand its activities on the global markets. It is now reaping the benefits of that strategy. More than 7,500 systems have been deployed to date around the world. Being close to its customers both geographically and culturally is very important to SKIDATA. The company is present in 64 markets. In 2012, it continued its expansion, opening new offices in South Africa, Chile and Russia, which are high-potential regions for the Public Access business.

OUR POSITION AT THE HEART OF THE DIGITAL TV ECOSYSTEM HAS CHANGED OVER THE YEARS. FROM A CONDITIONAL ACCESS TECHNOLOGY PROVIDER, THE GROUP HAS BECOME A KEY PLAYER IN THE DIGITAL TV ECOSYSTEM, ENSURING ITS LONG-TERM SUSTAINABILITY, AND A DRIVER OF THE INDUSTRY.

04 INTEGRATED DIGITAL TV

DESPITE A DIFFICULT ECONOMIC ENVIRONMENT IN EUROPE STILL AFFECTING THE GROUP'S TRADITIONAL MARKETS, THE INTEGRATED DIGITAL TELEVISION (iDTV) DIVISION FURTHER EXPANDED ITS FOOTPRINT BY DEPLOYING FIRST CLASS SOLUTIONS ADDRESSING THE NEEDS OF THE RAPIDLY CHANGING DIGITAL TV ECOSYSTEM WORLDWIDE.

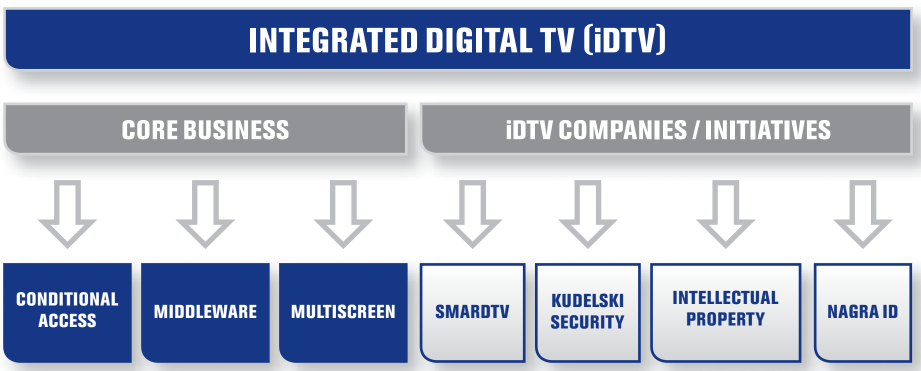
The digital television, Internet and telecommunications sectors continue to interact within increasingly blurred frontiers, creating a new environment full of new opportunities for operators and technology providers. Consumers are now used to a multiscreen lifestyle and have new expectations that must be anticipated and fulfilled. In order to address these trends, the Kudelski Group reviewed the organization of its Digital Television entity, now called integrated Digital Television. The objective is to address more efficiently the new market needs in terms of offering, reactivity and modularity and to strengthen the Group's position on the fast-evolving markets.

NEW INTEGRATED DIGITAL TELEVISION (iDTV) DIVISION

The activities of the integrated Digital Television division are divided into two groups: the "core business" activities on the one hand, including Content and Assets Security (CAS), Middleware and Multiscreen; and the other digital television activities and initiatives on the other hand, including conditional access modules (SmarDTV), cyber security solutions and services (Kudelski Security), intellectual property licensing (IP) and smartcards (NagraID Security).

2012 was marked by several commercial successes, including in particular the sale and deployment of last-generation solutions addressing the needs of the fast growing Internet television and multiscreen television markets. Pre-integrated solutions for emerging markets also gained traction.

Expanded footprint in our markets
In 2012, we continued to expand our international footprint in our markets. In particular, we gained momentum in emerging markets in regions such as Latin America and Asia.



Americas

2012 was marked once more by strong demand for the Group's full portfolio in South America. The Kudelski Group has established a strong presence in the region which is the main growth vehicle for the Group's integrated Digital TV segment. Since it first came to the region, NAGRA has delivered and deployed a variety of advanced television services such as DVR, HD, user interfaces, end-to-end integration and GPS-driven access control. Brazil continued to fuel growth, becoming the second largest market after the US for the Group.

NAGRA has been present in South America since the 1990's, working with service providers in the cable, satellite, terrestrial, MMDS and telco markets. The Group's market share in the region and the great diversity of its customers, which operate all types of platforms, are major assets for the Group in this region.

Many operators have adopted NAGRA's technologies, including NET, Globo and Embratel – today ClaroTV –, telco operator Telefónica, CNT in Ecuador, Oi in Brazil and Entel in Chile.

2012 was a particularly good year for our Group in Latin America, a fast-growing region in terms of television subscribers. Brazil's market alone has close to 17 million subscriber homes. In this market, the largest in the region, the socio-economic revolution of the mid 2000s resulted in the strong growth of the middle class, which now represents more than half of the population. NAGRA is well positioned in this market with more than 60% market share. The digital television market has gone through a deep transformation with the arrival of telecom operators and the launch of a large-scale DTH offering with several players, including ClaroTV – an operator who met with huge success. NAGRA supported the launch of ClaroTV's services as from 2008 and accompanied this operator throughout its development. ClaroTV is today among the leading satellite operators in Brazil. It uses NAGRA's conditional access technologies and OpenTV's middleware platform. Cable operator NET, the first Brazilian operator, also uses NAGRA's conditional access system and OpenTV's middleware platform to secure its services.

In the US, cooperation with EchoStar and Dish was further strengthened. In addition to providing the conditional access solutions for Dish's DTH services, NAGRA was selected to provide content protection solutions for the deployment of Dish's services on the Internet, planned as from 2013. Additionally, NagraStar, our joint-venture with EchoStar, has become the preferred supplier of interactive applications for Dish's decoders. Some of these applications are very popular amongst consumers and have won awards.

In Spain, PrisaTV adopted the NAGRA MediaLive Multiscreen platform especially designed for multiscreen television applications

Also in the US, cable operator Cable One further deployed to new regions in 2012 and new extensions are planned for 2013.

In Canada and Mexico, the Group continued to develop positively, although those markets are still limited compared to the US and Brazil.

Asia

The migration to digital television continued to gain pace in all major countries in Asia, particularly in China, India, Taiwan and Indonesia.

China is on a steady cable digitization path now reaching over 100 million households, and is starting to deploy advanced services on this digital infrastructure. India has seen a very rapid implementation of phase one (Delhi, Mumbai, Kolkata, Chennai) of its national Cable Digitization, and plans are made to deploy phase two (38 cities with over 1 million inhabitants) in 2013 at an even faster rate. The Indian market provided a further strong highlight for the Group, with yearly revenues close to double the previous-year figure.

Taiwan's cable digitization is hitting the targets set out by the government. In Indonesia cable infrastructure has been developed, new DTH satellites have been launched, and migration of the terrestrial TV infrastructure to DVB-T2 has begun, in line with developments in the other APEC countries.

NAGRA massively introduced our new integrated broadcast security solution (NAGRA MediaAccess DLK) in Asia in 2012. This solution is specifically designed for such very high volume and very low ARPU (Average Revenue Per User) markets. We are working in close collaboration with chipset vendors porting our hardware root-of-trust based NOCS technology to ensure adequate security without requiring a smartcard. Over 1.5 million STBs were shipped to our Asian customers in 2012 with this new technology, and this should further increase in the coming year.

Thanks to the introduction of such advanced low-cost digital TV solutions, NAGRA has expanded its market share in the Asian markets. Several existing customers such as India's InCable in Mumbai and Delhi are developing fast. In India, three other operators have selected NAGRA to support the digitization of their operations. Additionally, half a million SmarDTV modules integrating iDecode, the chip with integrated security for the cable market, have been delivered.

In Taiwan, NAGRA introduced its integrated solution to its four existing customers, KBRO, TBC, CNS and HYA, innovatively pairing up a secondary integrated set-top-box in homes with a primary card-based solution.

In Indonesia, the Lippo Group, one of the country's largest industrial groups, has through its DTH subsidiary IMTV selected NAGRA for the security of their new DTH service, which is planned for launch in the first half of 2013.

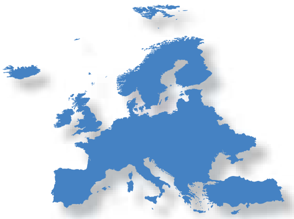
In advanced digital TV services, NAGRA has been awarded the next-generation HTML5 middleware by StarHub in Singapore, OpenTV5.This is one of the first deployments of this new middleware platform in a connected hybrid environment.

NAGRA's video-on-demand system was deployed in the Guangdong province in China, with a targeted commercial launch in the first half of 2013.

In Korea, SkyLife, NAGRA's DTH customer, has passed the mark of 2.5 million NAGRA smartcards, which represents steady growth since the system was installed in the middle of 2010.

User interface for StarHub based on NAGRA OpenTV5

Europe



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

The European Broadcasting Union cooperated with NAGRA and abertis telecom to promote this service to operators. Several free-to-air operators expressed interest in the solution. Mediaset in Italy and Melita PLC in Malta were the first to deploy multi-screen services based on the NAGRA-abertis platform. Numerous free-to-air broadcasters are considering the service as an efficient way of enriching their existing offering with broadband services utilizing standards such as HbbTV.

Mediaset, a major Italian pay-TV operator and NAGRA's long-standing partner, subscribed to the Multiscreen Cloud Service offered by NAGRA and abertis telecom, taking advantage of the Content Delivery Network facilities for the delivery of its existing over-the-top services to its subscribers.

In Malta, Melita PLC is in the process of upgrading its existing NAGRA Conditional Access System to NAGRA CAS Cloud. A NAGRA customer since 2004, Melita provides analogue, digital, interactive and high-definition TV services. Melita will have its conditional access system hosted off-site by NAGRA and abertis telecom, who will take on the responsibility of managing all related setup, operations and monitoring activities. The move will allow Melita to launch new features with less technical complexity and to focus its efforts and resources on other strategic and marketing activities.

In Spain, the NAGRA MediaLive Multiscreen platform specially designed for multiscreen television applications was adopted by PrisaTV for the extension of PrisaTV's CANAL+ Yomvi over-the-top service to iOS devices, thus rounding out the country's most comprehensive multiscreen offering. PrisaTV, the company behind CANAL+ Spain, now broadcasts CANAL+'s Yomvi not only to hybrid and OTT decoders and to PCs but also to Android devices, Samsung Smart TVs and the Microsoft Xbox 260 console.

This is NAGRA's first deployment of the end-to-end MediaLive Multiscreen solution integrating the NAGRA Media Player to enable the service on open devices such as PCs, iOS and Android devices.

In Portugal, Cabovisão, one of Portugal's leading telecommunications providers and its second largest cable network operator, has selected the NAGRA MediaAccess conditional access solution and NAGRA PRM to secure its next generation TV offer. This deployment confirms NAGRA's position as the leading content protection and security provider in Portugal. Cabovisão is owned by the ALTICE Group and serves more than 260 000 cable subscribers in Portugal.

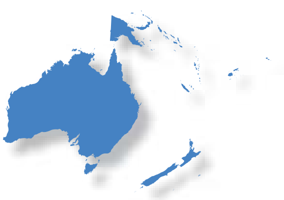
In Germany, HD+, a subsidiary of satellite provider SES, launched HD+ Replay, a new over-the-top catch-up service of private channels (Mediathek), using NAGRA MediaAccess PRM content protection solution. The HD+ satellite service has been using NAGRA's MediaACcess content protection since its launch in 2009 and has grown ever since.

UPC Broadband, a long-standing NAGRA customer, launched a new service, Horizon TV, in the Netherlands and Switzerland, based on NAGRA MediaAccess ELK and NAGRA Media PRM. UPC Broadband is the European division of Liberty Global Inc., the world's largest cable operator.

Africa

Africa's accelerating TV digitization is a promising new growth driver, one where NAGRA's integrated cost optimized solutions are proving to be an excellent market fit, as witnessed by wins of greenfield 2013 roll-out projects like Nigeria's COMSAT satellite launch and Tanzania's BTL terrestrial platform. In addition, SmarDTV has been selected by Canal Overseas as the key technology supplier for their African deployments. In 2012, the African region already made a material contribution to Integrated Digital TV sales. Africa will remain a focus of our emerging market development strategy for 2013 and beyond, as a new land of opportunity.

Australia



In Australia, the Group has won a groundbreaking project at Foxtel for the deployment of a next generation platform. NAGRA will deliver its latest generation MediaLive Service Platform as well as a set-top box software suite, including a new user experience as well as a portfolio of applications. This next generation platform will enable Foxtel to provide a coherent set of services across all their connected set-top boxes and home devices such as tablets and smartphones.

Multiscreen television

Today traditional linear television has substantially diversified; it includes multiple features (program guides, on-demand content, interactivity, advanced advertising) and can be delivered to multiple screens: televisions, computers, smartphones, tablets, and game consoles. Multiscreen television has really started to take off. Consumers now want to be able to access the global offer on any device, at any time.

The evolution of technologies, in particular with the delivery of over-the-top (OTT) television services, has enabled this transformation. Today the broadband mode is developing alongside traditional broadcast television. Technology providers have to integrate this new paradigm within solutions designed to manage and protect content and content delivery as part of an increasingly complex ecosystem.

Television operators have started to deploy broadband services alongside their broadcast offering, in order to maintain their competitive advantage against the new players. This enables them to deliver a multi-screen experience that is coherent with the offer available on the TV set.

For operators, delivering OTT to a variety of devices implies a need for coordinated platform management. This is made possible thanks to NAGRA's Federated Headend solution. Robust content protection (PRM) and a consistent user experience across all devices are the main features of NAGRA's solution.

A solution for OTT networks

NAGRA has a security solution optimized to meet the requirements of OTT network content delivery. The NAGRA MediaAccess PRM platform enables cross-device content consumption, distribution and monetization models without compromising on security. It ensures the security of all devices and gadgets, ranging from set-top boxes to tablets and from smartphones to connected TVs.

The software version of NAGRA MediaAccess, NAGRA Media PRM, is integrated in the NAGRA Media Player, a platform allowing premium pay-TV content and other video delivery services to securely flow to an increasing number of gadgets and over multiple networks. This solution enables consumers to access a rich content offering without excessive constraints while providing optimal protection for rights holders.

