

Kudelski Group
Financial statements 2003

	Consolidated financial statements of Kudelski Group
4	Consolidated balance sheets at December 31, 2003 and 2002
6	Consolidated income statements for the years ended December 31, 2003 and 2002
7	Consolidated statements of cash flows for the years ended December 31, 2003 and 2002
8	Consolidated statements of changes in shareholders' equity in 2003 and 2002
10	Notes to the consolidated financial statements at December 31, 2003 and 2002
38	Report of the Group auditors
	Financial statements of Kudelski SA
42	Balance sheets at December 31, 2003 and 2002
44	Income statements for the years ended December 31, 2003 and 2002 and proposal for appropriation of available earnings for the year 2003
45	Notes to the financial statements at December 31, 2003 and 2002
52	Report of the statutory auditors

Consolidated financial statements of Kudelski Group
 Consolidated balance sheets at December 31, 2003 and 2002

Assets

	Notes	31.12.03	31.12.02
in kCHF			
Fixed assets			
Intangible fixed assets	3.1	34 915	22 733
Financial fixed assets	3.2	32 787	10 882
Tangible fixed assets			
Land and buildings	3.3	30 643	32 318
Fixtures and fittings	3.4	74 205	25 983
Total fixed assets		172 550	91 916
Current assets			
Inventories	3.5	41 209	49 107
Work in progress		8 731	8 981
Trade accounts receivable	3.6	157 328	212 836
Other receivables	3.7	49 103	33 662
Cash and cash equivalents	3.8	237 107	753 082
Total current assets		493 478	1 057 668
Total assets		666 028	1 149 584

Shareholders' equity and liabilities

	Notes	31.12.03	31.12.02
in kCHF			
Shareholders' equity			
Share capital		514 949	513 599
Share premium and reserves		-324 290	46 709
Total shareholders' equity, Group's interest		190 659	560 308
Minority interests			
Total shareholders' equity	3.9	205 853	580 910
Long-term liabilities			
Convertible bond	3.10	214 637	319 191
Provisions	3.11	22 342	22 548
Other long-term debt		22 157	10 852
Total long-term liabilities		259 136	352 591
Current liabilities			
Bank overdrafts		33 579	36 470
Trade accounts payable		68 448	101 283
Advances received from clients		10 436	9 377
Short-term provisions	3.12	9 465	21 900
Accrued liabilities and other payables	3.13	79 111	47 053
Total current liabilities		201 039	216 083
Total shareholders' equity and liabilities		666 028	1 149 584

Consolidated financial statements of Kudelski Group
Consolidated income statements for the years ended December 31,
2003 and 2002

	Notes	2003	2002
in kCHF			
Sales	4.1	391 426	384 666
Capitalization of developments, installations and capitalized systems	4.2	20 966	17 689
Total income		412 392	402 355
Cost of goods and components sold	4.3	-157 444	-152 322
Margin on goods and components sold		254 948	250 033
Salaries and wages	4.4	-131 154	-120 385
Operating expenses	4.5	-36 923	-39 956
Sales and administration costs	4.6	-47 267	-43 610
Non-recurring operating expenses (reorganization)	4.7	—	-22 535
Change in provisions		-7 375	-14 939
Operating income before interest, taxes, depreciation and amortization (OIBDA)		32 229	8 608
Depreciation and amortization		-21 923	-20 722
Impairment (reorganization)		-243	-19 908
Operating income (EBIT)		10 063	-32 022
Financial income	4.8	72 690	85 952
Financial expenses	4.9	-40 724	-42 246
Extraordinary income	4.10	—	3 606
Extraordinary expenses	4.10	-3 208	—
Net income before tax and minority interests		38 821	15 290
Income tax	4.11	-6 824	-2 271
Net income of the Group		31 997	13 019
Minority interests		1 170	-2 988
Net income		33 167	10 031
As a percentage of income			
Operating income		2%	-8%
Net income		8%	2%
Earnings per share (in CHF)			
Basic	4.12	0.65	0.20
Diluted	4.12	0.64	0.20

Consolidated statements of cash flows for the years ended
December 31, 2003 and 2002

	Notes	2003	2002
in kCHF			
Operating cash flow	5.1	41 337	47 371
Interest paid		-1 096	-13 446
Interest received		4 803	13 730
Tax paid		-5 698	-10 011
Net cash from operating activities		39 346	37 644
Net investment in intangible assets		-19 388	-23 850
Net investment in tangible assets		-57 835	-14 331
Net investment in financial assets		-23 370	-233
Acquisition/sale of subsidiaries, cash outflow/inflow	5.2	-366 748	480
Net cash used in investing activities		-467 341	-37 934
Change in long-term debt		-5 698	-7 491
Convertible bond issue net of issuance costs		—	545 522
Redemption of convertible bond		-54 371	-83 097
Interest paid on convertible bond		-6 319	-5 685
Payments from minority interests		200	—
Dividends paid to minority interests		-3 982	-1 000
Purchase of treasury shares		-380	—
Net cash used in/from financing activities		-70 550	448 249
Effect of exchange rate changes on cash and cash equivalents		-17 430	-110 734
Movement in cash and cash equivalents		-515 975	337 225
Cash and cash equivalents at January 1		753 082	415 857
Cash and cash equivalents at December 31		237 107	753 082
Movement in cash and cash equivalents		-515 975	337 225