An integrated multiscreen solution: NAGRA MediaLive Multiscreen

NAGRA MediaLive Multiscreen is an integrated multiscreen solution that includes all the components required to deploy a secure multiscreen OTT platform with fast time-to-market. With NAGRA MediaLive Multiscreen, service providers have the opportunity to not only stimulate the growth of their subscriber base but also maximize their revenue sources. The solution enables the secure delivery of premium TV content across multiple devices and gadgets.

This solution received the CSI Award 2012 for "Best IPTV Technology or Service" at the IBC show in Amsterdam in September 2012. CSI Awards are among the most prestigious technology awards in the industry, rewarding excellence in the cable, satellite, terrestrial and IPTV sectors.

NAGRA Cloud Multiscreen: a cloud-based solution

The service jointly implemented by NAGRA and abertis telecom in 2012 is already used by several operators. It has established a new benchmark in cloud-based television. The service is a unique opportunity for pay-TV service providers and broadcasters to deploy any kind of content and programming, whether live or on-demand, quickly and seamlessly to any device or gadget.

Multiscreen at home: NAGRA HomeCruise microGateway

Looking to extend its convergence and content protection solutions for multiscreen platforms, NAGRA introduced a broadcast-to-IP gateway, NAGRA Media HomeCruise, in 2012. This solution allows live broadcast TV to be delivered to IP-enabled devices such as computers, tablets and smartphones, without the need for a very high speed connection.

While OTT is a hot topic, broadcast TV is still the most effective and reliable technology to deliver quality content and programming, in particular live TV. The NAGRA broadcast-to-IP gateway addresses this demand by enabling service providers to deliver premium, high-quality broadcast television to any connected home device in a secure and studio-approved environment. The NAGRA gateway box utilizes NAGRA content protection and is powered by NAGRA's news generation OpenTV5 middleware.

Additionally, in early 2013 NAGRA partnered with Octoshape, a leading cloud streaming innovator, to enable secure and efficient delivery of broadcast TV via the Internet. The integrated NAGRA-Octoshape solution enables the distribution of broadcast signals via native IP multicast without requiring service providers to upgrade their Internet capacity. Content can be securely accessed over any connectable device thanks to the NAGRA Media Player.

The combined solution can be extended to consumer devices such as PCs, tablets and smartphones by using NAGRA's secure player, NAGRA Media Player.

New generation middleware

The ability to deliver a consistent cross-device user experience is a key differentiator for service providers. To this end, the industry has converged on HTML5 and JavaScript. NAGRA has adopted these standards in the development of its latest solutions, from its newest multi-service client platform, OpenTV5, to its "Ninja" JavaScript framework for rapid application authoring and customization of the user interface.

Substantial investments in new generation middleware led to the development and launch of OpenTV5 with one of its lead deployment customers Telefónica, an operator who is using OpenTV5 as a global middleware solution across its TV services. In 2012, OpenTV5 was also selected by StarHub in Singapore along with the MediaLive Service Platform, as the core of their new generation of hybrid boxes and home gateways.

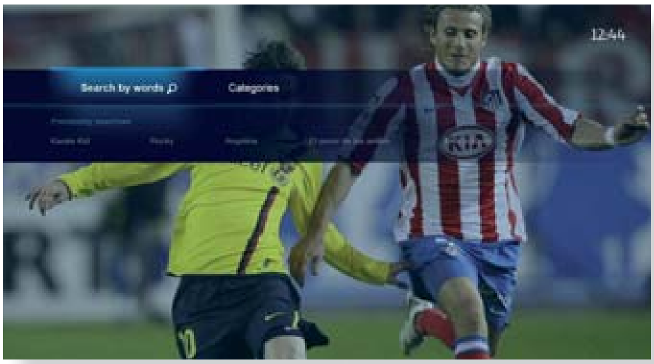
The new OpenTV5 platform enables the distribution of video services within the home cloud and beyond to support TV and extended media consumption across numerous devices. OpenTV5 is fully integrated with NAGRA's end-to-end multiscreen platform, NAGRA MediaLive Multiscreen.

User experience

Until relatively recently, the majority of the technologies deployed by NAGRA on an operator's platform remained invisible for the public. This is no longer true in today's multimedia, multi-device environment where the user interface is immediately perceived by consumers. The interface and the features that it offers have become one of the key components of an operator's value proposition. Consumers judge the quality of the service they are offered mostly from the interface they are using and its capabilities. With smartphones, tablets and computers, consumers have become accustomed to a certain ease of use. Multiscreen further raises consumer user-friendliness requirements as navigation between screens is expected to be smooth and seamless. The user interface has become a key differentiator for operators vis-à-vis their competitors and a powerful driver of brand image.

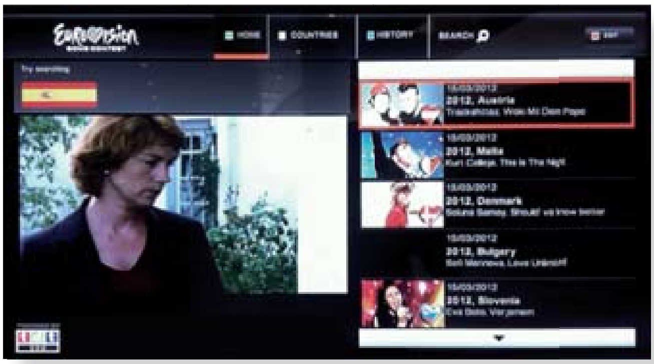
NAGRA offers a complete range of user interfaces including NAGRA Guide, OpenTV nx and OpenTV Gravity for set-top boxes. A dedicated application for tablets was also designed.

Telefónica



User interface for Telefónica based on NAGRA OpenTV5

abertis telecom



The platform jointly developed by NAGRA and abertis telecom represents a new reference in cloud-based television

Advanced advertising

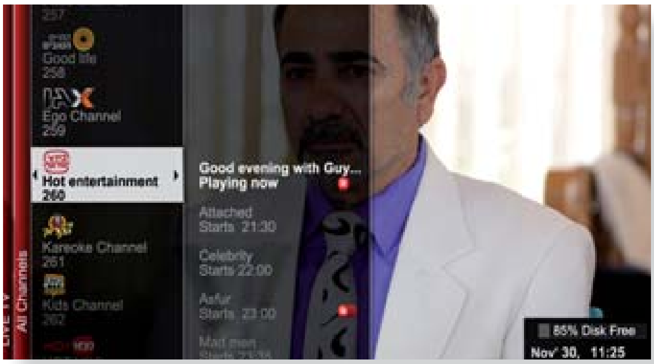
The Kudelski Group, through its OpenTV subsidiary, offers a wide range of advanced advertising software solutions. OpenTV has a firm foothold in the traditional cable television advertising space and is poised for near term growth as its television distributor, network, and broadcast customers move forward with advertising sales on multiple viewing devices, including smartphones, tablets, On-Demand and online video.

Its legacy Eclipse® line of traffic and billing software is the largest fully scalable traffic and billing solution in the world, facilitating ad sales across an often dizzying array of different communities served and channels advertised upon. Meanwhile, OpenTV's initial cross platform advertising product, Eclipse/xGBilling, provides an integrated billing and management solution necessary for multiplatform ad sales.

In addition, television broadcasters and distributors are increasingly looking to OpenTV advanced advertising technologies for geographic, profile, and interest based campaigns through the use of its VISability® subscriber information service.

Another critical component within advanced advertising is the ability to identify specific customer segments and deliver ad campaigns and promotions to specific audiences – often making the final decision in real-time. The VISability product unlocks the value of these audience metrics and in the process, provides a more targeted campaign for an advertiser.

OpenTV has the experience and vision in place as it evolves along with its customers in the multiplatform space. It currently controls over 55% of US cable ad sales traffic and billing decisions, comprising nearly 100 million commercial spots monthly, and its management team has more than 100 years of collective experience in the advertising industry. This experience, alongside its state of the art technologies, is recognized by major agency and business partners worldwide.



NAGRA OpenTV2 nX2 user interface

NAGRA OpenTV5 Gravity user interface

NAGRA OpenTV5 Gravity Edge user interface

OpenTV remains committed to empowering the advertising ecosystem to deliver the right message to the right audience at the right time – an increasingly challenging task as viewers now expect to control where, when, and how they consume content.

End-to-end conditional access solutions
With more than 25 years of experience, NAGRA is the leading independent player in the area of content protection, securing more than 120 services providers worldwide.

MediaAccess allows for the convergence of multiple networks, whether satellite, terrestrial, cable, mobile IP, OTT or any combination of them. It ensures the proper level of content protection for any type of content on any type of network.

NAGRA MediaAccess ELK-CAS (Embedded Link CAS) is specially designed to protect live video content over "always-on" IP managed networks. It leverages an innovative combination of software and hardware root-of-trust using NAGRA On-Chip Security (NOCS).

This technology has been certified on most chipset models manufactured by the major semiconductor suppliers. NAGRA MediaAccess ELK-CAS is also the security component of NAGRA's global IPTV solution. This integrated solution is designed for telecom and cable operators who want to rapidly launch live TV subscription services, pay-per-view, video on demand and PVR applications.

NAGRA MediaAccess DLK is an entry-level software solution designed to address the needs of cable operators in emerging markets. It can be deployed rapidly without heavy investments. It provides operators with a tailored solution that protects lower value content in a one-way broadcast environment.

SmarDTV's new premises in La Ciotat, France

CONDITIONAL ACCESS MODULES

With the transformation of the digital television sector, operators are innovating and developing new business models to address consumer needs.

SmarDTV offers operators CI Plus-based modules that meet the highest security requirements, reduce energy consumption and decrease the number of electronic devices required to receive encrypted programs. By integrating SmarDTV's conditional access modules (CAMs) in their television ecosystem, operators can deliver premium content directly to integrated television sets. Conditional access modules enable consumers to access multiple encrypted services directly on their integrated digital TV set using the TV's remote control.

SmarDTV continued to innovate in 2012 and launched new solutions designed for the European market as well as for emerging markets.

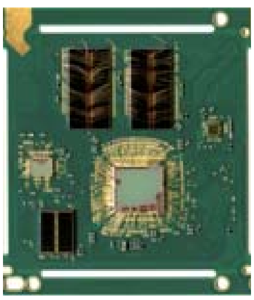
Innovative technologies
SmarDTV cooperated with Witzivi to introduce a universal solution for cable video on demand services on connected TVs. Wiztivi is specialized in technologies for integrated digital TV (iDTV) sets. Based on the CI Plus standard and the European HbbTV standard for interactive applications, the solution is entirely open and will not require specific developments for each different brand of iDTV. The addition of video on demand on top of premium TV decryption is a major milestone in the history of CI Plus.

SmarDTV, NAGRA and Samsung worked together to introduce a CI Plus SmarCAM module specially dedicated to the delivery of OTT services to Samsung connected iDTVs. This module integrates the NAGRA MediaLive PRM, NAGRA's software-based, operator-controlled DRM for security and content protection. The solution combines CI Plus and HbbTV standards with DRM to enable operators to deploy their OTT video on demand services directly to Samsung connected IDTVs. The system also includes the NAGRA Gravity user interface.

SmarDTV's latest generation of conditional access modules, the SmarCAM-3.5, successfully passed the CI Plus v1.3 certification, which is the latest Common Interface (CI) specification. The SmarCAMs will now offer new features including video on demand directly to iDTV.

SmarDTV's Conditional Access Modules

SmarDTV introduced iDecode, a "System In Package" device which embeds all the key hardware components of the pay-TV set-top box, including the software stacks associated with the conditional access system and the user interface. Provided with full certification from the CAS vendors, iDecode greatly simplifies both the development and certification of highly secure pay-TV set-top boxes, leading to unrivalled time to market. Large volumes of iDecode were deployed, in particular in India and Africa.


iDecode Circuit embedding all the key hardware components of the pay-TV Set-Top Box (1:1 photo)

Market deployments

SmarDTV provided its SmarCAM-3.5 conditional access modules to M7 Group, a long-standing customer, to support its pay-TV services in the Netherlands and Belgium. M7 Group is the European supplier of satellite services which operates CanalDigitaal, TV Vlaanderen and TéléSAT, amongst others. M7 deployed the latest generation conditional access modules in its network in the Netherlands and Belgium.

SmarDTV also deployed its conditional access modules on the Numericable network in France, in partnership with the TV manufacturer Loewe.

And finally, SmarDTV was selected by Kabel Deutschland GmbH, the leading cable operator in Germany, for the deployment of conditional access modules on its cable network.

KUDELSKI SECURITY

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

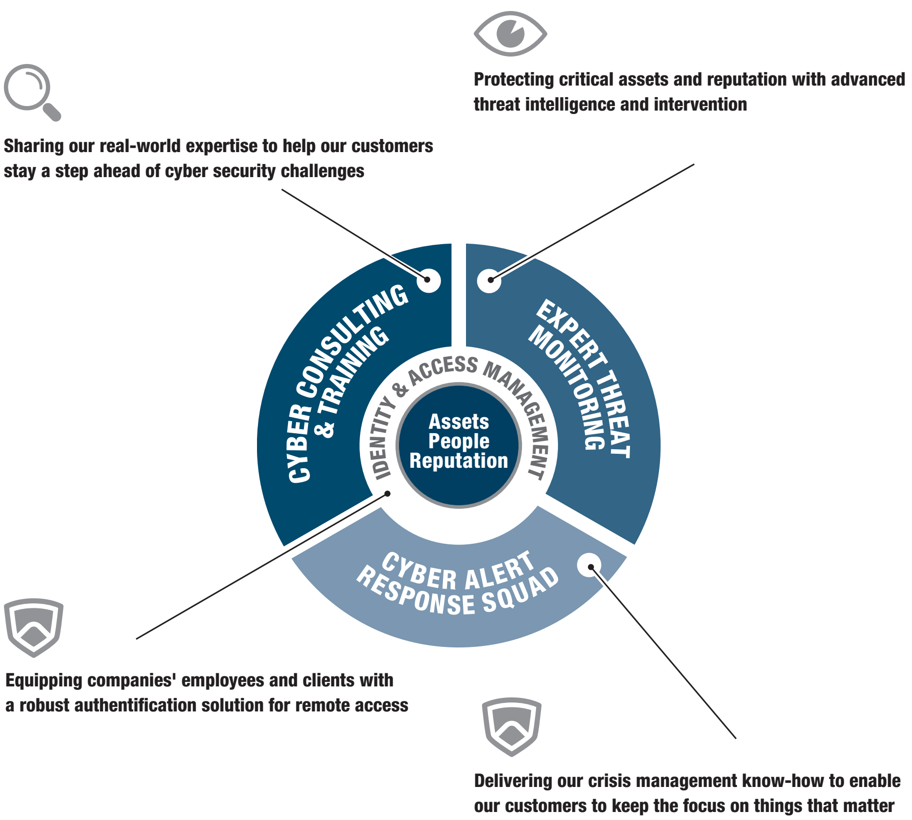
KUDELSKI SECURITY

In November 2012, the Kudelski Group announced the creation of Kudelski Security, its new division dedicated to cyber security. The launch of Kudelski Security was a natural step for the Kudelski Group, since our technologies already protect more than 150 million devices or modules and have generated over 4 000 patents worldwide.

The objective of this division is to deliver tailor-made cyber security solutions and services to enterprises, financial institutions, government administrations and Kudelski's media customers. Today, no industry, government or public administration is immune to diverse cyber threats.

An offer targeting identified needs

The Kudelski Security offering consists of a set of services initially focusing on assisting companies to assess risk and vulnerabilities in order to ensure privacy and confidentiality of their data



and analytics as they move their business processes and applications in a cloud-dependent ecosystem. The offer will include both monitoring the evolution of security threats and keeping consumer data secured in an environment where access to data becomes more dynamic and mobile through new consumer devices like smartphones and tablets. The initial focus will be Europe, before expanding the offering worldwide.

Kudelski Security goes beyond a pure technology offering to embrace all the pro-active and dynamic actions that must be deployed to guarantee truly efficient security. Kudelski Security provides its customers with pluridisciplinary expert teams who, in close cooperation with customers, will establish a global protection plan.

The offer includes four managed security solutions that may be tailored to respond to specific needs:

1) Cyber Security Consulting and Information Security Training
2) Expert Threat Monitoring
3) Cyber Alert Response Squad
4) Identity and Access Management

The offering combines technological know-how and legal expertise, compliance, field investigation and crisis communication into a new type of global Cyber Alert Response Squad.

The Kudelski Security core team comprises 80 dedicated security experts with field-proven electronic defense and response capabilities and has access to more than 1000 security experts in other Kudelski Group divisions. Additionally, Kudelski Security's global reach and multi-disciplinary incident response is reinforced by strategic international partnerships. These include Open Systems AG, which offers first-class information technology and communication security services, Hogan Lovell, a leading legal practice with global presence in over 40 countries, DS3, an international authentication solutions provider, and Sword, an international IT service integration advisor.

Alianza – anti-piracy initiative in Latin America

Kudelski Security secured a major industry-wide initiative in Latin America and will provide the advanced technical services used by Alianza. Expanding an initial collaboration between DirecTV and NAGRA, 20 leaders in the pay-TV industry joined forces to create Alianza. This initiative brings together most of the major players in the Latin American pay-TV industry and creates the framework for broader industry collaboration in the fight against the new trends in piracy.

ALIANZA
CONTRA PIRATERÍA DE TELEVISIÓN PAGA

Alianza's mission is to combat a form of piracy known in the industry as FTA (Free-To-Air) piracy. FTA piracy involves the illegal use of "free-to-air" satellite receivers to decrypt pay television audiovisual signals, illegally and without authorization.

INTELLECTUAL PROPERTY

The Kudelski Group's worldwide intellectual property portfolio continues to grow, fueled by constant innovation. The Group therefore decided to manage this business more closely from a strategic, legal and financial standpoint in order to better protect and monetize its value worldwide.

The Intellectual Property business was created in 2012 to expand the technology leadership of the Group, develop and license intellectual property to the marketplace and foster innovation-related activities within the Group and with its business partners. The Intellectual Property organization is responsible for protecting, developing, managing and licensing the Group's technologies and IP portfolio, which includes know-how, copyrights, trade secrets and a worldwide portfolio of over 4 000 patent assets.

The IP organization seeks to license the Group's technologies and intellectual property to business partners and other interested companies in order to allow for a broader adoption of the Group's technologies, enable technology collaborations, and provide access to the Group's patent portfolio. The IP organization also participates in and contributes to the development of formal standards and regulations worldwide that are relevant to the Group's business activities.

NAGRAID – SMART CARD APPLICATIONS

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

MasterCard Information Display Card: a revolution in Display Cards

In 2011 NagraID Security introduced new versions of its Display Card, including the new-generation MasterCard Information Display Card.

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

NagraID Security Display Cards based on this technology gained significant traction in 2012, with deployments at over 20 financial institutions.

At the end of 2012, the Standard Chartered Bank of Singapore announced, in cooperation with MasterCard Worldwide, the deployment in 2013 of Singapore's first interactive payment card.

Also, Banca Monte Paschi Belgio and MasterCard launched in Belgium the world's first payment card combining debit, credit, display screen and contactless payment facilities. A Maestro® debit card on one side, and MasterCard® credit card on the other, the "PaschiCombo" card is a genuine technology powerhouse and the most widely accepted payment card in the world. Whether the payment terminal accepts Maestro, MasterCard or both, users can always pay with their PaschiCombo card. When they want to make a purchase, they simply insert their PaschiCombo card into a conventional payment terminal and use the keypad to select to pay with Maestro for a debit payment or with MasterCard for a credit payment.

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

Cards for electronic identification applications

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

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

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

The PaschiCombo Card combines debit and credit, a display screen and contactless payment.

The e-service ID Display Card is a highly secure solution for identity cards, corporate badges and other electronic identification applications.

INNOVATION IS ONE OF NAGRAID'S KEY DRIVERS, POSITIONING IT AS A LEADER IN THE INTRODUCTION OF NEW PAYMENT CARD TECHNOLOGY.

05 PUBLIC ACCESS

PUBLIC ACCESS, WITH SKIDATA, IS WELL POSITIONED IN ITS MARKETS. IN 2012 MANY NEW PROJECTS WERE DEPLOYED IN SPITE OF A CHALLENGING ECONOMIC CLIMATE IN EUROPE.

Innovation and flexibility
SKIDATA has always been ahead of the market curve, pioneering innovative high-tech solutions like its 1987 roll-out of RFID hands-free access system for ski-lifts, the first of its kind, and then extending this technology to numerous other applications. SKIDATA was also the first provider of credit-card access and payment solutions for parking facilities.

SKIDATA is the go-to partner for the organizers of major sports events such as the European Football Championships and the World Cup. SKIDATA's access solutions outfitted over half of the stadiums involved in the football championships held in Portugal in 2004, Germany in 2006 and Poland-Ukraine in 2012. Once again, in view of the 2014 World Cup in Rio de Janeiro (Brazil), organizers have turned to SKIDATA for access solutions: in 2012 SKIDATA won the contract for the visitor access and management system at Maracaña Stadium, one of the largest stadiums in the world.

Modular, open-architecture solutions
SKIDATA's strength lies in its user-friendly, fully comprehensive integrated access-management solutions that operators can deploy easily and run efficiently. In addition, these solutions enable the rapid and smooth access of flows of visitors to any site or facility, from sports arenas to corporations and ski-lifts. SKIDATA's open-architecture approach is also a major advantage for operators, who can easily integrate existing systems such as CRM, ERP, etc. within a SKIDATA platform.

A tailored suite of services
In addition to equipment and software solutions, SKIDATA offers operators a suite of services that can be customized to their particular needs. This offering covers a range of services covering technical, financial and project management aspects.

SKIDATA's services also include support with system deployment, coordination and documentation, as well as personalized client relationship management designed to ensure that the system is managed optimally. This type of service offering has experienced a sharp rise in demand.

SKIDATA Online

In 2011 SKIDATA rolled out a new software platform, SKIDATA Online, which operators can use to manage services and facilities on-line via the cloud. This solution had strong traction with operators. They can use SKIDATA Online to access the entire range of services remotely via the internet, with their applications and data stored in the cloud. This means that operators only need a connected PC, simplifying the operational management of their systems and giving them 24/7 access to capacity utilization rates, unauthorized access situations, revenue generated and other data on their facilities. One recent example of a SKIDATA Online deployment was the WUB Skate & BMX skate-park in Innsbruck, Austria.

A key success factor: staying close to target markets

SKIDATA has expanded from its roots in Austria and is now present across the world. Today over 7 500 systems have been deployed by SKIDATA across the various market segments. New offices were opened in 2012 in South Africa, Chile and Russia, with the aim of bolstering our presence in these high-potential markets and leveraging this proximity to better serve our clients there.

SKIDATA has a strong presence across the Russian market. From the Locomotiv Stadium in Moscow to the Kazan and Magnitogorsk ski resorts in the Ural region and the Ritz Carlton Hotel, the Bolshoi and Maly Theatres and the Okhotny Ryad shopping center in Moscow,

SKIDATA systems deployed in 2012

Maracaña Stadium, Rio de Janeiro, Brazil

Skateparc WUB Skate & BMX, Innsbruck, Austria

Bolshoi Theatre, Moscow, Russia

SKIDATA has deployed public access systems across all segments.

In South America, SKIDATA has been present in the mountain destination segment since 2010 in resorts such as Las Leñas and Tierra Del Fuego in Argentina. Many resorts in Argentina and Chile are now using SKIDATA solutions, including Cerro Catedral, Cerro Castor, Chapelco, El Colorado and Nevados de Chillan.

SKIDATA has also deployed car access and parking solutions for major shopping mall operators in South America, including Censosud S.A. (Chile, Argentina, Peru, Colombia and Brazil) et Mall Plaza (Chile, Peru, Colombia and Brazil).

South Africa is a new market for SKIDATA, and in 2012 a parking management solution was deployed for Highveld Mall, a shopping center in eMalahleni (Witbank). An identical project was deployed at the Grand Baie La Croisette shopping mall in Mauritius.

Sugar Loaf Mountain cable car equiped with a SKIDATA access solution

Brazil: the 2014 World Cup and 2016 Olympics look to SKIDATA for access solutions
Brazil will be hosting major sports events over the next few years, and this will entail a need to manage large numbers of visitors and event attendees. The 2014 World Cup and the 2016 Olympics will take place in Rio de Janeiro, and SKIDATA will be there for both events. Its access management systems will equip Maracaña Stadium, where several World Cup football matches will be held, including the World Cup Final. Maracaña Stadium will also function as Olympic Stadium in 2016 for the Summer Olympics.

Events like these attract immense flows of visitors into an already crowded area. With this fact in mind, the access facilities for Sugar Loaf Mountain, Rio's famous landmark, were upgraded. The cable car leading up to the summit, from which visitors can take in a panoramic view of the city and the bay, transports over 1.4 million visitors per year. SKIDATA's solution includes turnstiles with integrated and automated systems for filling up the gondolas until maximum capacity has been reached.

<u>Other stadium deployments</u>
SKIDATA had other successful deployments during the year under review, including Westpac Stadium in Wellington, New Zealand. Westpac is one of the most important sports venues in the country and hosts cricket, rugby and football matches as well as major concerts. Other deployments include Juventus Stadium in Turin, Italy, Tourbillon Stadium in Sion, Switzerland, and Lokomotiv Stadium in Moscow, to name only a few.

<u>Airport parking facilities</u>
SKIDATA is one of the main global providers of airport parking systems, with many international airports currently using its access management solutions. Following the major deployments of the last two years in North America (including Dallas/Fort Worth, Montreal and Toronto airports), several new sites will be equipped in 2013, including Madrid Airport in Spain, Santiago Airport in Chile, and Montevideo Airport in Uruguay.

SKIDATA systems deployed in 2012

Cerro Catedrale, Argentina

International Arturo Merino Benítez Airport, Santiago, Chile

Via Milano Parking, Malpensa Airport, Italy

Censosud shopping mall, Chile

FC Lokomotiv Stadium, Russia

Quick No Problem Parking, Naples, Italy

Westpac Stadium, Wellington, New Zealand

FC Juventus Stadium, Turin, Italy

Verbier, 4 Vallées, Switzerland

06 CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2012.

1. GROUP STRUCTURE AND SHAREHOLDING

1.1. Group structure

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

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

1.1.1. Operational structure of the Group

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

The iDTV division is divided into four units:

- Sales and Operations
- Conditional Access
- Middleware
- Cyber Security Services & Technologies

This structure results from a reorganisation that took place in the course of 2012.

The Public Access division is divided into three units:

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

Results by sector are presented in note 6 of the Kudelski Group's 2012 financial statements.

Main operating companies held directly or indirectly by Kudelski SA

The list of the Group's main operating companies is included in note 58 of the 2012 financial statements. Additional information is also included in the 2012 Annual Report's key figures.

1.1.2. Listed companies included in the scope of consolidation

Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ISIN: CH0012268360) with a market capitalization as of 31 December 2012 of CHF 466 799 937. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange.

1.1.3. Unlisted companies included in the scope of consolidation

Information about the company name, registered office, share capital and holdings owned by unlisted Group companies included in the scope of consolidation is shown on pages 112 and 117 of the Kudelski Group's 2012 financial statements.

INTERNATIONAL PRESENCE

		iDTV	PUBLIC ACCESS
EUROPE	Switzerland	■	■
	France	■	■
	Austria	□	■
	Germany	■	■
	Belgium	□	■
	Spain	■	■
	Italy	■	■
	The Netherlands	■	■
	Sweden	□	■
	United Kingdom	■	■
	Russia	□	■
AMERICAS	USA	■	■
	Brazil	■	□
	Chile	□	■
AFRICA	South Africa	□	■
ASIA/PACIFIC	Singapore	■	□
	China	■	□
	Hong Kong	■	■
	Japan	■	■
	Taiwan	■	□
	South Korea	■	□
	Australia	■	□
	India	■	■

1.2. Significant shareholders

As of 31 December 2012, the principal shareholders of Kudelski SA are the Kudelski family pool including Mr André Kudelski and Mr Stefan Kudelski and, outside the Kudelski family pool, Mrs Irène Kudelski Mauroux and Mr Henri Kudelski (and their respective descendants), and Mrs Marguerite Kudelski and Mrs Isabelle Kudelski Haldy (and their respective descendants) through two investment structures of which they are the beneficiaries. Furthermore, Mrs Marguerite Kudelski holds 5112 bearer shares in her own name.

To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no shareholder agreements between the family pool and other shareholders. The shareholding structure, under which the Kudelski family pool has control over the company, guarantees the Group's long term stability. This stability is essential to ensure long-term continuity and independence, which are key elements for the Group's main customers.

Following the death of Mr Stefan Kudelski on 26 January 2013 and of Mr Henri Kudelski on 16 March 2013, the principal shareholders of Kudelski SA are a group of shareholders, whose interest amounts to 63.42% and whose members are the following: Mr André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants. The shares are directly owned or owned through an investment structure of which the abovementioned persons are the beneficiaries. For more information, please refer to the announcements made to SIX Swiss Exchange, which are available at the following address: http://www.nagra.com/cms/Investors-doc-center.html

All announcements made by Kudelski SA to SIX Swiss Exchange regarding disclosure of shareholdings may be found on the company's website at the abovementioned address.

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

AS OF 31 DECEMBER 2012	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	8 149 311	23.84%	57.15%
Mrs I. Kudelski Mauroux and Mr H. Kudelski (and their respective descendants)		3 000 000	5.60%	3.15%
Mrs M. Kudelski* and Mrs I. Kudelski Haldy (and their respective descendants)		3 000 000	5.60%	3.15%

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

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

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital at 31.12.2012 and 2.2. Specific information concerning authorized and conditional capital

Ordinary capital
The share capital is CHF 536 121 550. It is divided into 48 982 155 bearer shares with a nominal value of CHF 10 per share and 46 300 000 registered shares with a nominal value of CHF 1 per share. Each share confers the right to one vote. All shares are fully paid up.

Authorized capital
The Board of Directors is authorized to increase the share capital in one or more stages until 15 May 2014 by a maximum amount of CHF 40 881 640 through the issue of 3 768 164 bearer shares with a nominal value of CHF 10 per share and 3 200 000 registered shares with a nominal value of CHF 1 per share to be fully paid up. The issue price, the nature of contributions, the date from which new shares shall give entitlement to dividends and other modalities of the share issue shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance whole or partial acquisition of other companies in Switzerland or abroad. All statutory restrictions on the transfer of shares are applicable to new registered shares.

Conditional capital
The conditional capital amounts to CHF 105 316 010 and is structured as follows:

– a maximum amount of CHF 5 316 010 through the issue of a maximum of 531 601 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to employees of the company and of affiliated companies are exercised. There are no preferential subscription rights for shareholders. Share option or subscription conditions are determined by the Board of Directors. Issuance at a price below market conditions is authorized;
– a maximum amount of CHF 100 000 000 through the issuance of a maximum of 10 000 000 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the conversion rights related to the convertible bonds of the company or its subsidiaries are exercised.

There are no preferential subscription rights for shareholders. The preferential subscription right of shareholders to the issuance of a convertible bond may be limited or eliminated by decision of the Board of Directors on valid grounds, namely (a) if the convertible bonds are placed primarily in markets outside Switzerland, or if the issue proceeds contribute (b) to the financing or refinancing of acquisitions of companies or firms or (c) to the financing of other strategic investments of the Group, or (d) to financing the redemption of all or part of convertible loans previously issued by the company or its subsidiaries. If the convertible bond is not offered preferentially to shareholders, (a) the convertible bonds must be sold to the public under market conditions, (b) conversion rights must be exercised within a period of 7 years from the day of issuance of the respective bond, and (c) the conversion price must be at least the equivalent of market conditions at the time of the issuance of the bond.

2.3. Changes in capital

In thousand CHF	31.12.12	31.12.11	31.12.10
Registered share capital	46 300	46 300	46 300
Bearer share capital	489 822	487 498	487 383
Legal reserve	110 290	45 675	84 611
Capital contribution reserve	37 945	43 304	n/a
Net profit	-21 186	-25 930	90 615
Total available earnings	262 790	348 591	394 900
TOTAL SHAREHOLDERS' EQUITY	**947 147**	**971 368**	**1 013 194**

For information relating to changes in capital which have taken place in 2012, 2011 and 2010, please refer to the Group's corresponding financial statements. Information regarding the capital contribution reserve can be found under note 3.4 of the Kudelski SA financial statements in the Kudelski Group's 2012 financial statements.

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2012 consisted of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 48 982 155 bearer shares with a nominal value of CHF 10 per share. Each share confers the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the relevant type of share. Kudelski SA does not have participation certificates.

2.5. Profit sharing certificates

Kudelski SA does not have profit sharing certificates.

2.6. Restrictions on transferability and nominee registration

As per the Articles of Incorporation of Kudelski SA, registered shares may be transferred upon delivery of the endorsed share certificate, subject to the approval of the Board of Directors and registration in the share register and to the Swiss Federal Act on Intermediated Securities. The Board of Directors may refuse to approve the transfer of registered shares in one or more of the following cases:

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

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

c) If the acquirer does not expressly declare that he has acquired the shares in his own name and for his own account. If the shares are acquired by inheritance, division of an estate, marital property rights or by debt enforcement, the company may only refuse its consent if it makes an offer to the acquirer to take over the shares at their real value.

In the event of a dispute, the real value referred to in this section will be determined by the court having jurisdiction in the place where the company has its registered office. The company will bear the costs of such valuation. If the acquirer does not reject the purchase offer within one month of becoming aware of the real value, the offer will be deemed accepted.

Kudelski SA has no regulations concerning the registration of nominees.

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

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

2.7. Convertible bond, straight bond and share purchase plan

Convertible bond

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

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

The annual coupon amounted to 1.625% calculated with reference to the nominal amount of the bond payable on 5 October each year from 5 October 2006. The conversion price had been initially set at CHF 67.76 per ordinary bearer share of Kudelski SA.

In accordance with section D.1.2 (1) (c) of the bond conditions, the conversion price of bearer shares was adjusted on 30 May 2007 at CHF 66.98 and on 5 April 2011 at CHF 65.94 per ordinary bearer share of Kudelski SA. Bonds, with a nominal value of CHF 5000 each, could be converted at no cost until 21 September 2012 (subject to early repayment), into 75.8265 (instead of 73.7898 initially) bearer shares of Kudelski S.A. with a nominal value of CHF 10 per share. A conditional capital of 5 307 856 shares had been constituted for this purpose.

The repayment price of the bonds was at par on 5 October 2012. Early repayment could take place from 5 October 2010. Kudelski SA unconditionally and irrevocably guaranteed this issue. The convertible bond was quoted on the SIX Swiss Exchange, under security number ISIN CH0022692609. On 5 October 2012, the convertible bond was entirely repaid to creditors. More information about the convertible bond can be found in note 35 of the consolidated financial statements.

Straight bond

On 11 June 2011, Kudelski SA issued a 5½ year CHF 110 million straight bond. The proceeds of this transaction are used for general corporate purposes, enabling the Kudelski Group to diversify its financial resources and lengthen its average debt maturity profile.

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

The repayment price of the straight bonds is at par on 11 December 2016. The straight bond is quoted on the SIX Swiss Exchange, under security number ISIN CH0122488452. The offering circular for the straight bond is available on request from the Group's head office or by e-mail to info@nagra.com. More information about the straight bond can be found in note 30 of the consolidated financial statements.

Share purchase plan

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

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

A chart showing employee participation in this plan for the year 2012 can be found in note 44 of the consolidated financial statements.

3. BOARD OF DIRECTORS

The Board of Directors is the highest executive body of the company. It has the non-transferable and inalienable responsibilities set forth by the law and the Articles of Incorporation. It currently consists of eight members elected at the General Meeting of Shareholders.

Three Committees, an Audit Committee, a Strategy Committee and a Remuneration and Nomination Committee, are formed within the Board of Directors and are responsible for specific tasks (see sections 3.4.1 - 3.5.)

Mr Stefan Kudelski was Honorary Chairman of the Board of Directors until 26 January 2013, the date of his death.

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

3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
ANDRÉ KUDELSKI* Chairman of the Board and Chief Executive Officer	1960	Swiss	**Degree in Physical Engineering** Ecole Polytechnique Fédérale de Lausanne (EPFL)	1987	30.04.2013
CLAUDE SMADJA Deputy Chairman of the Board and Lead Director	1945	Swiss	**Degree in Political Science** University of Lausanne	1999	30.04.2013
NORBERT BUCHER	1931	Swiss	**Doctorate in Engineering** Ecole Polytechnique Fédérale de Lausanne (EPFL) Various postgraduate studies at the New York University, Harvard Business School and IMD Lausanne	1992	30.04.2013
PATRICK FŒTISCH	1933	Swiss	**Doctorate in Law** University of Lausanne **Bar Exam**	1992	30.04.2013
LAURENT DASSAULT	1953	French	**Degree in Corporate Law** **Degree from ESLSCA** Ecole Supérieure Libre des Sciences Commerciales Appliquées, Paris	1995	30.04.2013
PIERRE LESCURE	1945	French	**Degree in Literature and Journalism** Centre de formation des journalistes, Paris	2004	30.04.2013
MARGUERITE KUDELSKI	1965	Swiss	**Engineering degree in Microtechnology** **Doctorate in Microtechnology** Ecole Polytechnique Fédérale de Lausanne (EPFL) **Executive MBA** IMD Lausanne	2006	30.04.2013
ALEXANDRE ZELLER	1961	Swiss	**Degree in Economics** University of Lausanne	2007	30.04.2013
JOSEPH DEISS	1946	Swiss	**Doctorate in Economics and Social Sciences** University of Fribourg	2012	30.04.2013

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

ANDRÉ KUDELSKI

CLAUDE SMADJA

NORBERT BUCHER

PATRICK FŒTISCH

LAURENT DASSAULT

PIERRE LESCURE

MARGUERITE KUDELSKI

ALEXANDRE ZELLER

JOSEPH DEISS

CURRENT MANDATES

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

CURRENT MANDATES
OTHER:

LAURENT DASSAULT

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

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

PIERRE LESCURE

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

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

CURRENT MANDATES

MARGUERITE KUDELSKI

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

KUDELSKI GROUP:

- polyright SA, Board member (until 18 July 2011)*

* This company is no longer part of the Kudelski Group effective as of 18 July 2011.

OTHER:

- Audio Technology Switzerland SA (Switzerland), Chairman

ALEXANDRE ZELLER

Alexandre Zeller began his professional career in 1984 with Nestlé as a Management Auditor. Three years later he joined Credit Suisse, where he carried out various duties in the field of loans and asset management at a Swiss and international level, while at the same time managing various branches. In 1999 he was appointed to the Executive Board and then as CEO of Credit Suisse Private Banking. In November 2002, Alexandre Zeller joined the Banque Cantonale Vaudoise as Chairman of the Executive Board. From July 2008 to February 2012, he was CEO of HSBC Private Bank (Switzerland) and, as from October 2010, Regional CEO Europe and Middle East. Since March 2012, Alexandre Zeller is an independent consultant and director. SIX Group SA has designated him to serve as Chairman of its Board, his appointment being subject to the decision of SIX Group SA's General Meeting of Shareholders, which will be held in May 2013.

OTHER:

- Maus Frères SA (Switzerland), member of the Board

JOSEPH DEISS

Joseph Deiss obtained a doctorate degree in economy and social sciences from the University of Fribourg (Switzerland) in 1971. After his doctorate, he was a research student at the University of Cambridge in the United Kingdom. He then returned to the University of Fribourg where he was lecturing economics as from 1973 and was "privat docent" as from 1977. He was appointed adjunct professor ("professeur extraordinaire") in 1983 and professor of political economy in 1984, a position he occupied until 1999. During this time, he was also a visiting professor at a number of Swiss Universities including ETH Zurich, University of Lausanne and University of Geneva. Between 1996 and 1998, he was the Dean of the Faculty of Economics and Social Sciences of the University of Fribourg.

Parallel to his academic career, Joseph Deiss has pursued a political career. He was a member of the Grand Council of the canton of Fribourg from 1981 to 1991, when he was elected President of the Grand Council of Fribourg for one year.

From 1991 to 1999, he was a member of the National Council. During this period, from 1993 to 1996, he was Switzerland's price regulator. In 1999 he was elected to the Federal Council, where he was responsible for the Federal Department of Foreign Affairs (1999-2002) and the Federal Department of Economic Affairs (2003-2006). He served as President of the Swiss Confederation in 2004. Since his retirement from the Federal Council in 2006. Joseph Deiss has been a business consultant and has had roles on the Board of Directors of various companies. In June 2010, he was elected President of the United Nations General Assembly for its 65th session from September 2010 to September 2011.

KUDELSKI GROUP:

- OpenTV Corp., Board member (until March 2010)

OTHER:

- Zurich Insurance Company South Africa (ZICSA) (South Africa), Board member
- Emmi SA (Switzerland), Board member (until 27 avril 2013)
- Clinique Générale-Ste-Anne SA (Switzerland), Chairman
- Zurich Insurance Company Ireland (ZIP) and Zurich Life Assurance plc Ireland (ZLAP) (Ireland), Board member
- Interprox SA (Switzerland), Board member
- ALSTOM (Suisse) SA, Chairman
- Zurich Insurance Group, International Advisory Council, Vice Chairman
- Liberty Global, European Advisory Council, member

3.2. Other activities and vested interests

Please refer to the individual profiles of Board members under section 3.1 above.

3.3. Election and term of office

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

3.4. Internal organization

The Board of Directors performs inalienable and non-transferable duties prescribed by the law (art. 716 of the Swiss Code of Obligations) with the support of its three Committees: Audit, Strategy, and Remuneration and Nomination. The internal organization of the Board of Directors is defined in the Articles of Incorporation and the Board Regulations. The regulations are available on request to the Corporate Secretary of the Kudelski Group by calling +41 21 732 01 27 or by post at the following address: 22-24 route de Genève, 1033 Cheseaux-sur-Lausanne.

3.4.1. Distribution of tasks within the Board of Directors

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

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

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

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

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

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

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

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

Audit Committee

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

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

deemed necessary for the successful completion of its tasks.

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

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

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

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

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

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

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

<u>Remuneration and Nomination Committee</u>
The Remuneration and Nomination Committee is composed of three non-executive members of the Board of Directors. It meets at least twice a year.

The Remuneration and Nomination Committee supervises the remuneration policy put in place by the company (refer to section 5: Remuneration, shareholdings and loans). The Committee presents proposals to the Board of Directors concerning the appointment of Board members to be submitted to the General Meeting. At the request of the Chief Executive Officer, it examines applications for management positions and may if it wishes meet with candidates.

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

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

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business. In 2012, the Board of Directors and its Committees met as follows:

Board of Directors	8 times
Strategy Committee	4 times
Audit Committee	3 times
Remuneration and Nomination Committee	2 times

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

3.5. Competencies

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

The Board of Directors

The Board of Directors:

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

Group management

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

3.6. Information and control instruments with respect to Group management

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

Supervision

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

Operations and strategy

- In the Group's key sectors, ad hoc committees comprising a cross-disciplinary panel of internal experts evaluate market, strategic, operational, legal and financial risks. These ad hoc committees analyze risks, manage processes relating to the evaluation of such risks, propose measures and monitor their implementation. There is a security committee and an innovation committee. Information and comments arising from these committees are conveyed to the Group Management during the Executive Board Commitees, which frequency and duration are tailored to the needs of the Group. Management of the iDTV division is supported by an "Executive Board Group Operations" committee comprised of the CEO, the COO, the CFO, the EVP Strategy and Business Development* as well as senior members of the iDTV division. This committee meets twice a month for 2.5 hours and reviews in particular selected relevant topics for the iDTV division. In addition, the members of the Group Executive Management and the General Counsel, Head of Legal Affairs, the Senior Vice President , Head of Human Resources, the Senior Vice President "Advanced Advertising and Innovation", the Senior Vice President "Intellectual Property" and the Corporate Secretary meet twice a month

* *From 1st January 2013, the tasks of the former EVP Strategy and Business Development have been taken over by the other members of the Group's Executive Management (see section 4).*

for one hour as part of the "Executive Board Group Functions" committee to discuss relevant topics relating to general corporate matters. Finally the synchronisation between Group Executive Management and the "Executive Board Group Operations" and "Executive Board Group Functions" committees is achieved within the "Executive Board Group Management" committee which meets every month for two hours.

Finance

– The Controlling entity conducts regular financial and operational analyses intended to identify operational and financial risks throughout the value chain of the various activities of Group companies and proposes and coordinates necessary improvements and corrective actions. This entity also makes available a platform of analytical services to Group management and operational departments.

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

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

Legal

– The Legal Department provides advice and consultation as part of the Group's decision making processes and as part of the activities of all Group departments in order to better mitigate and manage legal risks as well as to ensure appropriate levels of compliance with the Group's policies. The Legal Department is involved with the negotiation and approval of contracts entered into by Group companies and maintains contract management and electronic archiving tools to ensure efficient tracking of contracts.

Intellectual Property

– The Intellectual Property Department is responsible for protecting, developing, managing and licensing the Group's technologies and intellectual property portfolio. In connection with this responsibility the Intellectual Property Department briefs senior management on operational and strategic matters in the field of intellectual property that impact Group activities.

Human Resources

– The HR Department uses a performance development tool ("Performance Development System" – PDS) designed to align the teams' management programs with the needs of the company. PDS features performance- and skills-evaluation functions and establishes a career development baseline for employees in line with the company's needs. Since January 2013, a PDS tool embedded in the Group integrated HR information system is available on-line. It gives speedier access to progress against objectives and enhanced management reporting capability. In addition to the PDS, the HR information system now includes an employee database, time and absence management, training and development modules and compensation management.

Information management

– The Corporate IT department, jointly with the Corporate Security department, have developed and implemented a series of policies and procedures concerning IT security (for the use of computer systems, data protection, monitoring, systems management, back-up, etc.) to set appropriate risk limits and to provide a reliable Information System environment.

4. GROUP MANAGEMENT

4.1. Group executive management members *

ANDRÉ KUDELSKI

MAURO SALADINI

PIERRE ROY

ALEX OSADZINSKI

	DATE OF BIRTH	NATIONALITY	POSITION	EDUCATION
ANDRÉ KUDELSKI	1960	Swiss	**Chairman and Chief Executive Officer (CEO) of the Group**	**Engineer-physicist** Ecole Polytechnique Fédérale de Lausanne (EPFL)
MAURO SALADINI Executive Vice President of the Group	1966	Swiss	**Chief Financial Officer (CFO)**	**ETHZ Electrical Engineer** Ecole polytechnique fédérale de Zurich **MBA** INSEAD (France)
PIERRE ROY Executive Vice President of the Group	1952	Swiss	**Director of Operations (COO), Digital TV**	**Degree in Business Management** Hautes Etudes Commerciales (HEC) de l'Université de Lausanne
ALEX OSADZINSKI** Executive Vice President of the Group	1958	British/ American	**Director Strategy and Business Development**	**Degree equivalent USA BSc in Computer Science / Management Information Systems and Marketing**

* *Since 1 January 2013 the Group's Executive Management is composed of the following members: Messrs Kudelski, Saladini and Roy, as announced in a press release dated 18 December 2012.*

** *Alex Osadzinski obtained various scientific diplomas in the United Kingdom in return for which the company International Education Evaluations Inc. in 1991 issued an equivalence to an American Bachelor's degree in Computer Science/Management Information Systems and Marketing. Alex Osadzinski left the Kudelski Group effective as of 31 December 2012.*

MANDATES WITH MAIN OPERATIONAL COMPANIES HELD BY PAR KUDELSKI SA

ANDRÉ KUDELSKI

Please refer to section 3.1. above.

MAURO SALADINI

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

- Nagravision SA, Officer
- SkiData AG, Vice Chairman of the Supervisory Board
- NagraID SA, Executive Director
- NagraID Security SA, Board member
- OpenTV Corp., Board member (until 31 December 2010)

PIERRE ROY

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

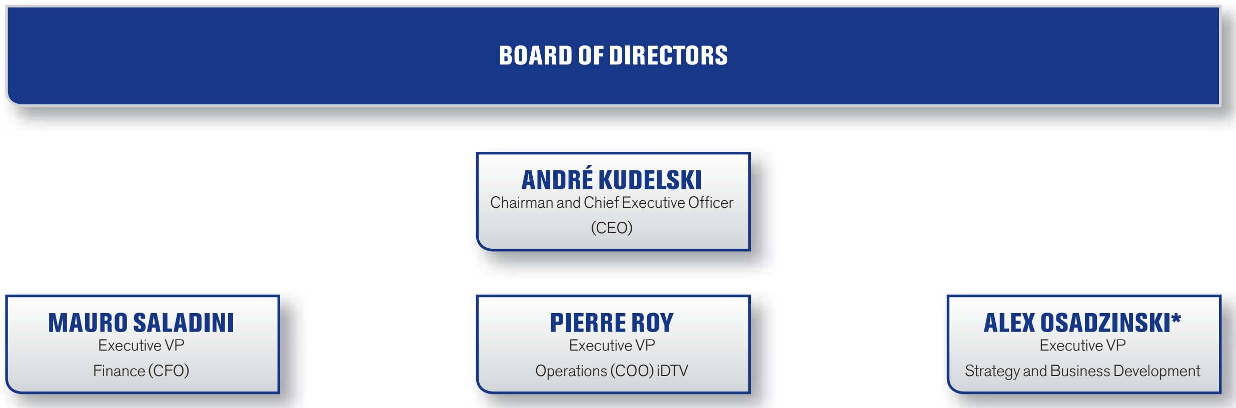
- Nagravision SA, Board member and Executive Director
- SmarDTV SA, Board member
- Nagra Media UK Ltd, Board member
- Nagra-Kudelski Ltd, Chairman (until mid-April 2013)
- Nagravision Italia s.r.l., Board member
- Nagravision Iberica SL, Board member
- Nagra USA Inc., Board member
- Nagravision Asia Pte Ltd., Board member
- Nagra Media Korea LLC, Board member
- Nagra Media Pvt Ltd, Board member
- OpenTV Corp., Board member (until 31 December 2010)
- OpenTV Europe SAS, Chairman
- OpenTV Australia Pty Ltd, Board member
- Nagra Thomson Licensing SA, Chairman (until 24 June 2011)*

* This company is no longer part of the Group effective as of 16 June 2011.

ALEX OSADZINSKI

Alex Osadzinski began his professional career in the United Kingdom in 1978, at two successful start-up companies which were subsequently sold. In 1984, he joined AT&T Unix Europe as European Sales Manager. From 1986 to 1994 he worked for Sun Microsystems, where he became Vice President for Markets and Product Strategy. After two years with Grass Valley Group (Tektronix) as Vice President for Marketing and International Sales, President of Grass Valley Japan and General Manager, Mr Osadzinski returned to the world of start-ups with the companies BE from 1996 to 1998 and Vitria Technology from 1998 to 2000. Both these companies were subsequently listed on the stock exchange. He then became CEO of the start-up Katmango. From 2001 to 2008 he was involved in start-ups as a “Venture Partner” through the company Trinity Ventures, one of the main venture capital companies in Silicon Valley and active in software and digital media. In December 2008, Mr Osadzinski joined the Kudelski Group as Executive Vice President Product in the Digital Television division. On 1 January 2012, Mr Osadzinski became Executive Vice President and Director Strategy and Business Development until 31 December 2012 when he left the Kudelski Group.

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



** Alex Osadzinski left the Kudelski Group effective as of 31 December 2012 and therefore is no longer member of the Executive Group Management since 1 January 2013.*

4.2. Other activities and vested interests

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

4.3. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2012.

5. REMUNERATION, SHAREHOLDINGS AND LOANS

5.1. Principles of remuneration

The remuneration policy of the Remuneration and Nomination Committee aims at aligning the interests of the management personnel as closely as possible with those of the company and of the shareholders over the medium and long term and is based on the following principles:

- coherence in remuneration against the tasks, workload and level of responsibility assumed;
- adequacy of remuneration depending on the course of business, on changes and evolution of the market on which the Group operates and depending on the middle and long term Group strategy;
- global assessment (not individually-based) of remuneration to enhance a long-term vision of the company interest;
- as for Group Management, assessment of the individual performance in connection with short and long term objectives.

The Remuneration and Nomination Committee (see section 5.3) seeks to ensure that global compensation is comparable with that of management personnel with similar competencies and responsibilities in companies operating in the digital television and Internet sectors on the international market, particularly in Switzerland or in high technology centers, such as the Western region of the United States and in Europe. It also takes into account the Group's desire not to dilute the capital of the company excessively.

The Remuneration and Nomination Committee does not base its assessment on benchmarks and does not use consultant services for remuneration. It makes a general assessment of the terms applied in the market by the following categories of companies:

- high technology companies listed on the Nasdaq or on the NYSE;
- and high technology companies listed on the Euronext;
- high technology companies listed on the Swiss Stock Exchange and belonging to the Swiss Performance Index (SPI), sector Technology; and
- high technology companies that are privately owned

with which the Group competes in staff hiring and which are similar in terms of Group structure, complexity and revenues, taking into account that such companies are not in the same business as the Group. The speed of the market evolution in which those companies operate is also an assessment criteria.

Apart from the abovementioned elements, the Remuneration and Nomination Committee considers that there are no other criteria based on which the Kudelski Group could be compared to other companies. This is in particular due to the diversification of the Group's activities on the one hand, and, on the other hand, to the rapid evolution of the markets in which the Group operates and the influence of the players in these markets.

The level of remuneration of the non-executive members of the Board of Directors is determined by their role within the Board of Directors and its committees. The elements of the remuneration are set out in section 5.2.1.

The total annual remuneration of members of Group Management includes a fixed and a variable component. The variable component of remuneration depends on the Group's results (both economic and strategic), on the level of responsibility assumed and on the individual performance, which can have a positive or negative effect on the level of remuneration of each Group Management member. The purpose of the variable component of remuneration is to align the interests of the Group Management members with those of the company and thus reward them for value creation.The variable component of remuneration is not expressed as a percent of the fixed component (see also section 5.2.2).

There is currently no provision setting forth a particular allowance or benefit – including with regard to share vesting periods – in the event of termination of the employment contract of a member of Group Management or in the event of departure of a member of the Board of Directors. Nor are there any such provisions in favour of the members of the Board of Directors, of the Group Management members or in favour of any other individual holding a key position within the Group in the event of a change in control of the company. The employment contracts of the Group Management members are annually based contracts, automatically renewable from year to year and subject to a termination notice of six months, which helps ensure management stability within the Group.

5.2. Components of remuneration

Note 46 of the financial statements show the breakdown of payments to the members of the Board of Directors and of Group Management, pursuant to Article 663b^{bis} of the Swiss Code of Obligations.

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

5.2.1 Members of the Board of Directors

The overall remuneration of non-executive members of the Board of Directors is composed of fixed annual fees and an allowance for costs and other expenses incurred while performing their duties. This remuneration is paid in cash. The company's founder and Honorary Chairman also received fixed annual fees for the year 2012 as shown in note 46 of the financial statements. This remuneration was also paid in cash.

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

5.2.2 Members of Group Management

The total annual remuneration of the Group Management members includes a salary and a variable component.

The remuneration is paid in cash, in shares and consists of payment in kind, including for example provision of a company car and payment of all or part of the international/Swiss included health insurance premium. The fixed component is in principle paid in cash. The Remuneration and Nomination Committee has discretionary authority to determine how the variable part is paid, taking into account such criteria as the share price and the dilution effect.

A maximum of 50% of the variable part of remuneration is in principle paid in the form of Kudelski SA bearer shares, with the exception of one member of Group Management who does not reside in Switzerland and whose variable remuneration was paid entirely in cash. These shares are blocked for a period of 3 or 7 years in accordance with the individual's wishes. Members of Group Management may also take part in the share purchase plan introduced in 2004, in accordance with the terms of said plan (see section 2.7: Share purchase plan).

The amount of the variable remuneration component depends on the individual performance of the Group Management member and the strategic, economic and operational performance of the Group. The key factors determining variable remuneration levels are the performance of the Group and its divisions, the budget, the strategic initiatives, the achievement of objectives and the quality of management delivered by such Group Management member. The Group objectives are discussed and agreed upon between the Board of Directors, the Strategy Committee, the Remuneration and Nomination Committee and the Chief Executive Officer and reflect the Group's strategy. They are set on an "ad hoc" basis every year. The CEO sets the individual objectives of each member of Group Management in agreement with the Remuneration and Nomination Committee.

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

<u>Special information regarding year 2012</u>
The remuneration of each member of Group Management is fixed globally and the variable remuneration of the Group Management members is not determined according to the fixed component of remuneration as specified in section 5.1. For information, the variable component of the remuneration of Group Management represented in 2012 between 30% and 60% of the global remuneration, except for the remuneration of the Chief Executive officer (see note 46 of the Financial Statements). This ratio is not fixed and can therefore change every year. The differences in the ratio between fixed and variable remuneration between the Group Management members is based on the function and the status within the company and the practices used in the market at the time of the person's nomination.

The variable component of remuneration of the Group Management increased in 2012 from 2011 due to the achievement, or even the over-achievement, of several important objectives. However, a reduced performance factor applied to Group Management to take into account in 2012 the cost reduction plan started in 2011. The variable component of remuneration was lower than in 2010, mainly because of the company's results in absolute terms.

5.3 Competency and procedure for determining remuneration levels
The Remuneration and Nomination Committee is responsible for setting the remuneration policy as well as the remuneration of each member of the Board of Directors and of Group Management and reports every year on its activities to the Board of Directors. As an exception to this principle, the remuneration of the members of the Remuneration and Nomination Committee is set by the Board of Directors itself (see section 3.4.2 Remuneration and Nomination Committee). The Chairman of the Board of Directors is invited to take part in setting the remuneration of the members of the Board of Directors, of the members of the Group Management and of key managers in the Group, with the exception of the Chairman's own remuneration.

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

5.4 Changes to the remuneration policy during the year under review
No major change was made to Kudelski Group's remuneration policy relative to the 2012 financial year. It should be noted that the blocked shares of the Group Management were blocked for periods of 3 or 7 years (see section 5.2.2.).

6. SHAREHOLDER PARTICIPATION

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

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

6.1. Voting rights and representation restrictions

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

6.2.Statutory quorums

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

6.3. Convening of the General Meeting of Shareholders

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

6.4. Agenda

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

*This represents 0.19% of the capital of Kudelski SA.

6.5. Registration in the share register

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

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1. Duty to make an offer

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

7.2. Clauses on changes of control

No such clauses exist.

8. AUDITORS

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

The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated to the Group are audited by other auditors. The auditors were reappointed by the General Meeting of Shareholders of Kudelski SA of 15 May 2012 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Mrs Corinne Pointet Chambettaz since 1 January 2010. The auditor in charge is replaced at the latest seven years after the year in which he/she first occupied this position, as specified in Article 730a paragraph 2 of the Swiss Code of Obligations.

8.2. Auditing fees

The Kudelski Group paid PricewaterhouseCoopers for auditing services for the year 2012 the sum of CHF 984 000. Auditing services are understood to mean the work required each year to examine the consolidated accounts of the Group and its subsidiaries and to prepare the reports required under the laws of each country, performed by PricewaterhouseCoopers.

8.3. Additional fees

The Kudelski Group paid PricewaterhouseCoopers for additional services for the year 2012 the sum of CHF 172 506 representing CHF 124 206 for tax advisory services and CHF 48 300 for other additional services. Additional services mean in particular services such as the auditing of occasional transactions and other services such as new or modified accounting methods.

8.4. Monitoring and control instruments pertaining to the audit

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

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

The auditor's representatives, including the auditor in charge of the Group's audit, are regularly invited to take part in meetings of the Audit Committee as external participants. Representatives from PricewaterhouseCoopers were invited to all three meetings of the Audit Committee with the exception of discussions and decisions of the Audit Committee regarding the auditors. The auditor in charge of the internal audit attended the parts of these three meetings that were relevant for him.

For more information on the Audit Committee, and particularly on the selection, evaluation and independence criteria, please refer to sections 3.4.2. and 3.4.3. above.

9. INFORMATION POLICY

The Kudelski Group keeps investors regularly informed of the following developments:
– progress of business and major new contracts;
– changes occurring in the management of the Group;
– acquisitions or sales of companies;
– half-yearly and annual financial results.

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

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

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

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

Important dates
– 30 April 2013: Annual General Meeting, Lausanne;

– 20 August 2013: Publication of the Interim Financial Report;

– 3 June 2014: Annual General Meeting, Lausanne.

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FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENTS

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

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

Assets

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

Equity and liabilities

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

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2011		**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**430 525**
Net loss for the year				-18 121				433	-17 688
Other comprehensive income for the year					-2 089	5 497		-368	3 040
Total comprehensive (loss) for the year		**–**	**–**	**-18 121**	**-2 089**	**5 497**	**–**	**65**	**-14 648**
Employee share purchase program	44	115							115
Dividend paid to shareholders	43			-16 011					-16 011
Dividend paid to controlling interests								-6 673	-6 673
Impact of transactions with non controlling interests								7 705	7 705
Restricted shares granted to employees	27			-163			163		
Restricted shares allocated over the vesting period	44			46					46
December 31, 2011		**533 798**	**59 036**	**-134 661**	**30 115**	**-67 715**	**-326**	**16 905**	**437 152**
Net income for the year				16 275				-152	16 123
Other comprehensive (loss) for the year					64	-6 612		-518	-7 066
Total comprehensive income for the year		**–**	**–**	**16 275**	**64**	**-6 612**	**–**	**-670**	**9 057**
Employee share purchase program	44	338	-137						201
Shares issue for employees		1 986	-1 160						826
Dividend paid to shareholders	43		-5 359						-5 359
Dividend paid to non controlling interests								-7 054	-7 054
Transfer equity component of convertible bond				33 470	-33 470				–
Reversal of put option on acquisition of non controlling interests					2 672				2 672
Impact of transactions with non controlling interests								244	244
Restricted shares granted to employees	27			-36			36		–
Restricted shares allocated over the vesting period	44			17					17
December 31, 2012		**536 122**	**52 380**	**-84 935**	**-619**	**-74 327**	**-290**	**9 425**	**437 756**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

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

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

(B) Group accounting

(a) Subsidiaries

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

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

(b) Business combinations

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

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

(c)Disposal of subsidiaries

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

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not to control those policies. It is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(C) Foreign currencies
The consolidated financial statements of the Group are expressed in Swiss francs ("CHF"), which is the presentation currency.

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

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

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

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

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

Revenue from system integration, specific developments and customization is recognized under the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract. Revenue from maintenance and training is recognized when earned (maintenance revenue is allocated over the contractual period).

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

(d) Multiple element arrangements – service mode
The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements is recognized when contractually earned and is usually dependent on the cli-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

ent's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms under this category. When the fair value of a particular element cannot be determined, the revenue is fully allocated to the undelivered element.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized in the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract and the useful lives of those assets. It is shown under depreciation in the income statement. When the title is transferred, the cost is deferred under deferred costs and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract and the useful lives of those assets.

In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

(e) Payment to customers

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

(f) Government grants

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

(g) Interest income

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

(E) Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized in the balance sheet and subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and qualifies for hedge accounting.

The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge) or as a hedge of a forecasted transaction (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets, liabilities or cash flows. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

(a) Derivatives that do not qualify for hedge accounting

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

(b) Fair value hedge

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

(c) Cash flow hedge

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

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

(F) Taxes

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

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

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

(G) Tangible fixed assets

(a) General

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

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

Depreciation is calculated on a straight-line basis over the useful life, according to the following schedule:

Technical equipment and machinery

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

Other equipment

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts and are included in the consolidated income statements.

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

The Group makes equipment as well as smart cards available to clients within the scope of complete security solutions. The assets given to these clients remain the property of the Group and are initially recognized at cost and disclosed in the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

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

(d) Borrowing costs

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

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

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

(H) Intangible assets

(a) Goodwill

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

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

(b) Internal research and development

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

(c) External research and development

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

(d) Computer software

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

(e) Other intangibles in connection with business combinations

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

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

(I) Investment property

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

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

(J) Financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

Available-for-sale financial assets are investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on settlement date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income while exchange differences on monetary items are recognized in the income statement. When financial assets available-for-sale are sold or impaired, the cumulative fair value adjustments recognized in other comprehensive income are included in the income statement.

When there is no active market for financial assets (and for unlisted securities) , the Group establishes fair value at cost if it cannot be reliably estimated. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount or the impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(K) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

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

(L) Deferred costs

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

(M) Trade accounts receivable

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

(N) Cash and cash equivalents

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

(O) Marketable securities

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

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

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

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

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

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

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

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

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

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

(T) Employee benefits
(a) Pension obligations
The Group operates a number of defined benefits and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.
The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligation is in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, amendments to the pension plan and changes in actuarial assumptions in excess of the greater of 10% of the value

of plan assets or 10% of the defined benefit obligation are charged or credited to income over the average working life of the related employees.
The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

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

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

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

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

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

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

(W) New and amended accounting standards and IFRIC interpretations
Standards and Interpretations effective in the current period
The Group has adopted new and amended or revised IFRS standards as of January 1, 2012.
The adoption of following standards had limited impact on the financial statements:
IFRS 7 - Financial Instruments: Disclosures (amendment) - (effective from 1 July 2011).

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

Standard and Interpretations in issue not yet adopted
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but which the Group has not early adopted. The adoption of the following amendment will have a significant impact on the financial statements:

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

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

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

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

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

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

IFRS 12 – Disclosure of interests in other entities (effective from 1 January 2013) is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

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

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

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

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Complete security solutions generating recurring service revenues

As defined in note 1 D, the Group provides complete security solutions generating recurring service revenues. Depending on the contract terms with each client, the Group may replace the assets made available or transferred to the client for security or economic reasons. Early replacement due to technical obsolescence would affect the profitability of the Group by resulting in an impairment of the assets made available to the client or of the deferred costs.

Furthermore those contracts may also include payments made to customers which are subject to impairment reviews. In case of impairment of these assets ,the profitability of the Group could be affected through a reduction of the deferred costs and revenues.

Litigation and product liability provisions

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

Income tax, deferred tax assets and government grants

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 19). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore modify significantly the deferred tax asset and the income taxes captions. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, proportion of tax losses that could be offset with future profits or change in forfeiting periods, occurring after the accounts have been approved might affect the tax asset capitalized.
A tax audit may lead to significant adjustments, due to a rejection of key components of a tax return or a tax grant (e.g. related to transfer pricing).

Retirement benefit plans

The Kudelski Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates. The actuarial assumptions used (note 30) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants.

Impairment of Goodwill

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

3. FINANCIAL RISK MANAGEMENT

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

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

Market risk

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

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

(a) Foreign exchange risk

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

(b) Interest rates

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

Other price risks

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

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Credit risk management

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

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

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

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

Liquidity risk management

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

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

4. BUSINESS COMBINATIONS

BUSINESS COMBINATIONS IN 2012

No business combination arose in 2012.

BUSINESS COMBINATIONS IN 2011

Digital Television Solutions

On April 12, 2011, the Group purchased 100% of EnMedia Software Technologies Pvt Ltd, India, for a consideration of kCHF 366. EnMedia Software Technologies Pvt Ltd provides software services, end to end system design, development and delivery of embedded software to customers. No goodwill arose from this business combination. See note 40 for cash flow impacts.

Contribution and Pro forma data including business combinations for all of the financial year

As no business combination occurred in 2012, there is no impact of the contribution of business combination to revenue and net income in 2012.

In 2011, the acquired businesses contributed net income of kCHF -1 751 to the Group for the period from acquisition dates to December 31, 2011.

If the acquisitions had occurred on January 1, 2011 the consolidated revenues and net income would have been approximately kCHF 873 914 and kCHF -17 735 respectively.

5. DIVESTMENTS

Arising in 2012

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

Arising in 2011

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

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

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

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

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6. OPERATING SEGMENTS

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

These operating segments, which are reflected in internal management reporting, can be described as follows: The Integrated Digital Television division provides end-to-end integrated solutions including open conditional access solutions allowing digital TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform and middleware software solutions for Set-top-Boxes and other consumer devices, enabling an advanced user experience. Advanced advertising solutions are part of Integrated Digital Television. The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.
Income and expenses relating to Corporate include the costs of Group Headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions".
The measure of income statement presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that intersegment sales are eliminated only at the consolidation level.
Reportable segment assets include Total assets allocated by segment with the exclusion of intersegment balances which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance sheet assets.

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

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

GEOGRAPHICAL INFORMATION

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

	Revenues from external customers		Non-current assets	
In CHF'000	**2012**	**2011**	**31.12.2012**	**31.12.2011**
Switzerland	36 665	41 141	163 832	214 242
United States of America	125 294	134 912	142 459	148 010
Brazil	96 309	70 672	216	22
France	82 809	90 352	22 751	14 567
Germany	66 468	59 044	4 549	5 676
Italy	46 446	67 113	682	820
Netherlands	43 582	40 438	252	260
Rest of the world	346 479	370 191	51 525	52 216
	844 051	**873 863**	**386 265**	**435 813**

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

REVENUE CATEGORIES

In CHF'000	**2012**	**2011**
Sale of goods	417 026	423 788
Services rendered	285 334	291 505
Royalties and licenses	141 691	158 570
	844 051	**873 863**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

7. OTHER OPERATING INCOME

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

8. OTHER OPERATING EXPENSES

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

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

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

10. INTEREST EXPENSE

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

11. OTHER FINANCE INCOME/(EXPENSE), NET

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

Changes in fair value of kCHF 98 (2011: kCHF -15) for available-for-sale financial assets were recognized directly in other comprehensive income.
Changes in fair value of held for trading financial assets amounting to kCHF 392 (2011: kCHF-10 453) are disclosed under Net gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

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

Other taxes include non reimbursable withholding taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

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

In CHF'000	2012	2011
Income before taxes	**23 256**	**-9 073**
Expected tax calculated at domestic tax rates in the respective countries	-8 280	187
Effect of income not subject to income tax or taxed at reduced rates	1 556	5 820
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	4 036	4 551
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-4 045	-19 197
Efffect of associates' result reported net of tax	116	317
Effect of disallowed expenditures	-698	-989
Effect of prior year income taxes	274	138
Effect of non-refundable withholding tax	-1 480	-839
Other	1 388	1 397
Tax expense	**-7 133**	**-8 615**

Income before tax includes the full income before tax of non-fully owned subsidiaries whose taxes are paid by its shareholders since they are tax-transparent companies. As a result 100% of the income before tax of these companies is included in income before tax while the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 1 386 (2011: kCHF 1 373) and is disclosed under other in the above table.

The weighted average applicable tax rate is increasing from 2.06% in 2011 to 35.60% in 2012. In 2011, the low rate was caused by a change in the profitability mix of group subsidiaries in the different countries. Losses were realized in lower than usual average tax jurisdiction/companies thus positively impacting the weighted average tax rate.

13. NET FOREIGN EXCHANGE RESULT

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

In CHF'000	2012	2011
Sales	-4 427	3 377
Cost of material	1 559	-1 761
Other finance income/(expense) net	343	-8 979
Total exchange differences	**-2 525**	**-7 363**

14. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

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

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

The diluted earnings per share calculation takes into account all potential dilutions to the earnings per share arising from the convertible bonds and options on Kudelski SA shares. In 2012 and 2011, both the convertible bond and options were anti-dilutive, therefore diluted earnings per share equals basic earnings per share. Shares equivalent of 0 (2011: 5 307 856) relating to the convertible bond and 1 566 (2011: 946) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

* In early 2013 and 2012, the company performed a share capital increase which changed the average number of shares without any corresponding change in the level of resources. For the purposes of the earnings per share calculation, the weighted average number of bearer shares has been retrospectively adjusted to reflect this increase as if the capital increase had occurred at the beginning of the earliest comparative period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

15. TANGIBLE FIXED ASSETS

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

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
Gross values at cost				
As of January 1, 2011	**17 220**	**84 908**	**20 826**	**122 954**
Additions	6 095	27 703	416	34 214
Disposals and retirements	-599	-893	-6 835	-8 327
Change in scope	–	–	8	8
Currency translation effects	302	1 259	42	1 603
Reclassification & others	–	–	-970	-970
As of January 1, 2012	**23 018**	**112 977**	**13 487**	**149 482**
Additions	52	10 357	1 532	11 941
Disposals and retirements	–	–	-1 952	-1 952
Transfer to Investment Property	-295	-2 403	–	-2 698
Currency translation effects	-186	-838	-119	-1 143
Reclassification & others	–	-317	288	-29
As of December 31, 2012	**22 589**	**119 776**	**13 236**	**155 601**
Accumulated depreciation and impairment				
As of January 1, 2011	**–**	**-30 506**	**-14 629**	**-45 135**
Systematic depreciation	–	-4 015	-2 203	-6 218
Impairment	–	–	-244	-244
Disposals and retirements	–	186	6 830	7 016
Change in scope	–	–	-8	-8
Currency translation effects	–	245	-140	105
Reclassification & others	–	–	83	83
As of January 1, 2012	**–**	**-34 090**	**-10 311**	**-44 401**
Systematic depreciation	–	-3 992	-1 454	-5 446
Impairment	–	–	-927	-927
Disposals and retirements	–	1	1 867	1 868
Transfer to Investment Property	–	977	–	977
Currency translation effects	–	67	93	160
Reclassification & others	–	210	-210	–
As of December 31, 2012	**–**	**-36 827**	**-10 942**	**-47 769**
Net book values as of December 31, 2011	**23 018**	**78 887**	**3 176**	**105 081**
Net book values as of December 31, 2012	**22 589**	**82 949**	**2 294**	**107 832**
Useful life in years	Indefinite	10 – 50	4 – 8	

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

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

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
Gross values at cost			
As of January 1, 2011	**184 722**	**13 479**	**198 200**
Additions	21 687	1 997	23 684
Change in scope	-477	-147	-624
Disposals and retirements	-11 509	-843	-12 352
Currency translation effects	-878	-26	-904
Reclassification & others	126	844	970
As of January 1, 2012	**193 671**	**15 304**	**208 974**
Additions	13 319	1 321	14 640
Change in scope	-3 974	-827	-4 801
Disposals and retirements	-11 836	-1 328	-13 164
Currency translation effects	-814	-102	-916
Reclassification & others	1 434	-1 453	-19
As of December 31, 2012	**191 800**	**12 915**	**204 714**
Accumulated depreciation and impairment			
As of January 1, 2011	**-120 005**	**-9 292**	**-129 297**
Systematic depreciation	-28 107	-1 696	-29 803
Impairment	-483	-116	-599
Change in scope	471	142	613
Disposals and retirements	10 376	517	10 893
Currency translation effects	600	-24	576
Reclassification & others	-22	-62	-84
As of January 1, 2012	**-137 170**	**-10 531**	**-147 701**
Systematic depreciation	-23 493	-1 560	-25 053
Impairment	-1 181	-16	-1 197
Change in scope	2 270	450	2 720
Disposals and retirements	11 632	1 087	12 719
Currency translation effects	678	46	724
Reclassification & others	-1 167	1 167	–
As of December 31, 2012	**-148 431**	**-9 357**	**-157 788**
Net book values as of December 31, 2011	**56 501**	**4 773**	**61 273**
Net book values as of December 31, 2012	**43 369**	**3 558**	**46 926**
Useful life in years	2 – 10	4 – 7	

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

16. INTANGIBLE ASSETS

In CHF'000	Technology	Customer lists, Trademarks & Brands	Software	Goodwill	Other intangibles	Total
Gross values at cost						
As of January 1, 2011	**106 654**	**3 499**	**58 406**	**135 546**	**404**	**304 509**
Additions	13 438	–	6 780	–	–	20 218
Disposals and retirements	-5 742	–	-395	–	–	-6 137
Change in scope	322	–	-154	–	–	168
Currency translation effects	-609	-32	-311	219	–	-733
As of January 1, 2012	**114 063**	**3 467**	**64 326**	**135 765**	**404**	**318 025**
Additions	8 578	–	3 038	–	38	11 654
Disposals and retirements	-12 512	–	-2 861	–	-2	-15 375
Change in scope	-5 834	-27	-37	–	-38	-5 936
Currency translation effects	-648	-44	-271	-3 282	-2	-4 247
Reclassification & others	-3 145	–	3 193	–	–	48
As of December 31, 2012	**100 502**	**3 396**	**67 388**	**132 483**	**400**	**304 169**
Accumulated depreciation and impairment						
As of January 1, 2011	**-45 588**	**-1 930**	**-33 079**	**–**	**-401**	**-80 998**
Systematic amortization	-12 599	-462	-12 729	–	–	-25 790
Impairment	-2 234	–	-672	–	–	-2 906
Change in scope	–	–	153	–	–	153
Recovery of amortization on disposal and retirements	5 611	-4	129	–	–	5 736
Currency translation effects	231	–	262	–	–	493
As of January 1, 2012	**-54 579**	**-2 396**	**-45 936**	**–**	**-401**	**-103 312**
Systematic amortization	-15 326	-211	-11 817	–	–	-27 354
Impairment	-3 097	–	-570	–	–	-3 667
Change in scope	2 568	27	29	–	–	2 624
Recovery of amortization on disposal and retirements	12 512	–	2 575	–	–	15 087
Currency translation effects	399	40	180	–	1	620
As of December 31, 2012	**-57 523**	**-2 540**	**-55 539**	**–**	**-400**	**-116 002**
Net book values as of December 31, 2011	**59 484**	**1 071**	**18 390**	**135 765**	**3**	**214 713**
Net book values as of December 31, 2012	**42 979**	**856**	**11 849**	**132 483**	**–**	**188 167**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

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

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

Integrated Digital Television

Comparatives information only includes the former Middleware & Advertising segment information. There is no comparative information available for the Digital Television Solutions segment. The 2012 Integrated Digital Television Goodwill value in use has been determined based on a value in use calculation which uses cash flow projections approved by the Group management covering a five-year period and a discount rate of 9.5 % (2011: 10.0% used for former Middleware and Advertising). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 2.0% (2011: 2.5% used for former Middleware and Advertising) per annum growth. Revenue assumptions for the five-year plan were generated from existing products and existing customers and newly launched activities. Key assumptions reflect management best knowledge of the market, business evolution and past experience.

In 2012, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity, loss of key customers representing approximately 10% of recurring revenue. Based on such analyses and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. INVESTMENT PROPERTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

18. INVESTMENTS IN ASSOCIATES

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

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

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

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

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

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

The Group's share of profit in 2011 includes a loss on the sale of the 49% stake in Resort Technology Partners LLC of kCHF 863.

19. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2012	31.12.2011
Deferred tax assets	56 018	56 465
Deferred tax liabilities	-4 385	-5 545
	51 633	**50 920**

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

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

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

In CHF'000	At January 1, 2012	Income statement effect	Currency translation effects	At December 31, 2012
Deferred tax assets associated with				
- intangibles	24 247	2 618	1	26 866
- employee benefits	7 053	511	-9	7 555
- tax losses	21 730	-6 126	-18	15 586
- provisions and other elements tax deductible when paid	1 117	2 985	-63	4 039
- inter-company profit elimination	2 846	-443	-99	2 304
- others	-54	-29	-1	-84
Total deferred tax assets (gross)	**56 939**	**-484**	**-189**	**56 266**
Deferred tax liabilities associated with				
- affiliates and allowances for Group companies	-4 159	21	2	-4 136
- provisions & accelerated tax depreciation	-1 655	1 157	8	-490
- others	-205	195	3	-7
Total deferred tax liabilities (gross)	**-6 019**	**1 373**	**13**	**-4 633**
Net deferred tax asset/(liability)	**50 920**	**889**	**-176**	**51 633**

And for the past year:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 847.5 million (2011: CHF 795.9 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 247.7 million (2011: CHF 251.3 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 599.8 million (2011: CHF 544.6 million) due to the unpredictability of future profits streams. The amount of unused tax losses carry forward which has not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2012	2011
Expiration within:		
One year	4.6	–
Two years	9.6	4.6
Three years	90.2	6.7
Four years	15.9	64.5
Five years	5.7	14.6
More than five years	473.8	454.2
Total	**599.8**	**544.6**

20. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

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

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be measured reliably that are measured at cost net of impairment for kCHF 4 523 (2011: kCHF 4 523) and marketable securities for kCHF 295 (2011: kCHF 245) which have a maturity exceeding twelve months. Third party and related party loans are measured at amortized cost. The 2012 and 2011 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity that has been discounted using a 9.3% rate. The effective interest rate on third party loans is 3.11% (2011: 2.49%). Others mainly consist of guarantee deposits.

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

21. INVENTORIES

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

The cost of inventories recognised as an expense includes kCHF 622 (2011: kCHF 2 282) in respect of write-downs of inventories and has been reduced by kCHF 1 781 (2011: kCHF 386) in respect of the reversal of such write-down.
Changes in inventories of finished goods and work in progress included in cost of material are kCHF -12 555 (2011: kCHF 411).

22. TRADE ACCOUNTS RECEIVABLE

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

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

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

In CHF'000	2012	2011
January 1	**-27 885**	**-24 384**
Provision for impairment charged to income statement	-3 558	-7 943
Utilization	4 302	1 698
Reversal	10 011	3 045
Change in scope	–	14
Translation effects	-505	-315
December 31	**-17 635**	**-27 885**

The creation and release of provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -3 558 (2011: kCHF -7 943). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

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

In CHF'000	31.12.2012	31.12.2011
Not overdue	121 617	144 549
Past due and not impaired:		
- not more than one month	29 201	30 039
- more than one month and not more than three months	16 053	22 171
- more than three months and not more than six months	10 465	11 485
- more than six months and not more than one year	7 482	5 387
- more than one year	5 122	6 291
Total trade accounts receivable, net	**189 940**	**219 922**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

23. OTHER CURRENT ASSETS

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

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

24. FINANCIAL ASSETS

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

25. CASH AND CASH EQUIVALENTS

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

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

26. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

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

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

AUTHORIZED SHARE CAPITAL

In CHF'000	2012	2011
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 15, 2014, for the purpose of financing the full or partial acquisition of other companies

CONDITIONAL SHARE CAPITAL

In CHF'000	2012	2011
Conditional share capital as of January 1	107 639	107 755
Employee share purchase plan	-337	-116
Shares allotted to employees	-1 986	–
Conditional share capital as of December 31	**105 316**	**107 639**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
531'601 / 763'924 bearer shares, at CHF 10 each	5 316	7 639
	105 316	**107 639**

27. TREASURY SHARES

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

28. LONG TERM FINANCIAL DEBT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

29. LONG TERM BANK LOANS

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

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

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

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

30. BOND 2011/2016

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016 with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounted to kCHF 110 312 less issuance costs of kCHF 1 786 totaling an initial net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%. The bond is recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2012	2011
Initial balance / Net proceed of bond issuance	**108 659**	**108 526**
Amortization of transaction costs less premium	253	133
Liability component as of December 31	**108 912**	**108 659**

31. EMPLOYEE BENEFITS LIABILITIES

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

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

Plan assets have been estimated at fair market values. Liabilities have been calculated according to the “Projected Unit Credit” method.

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

In CHF'000	31.12.2012	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Fair value of plan assets	115 075	98 732	105 664	95 089	75 443
Defined benefit obligation	-175 308	-149 230	-164 785	-129 496	-111 687
Funded status	**-60 233**	**-50 498**	**-59 121**	**-34 407**	**-36 244**
Unrecognized gains/(losses)	-25 242	-18 090	-31 336	-9 338	-14 537
Unrecognized prior service cost	24	-22	-48	–	–
Accrued pension cost	**-35 015**	**-32 386**	**-27 785**	**-25 069**	**-21 707**

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

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

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

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

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

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

A. Change in defined benefit obligation

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

B. Change in fair value of plan assets

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

C. Change in unrecognized gains/(losses)

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

D. Change in Unrecognized prior service cost

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

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

are as follows:

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

32. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

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

Restructuring provisions

Following the Group restructuring plan announced late 2011, provisions for restructuring have been recognised in the 2012 and 2011 accounts. Restructuring provisions also include lease termination considered as onerous contract.

Legal fee and litigations

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for legal fee and lawsuit are valued according to the best management estimate principle.
On March 2012, the Group paid kCHF 7 574 to settle a litigation. The 2011 financial statements included a provision for kCHF 8 460 to cover the risk, hence an amount of kchf 886 has been released in the income statement.

Provision for warranty

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

33. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

34. SHORT TERM FINANCIAL DEBT

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

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

35. CONVERTIBLE BOND 2005/2012

On October 5, 2005, Kudelski Financial Services Holding SCA issued a CHF 350 000 000 unsubordinated convertible bond due 2012, convertible into bearer shares of Kudelski SA. This bond has a denomination of CHF 5 000 nominal amount with an initial conversion price of CHF 67.76 per bearer shares of Kudelski SA with a nominal value of CHF 10. Bondholders may request conversion at any time from January 1, 2006 until September 12, 2012. The bond is callable at par value after October 5, 2010, subject to a 110% provisional call hurdle. The bond has been redeemed at par value on October 5, 2012. Interest expense on the liability component of the bond is calculated on the effective yield basis using an effective rate of 3.2%.

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

In CHF'000	2012	2011
Face value of convertible bond issued on October 5, 2005	**350 000**	**350 000**
Transactions costs	-5 719	-5 719
Equity conversion component	-34 087	-34 087
Liability component on initial recognition on October 5, 2005	**310 194**	**310 194**
Cumulative Interest expense as of January 1	36 375	30 355
Interest expense for the year	9 119	11 708
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	–	-1 343
Repayment	-350 000	–
Liability component as of December 31	**–**	**345 226**

Transaction costs amounted to kCHF 6 337 of which kCHF 618 were allocated to the equity component of the convertible bond.

The above interest expense includes the following:

In CHF'000	2012	2011
Base interest (1.625%)	4 345	5 688
Allocation of the equity conversion component	4 150	5 203
Effective interest expense (effective yield rate of 3.2%)	**8 495**	**10 891**
Allocation of transaction costs	624	817
Interest expense	**9 119**	**11 708**

36. TRADE ACCOUNTS PAYABLE

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

37. OTHER CURRENT LIABILITIES

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

38. ADVANCES RECEIVED FROM CLIENTS

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

39. DERIVATIVE FINANCIAL INSTRUMENTS

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

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. Liabilities in connection with currency related instruments are classified as held-for-trading. Interest related instruments qualify as cash flow hedge. The contractual maturity date of all the currency related instruments is less than one year while the interest related instruments have concomitant maturities with underlying loan agreements. The undiscounted planned cash inflow and outflow in connection with currency related instruments are kCHF 0 and kCHF 0 respectively (2011: kCHF 26 781 and kCHF 29 321).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

40. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

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

41. PRINCIPAL SHAREHOLDERS

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

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

42. RESEARCH AND DEVELOPMENT

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

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

43. DIVIDEND

The ordinary dividend paid in 2012 was kCHF 5 359 (2011: kCHF 16 011) which corresponds to a dividend of CHF 0.10 (2011: CHF 0.30) per bearer share and CHF 0.01 (2011: CHF 0.03) per registered share.
For the current year, the Board of Directors proposes a distribution of CHF 0.20 per bearer share and CHF 0.02 per registered share. The distribution to be paid is kCHF 10 722 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital. The proposal of the Board of Directors is to pay CHF 0.15 distribution out of Capital contribution reserve and CHF 0.05 distribution out of retained earnings per bearer share (CHF 0.015 and CHF 0.005 per registred share respectively) and is subject to the approval of shareholders at the Annual General Meeting. It has not been included as a liability in these financial statements.

44. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

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

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

The following table summarizes the options part of this plan:

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

SHARES ISSUED FOR EMPLOYEES

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

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION OF OPENTV CORP

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

In 2011, following the departure of employees, 8 668 shares did and will not vest and were transferred to Kudelski SA while 5 584 shares vested and were transferred to the employees. In 2012, 1 250 shares vested and were transferred to the employees. The expense of kCHF 17 (2011: kCHF 46) is charged to the income statement according to the vesting conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

45. RELATED PARTIES

Trading transactions

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

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

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

In December 2011, Audio Technology Switzerland acquired the audio business carved out from Kudelski. Audio Technology Switzerland is considered as a related party as Kudelski Board members and Executives invested in the company. The amount owed by such related party corresponds to the amortized cost value of inventory and fixed assets transfered. An independent third-party assessment identified a price range: the transaction price lies within such range. Polyright SA and Nagra Thomson Licensing were former joint ventures and were disposed of in 2011.

Key management compensation

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

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

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

46. COMPENSATION, SHAREHOLDINGS AND LOANS

This note provides with information required by article 663 b bis of the Swiss Code of Obligations. In implementing the new Group strategy, Group Executive Management has been simplified to better focus on Integrated Digital Television activities. From January 1st, 2012, the Group Executive Management consists of André Kudelski, Mauro Saladini, Pierre Roy and Alex Osadzinski.
Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2012 and 2011 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Other CHF	Total 2012 CHF
Board of Directors					
Kudelski André, chairman	551 000	–	–	–	551 000
Smadja Claude, vice chairman	100 000	–	–	–	100 000
Bucher Norbert, member	50 000	–	–	–	50 000
Dassault Laurent, member	40 000	–	–	–	40 000
Deiss Joseph, member	40 000	–	–	–	40 000
Foetisch Patrick, member	50 000	–	–	190 563	240 563
Kudelski Marguerite, member	50 000	–	–	–	50 000
Lescure Pierre, member	120 000	–	–	–	120 000
Zeller Alexandre, member	50 000	–	–	–	50 000
Total board members	**1 051 000**	**–**	**–**	**190 563**	**1 241 563**
Management					
Kudelski André, CEO	563 500	3 083 000	80 000	31 257	4 200 957
Other management members	1 529 865	1 248 069	50 502	67 739	3 193 876
Total Management	**2 093 365**	**4 331 069**	**130 502**	**98 996**	**7 394 833**
Former board members					
Kudelski Stefan, founder and honorary Chairman	205 020	–	–	–	205 020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

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

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

At December 31, 2012 and 2011, no guarantees, loans, advances or borrowings in favor of members of the Board of Directors and members of the management or parties closely related to such persons were granted.

As of December 31, 2012, the members of the Board of Directors and members of the management had following interest in the company (without including shares from 2012 variable compensation - issued in 2013):

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

Convertible bond is disclosed in CHF nominal value.

And for 2011:

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

At December 31, 2012 and 2011, Marguerite Kudelski together with another family member as well as their respective descendants are the beneficial owners, through a common investment structure, of 3 000 000 Kudelski SA bearer shares, which represent 3.2% of the company's voting rights. Options existing in 2011 were granted as part of the ESPP (see note 44).

47. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

48. CATEGORIES OF FINANCIAL INSTRUMENTS

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

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

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

And for 2011:

Assets as per balance sheet date December 31, 2011 (in CHF'000)	Note	Derivatives used for hedging	Available-for-sale	Loans and receivables	Total 31.12.2011
Financial assets and non current assets:					
- equity instruments with no quoted market price	20		4 523		4 523
- marketable securities	20		245		245
- long term loans	20			8 906	8 906
- guarantee deposits	20			4 634	4 634
Trade accounts receivable	22			219 922	219 922
Other current assets:					
- Loans	23			1 253	1 253
Cash and cash equivalents	25			289 591	289 591
		–	4 768	524 306	529 074

Liabilities as per balance sheet date December 31, 2011 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2011
Long term financial debt	28			129 953	129 953
Short term financial debt	34			383 376	383 376
Trade accounts payable	36			54 196	54 196
Other payables	37			13 204	13 204
Derivative financial instruments (short and long term)	39	1 092	2 540		3 632
		1 092	2 540	580 729	584 361

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In CHF'000	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Financial liabilities				
- CHF 350 million unsubordinated convertible bond	–	–	345 226	349 514
- CHF 110 million bond	108 912	113 025	108 659	107 287

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

50. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

In CHF'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2 012	2 011	2 012	2 011	2 012	2 011	2 012	2 011	2 012	2 011
Convertible bond	–	355 688	–	–	–	–	–	-10 462	–	345 226
Bond	3 300	3 300	119 900	123 200	–	–	-14 288	-17 841	108 912	108 659
Long term bank loans	1 621	498	88 111	22 924	–		-3 988	-2 128	85 744	21 294
Long term loans – third parties	–	–	–	–	–	–	–	–	–	–
Short term financial debt	74 083	38 352						-202	74 083	38 150
Trade accounts payable	40 073	54 196							40 073	54 196
Other payables	10 655	13 204							10 655	13 204
Total	**129 732**	**465 238**	**208 011**	**146 124**	**–**	**–**	**-18 276**	**-30 633**	**319 467**	**580 729**

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

51. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% (2011: 15%) increase and decrease to the USD and a 5% (2011: 15%) increase or decrease to the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a here above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit where the foreign currency strengthens against the relevant currency.

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

Interest rates

The sensitivity analysis below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates have been selected in order to report the sensitivity analysis corresponding to the treasury which represent management's assessment of the reasonably possible change in interest rates:
- USD: increase of 150 basis points and decrease of 40 basis points (2011: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2011: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 25 basis points (2011: 100 basis points increase or 50 decrease)

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:
- post-tax profit for the year ended December 31, 2012 would decrease by kCHF 346 and increase by kCHF 100 (2011: increase by kCHF 2 332 /decrease by kCHF 415). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 388 and decrease by kCHF 101 (2011: increase by kCHF 399 / decrease by 129). The other comprehensive income impact is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting.

Equity prices

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

52. COLLATERAL RECEIVED AND GIVEN

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

53. RISK CONCENTRATION

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

54. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2012 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

55. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow-to-net financial debt ratio as at 31 December 2012 was 69.6% (2011: 38.7%).

56. PRINCIPAL CURRENCY TRANSLATION RATES

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

57. APPROVAL OF FINANCIAL STATEMENTS

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

58. PRINCIPAL OPERATING COMPANIES

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

These principal companies are all subsidiaries.

59. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

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

Global risk management

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

Financial Risk Management

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 64 to 112), for the year ended 31 December 2012.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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

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

PricewaterhouseCoopers SA

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

Lausanne, February 27, 2013

BALANCE SHEETS AT DECEMBER 31, 2012 AND 2011

ASSETS

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

SHAREHOLDERS' EQUITY AND LIABILITIES

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

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

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

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

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2012

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

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2012 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital.

NOTES TO THE FINANCIAL STATEMENTS 2012

1. GENERAL COMMENTS

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

FINANCIAL FIXED ASSETS

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

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

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

TREASURY SHARES

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

NOTES TO THE FINANCIAL STATEMENTS 2012

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2012	2011
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	12 000	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	UK – St. Albans	No activity	kGBP	1	100	100
Nagravision GmbH	DE – Hildesheim	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	1 010	100	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	kCHF	1 000	100	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Abilis Systems Sàrl	CH – Plan-les-Ouates	Research & development for mobile phones	kCHF	20	0	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Software integration	kEUR	25	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	50	50
Nagravision India Pvt Ltd (former En-Media Software Technologies Pvt Ltd)	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Holding	kUSD	5 270	100	100
OpenTV UK Ltd	UK – London	No activity	kGBP	100	100	100
OpenTV GmbH (Switzerland)	CH - Stans	Sales	CHF	100	M	100
OpenTV Netherlands B.V.	NL - Amsterdam	Sales and support	kEUR	18	100	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100

M = merged company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

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

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

3.3 CASH AND CASH EQUIVALENTS

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

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contri-bution reserve	Reserve for treasury shares	Available earnings	Total Sharehold-ers' equity
As of December 31, 2010	**533 683**	**84 122**	**–**	**489**	**394 900**	**1 013 194**
General reserve allocation		4 531			-4 531	–
Dividend					-16 011	-16 011
Share capital increase	115					115
Release of reserve for treasury shares			–	-163	163	–
Transfer of general legal reserve to capital contribution reserve		-43 304	43 304			–
Net loss					-25 930	-25 930
As of December 31, 2011	**533 798**	**45 349**	**43 304**	**326**	**348 591**	**971 368**
General reserve allocation		64 651			-64 651	–
Dividend			-5 359			-5 359
Share capital increase	2 324					2 324
Release of reserve for treasury shares				-36	36	–
Net Income					-21 186	-21 186
As of December 31, 2012	**536 122**	**110 000**	**37 945**	**290**	**262 790**	**947 147**

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

NOTES TO THE FINANCIAL STATEMENTS 2012

TREASURY SHARES

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

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

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

COMPOSITION OF SHARE CAPITAL

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

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

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2012	2011
Conditional share capital as of January 1	107 639	107 755
Employee share purchase plan	-337	-116
Exercise of options		–
Shares allotted to employees	-1 986	–
Conditional share capital at December 31	**105 316**	**107 639**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
531'601 / 763'924 bearer shares, at CHF 10 each	5 316	7 639
	105 316	**107 639**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2012	31.12.2011
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 15, 2014, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

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

3.5 BOND

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

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

3.6 BANK , LONG TERM BORROWINGS

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

NOTES TO THE FINANCIAL STATEMENTS 2012

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

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

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

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

4.3 ADMINISTRATIVE AND OTHER EXPENSES

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

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

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

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

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

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2012	31.12.2011
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	–	350 000
Commitment in favor of third parties	1 489	1 666
	1 489	**351 666**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

Kudelski SA, as the ultimate parent company of the Kudelski Group, is fully integrated into the Group-wide internal risk assessment process. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of Kudelski SA. Disclosure of the Group-wide risk assessment procedures are described in note 59 to the Group's consolidated financial statements.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 114 to 122), for the year ended 31 December 2012.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

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

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

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

pwc

PricewaterhouseCoopers SA

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

Lausanne, February 27, 2013

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Kudelski Group

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Desrochers communication

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