Consolidated financial statements of Kudelski Group
 Consolidated statements of changes in shareholders' equity
 in 2003 and 2002

in kCHF	Notes	Share capital	Share premium	Other reserves	Treasury shares	Shareholders' equity		Minority interests	Shareholders' equity
						Goodwill	Group's interest		
At January 1, 2002		512 941	49 798	215 736	—	-217 545	560 930	19 921	580 851
Shares issued for employees		658					658		658
Change in scope of consolidation	5.2					770	770	1 855	2 625
Adjustment on goodwill at acquisition						7 456	7 456		7 456
Dividends paid to minority interests							—	-1 000	-1 000
Currency translation adjustment				-15 073			-15 073	-3 162	-18 235
Write down of financial fixed assets	3.2			-4 464			-4 464		-4 464
Net income				10 031			10 031	2 988	13 019
At December 31, 2002		513 599	49 798	206 230	—	-209 319	560 308	20 602	580 910
Shares issued for employees		746					746		746
Stock option plan for employees	3.10			2 720			2 720		2 720
Shares issued for acquisition of companies	5.2	604					604		604
Acquisition of treasury shares	3.10				-380		-380		-380
Change in scope of consolidation	5.2					-401 697	-401 697	1,096	-400 601
Dividends paid to minority interests							—	-3 982	-3 982
Currency translation adjustment				-11 059			-11 059	-1 352	-12 411
Transfer to income statement of the write down of financial fixed assets	3.2			6 250			6 250		6 250
Net income				33 167			33 167	-1 170	31 997
At December 31, 2003		514 949	49 798	237 308	-380	-611 016	190 659	15 194	205 853

Theoretical effect of the capitalization of goodwill

The total value of goodwill has been charged directly against reserves in conformity with the Group's policies.

Capitalization of goodwill over the defined periods would have resulted in an additional amortization of kCHF 8 617 in the income statement for 2003 (2002: kCHF 10 877) as well as an unscheduled amortization (impairment) of kCHF 0 (2002: kCHF 91 277), while shareholders' equity as well as the balance sheet total would have increased by kCHF 494 094 (2002: kCHF 101 015).

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

1. General comments and principles of consolidation

The consolidated financial statements for the years ended December 31, 2003 and 2002 are prepared in accordance with Swiss GAAP FER and give a true and fair view of the financial position and results of the Group.

The consolidated financial statements have been prepared under the historical cost convention and on an accrual basis. All companies integrated into the scope of consolidation have a December 31 accounting year.

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

Subsidiaries

All the companies in which Kudelski SA exercises an exclusive or majority control either directly or indirectly are consolidated according to the full consolidation method.

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

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

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

Joint-ventures

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

Associates

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

Scope of consolidation

Company	Location	Activity	Percentage held		Consolidation method	
			2003	2002	2003	2002
Kudelski SA	CH Cheseaux	Holding	—	—	—	—
Nagravision SA	CH Cheseaux	Digital TV and audio production	100	100	FC	FC
NagraCard SA	CH Cheseaux	Smart card prod. and sales	100	100	FC	FC
Nagra Public Access AG	CH Zoug	Holding in physical access	100	100	FC	FC
Nagra Trading SA	CH Cheseaux	No activity	100	100	FC	FC
Nagravision Iberica SL	ES Madrid	Digital TV sales and support	100	100	FC	FC
Nagra France Sàrl	FR Paris	Digital TV and audio production	100	100	FC	FC
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	100	100	FC	FC
Nagra Kudelski GmbH	DE Munich	Sales and support	100	100	FC	FC
Nagra USA, Inc.	US Nashville	Sales and support	100	100	FC	FC
NagraStar LLC	US Englewood	Smart cards and digital TV support	50	50	FC	FC
Nagra Plus	CH Cheseaux	Analog TV	50	50	FC	FC
Nagra-Futuris SA	CH Neuchâtel	Digital broadcast solutions	50	50	FC	FC
NagraID SA	CH Chaux-de-Fonds	Smart card production	100	100	FC	FC
Logiways	CH Cheseaux	Software solutions for digital TV	100	51	FC	FC
Logiways France SA (anc. Soft Technology SA)	FR Brive	Development and sale of software for digital TV	100	51	FC	FC
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	100	100	FC	FC
Kudelski Luxembourg Sàrl	LU Luxembourg	Finance	100	100	FC	FC
Kud Sàrl	LU Luxembourg	Finance	100	100	FC	FC
MediaCrypt AG	CH Zurich	Fundamental scrambling technology	50	50	FC	FC
SportAccess SA	CH Sion	Multifunction solutions	100	78	FC	FC
SportAccess Kudelski SA en liquidation	CH Sion	No activity	100	84	FC	FC
SportAccess Kudelski AG	AT Bregenz	No activity	100	84	FC	FC
Systems Ticketsysteme Vertriebs GmbH	DE Kaufbeuren	No activity	100	84	FC	FC
Systems Produktion AG	LI Mauren	No activity	L	84	—	FC
Systems Ticketing AG in Liquidation	CH Muri	No activity	100	84	FC	FC

(FC: Full consolidation)

(L : Liquidated)

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

Scope of consolidation

Company	Location	Activity	Percentage held		Consolidation method	
			2003	2002	2003	2002
Political Rights SA (Polirights) en liquidation	CH Genève	No activity	L	66	FC	FC
e-prica AG	CH Lyss	Smart cards in health sector	—	50	—	FC
Livewire Communications Inc.	US Gainesville	Software for set-top-boxes	100	100	FC	FC
Leman Consulting SA	CH Nyon	Intellectual property consulting	100	100	FC	FC
Ticketcorner AG	CH Rümlang	Event distribution and ticketing	100	100	FC	FC
Ticketcorner GmbH	DE Bad Homburg	Software development and ticketing	100	100	FC	FC
Lysis Trading SA	CH Lausanne	Sales	100	100	FC	FC
Lysis America Ltd	US Atlanta	Sales	100	100	FC	FC
Lysis UK Ltd	GB Londres	No activity	100	100	FC	FC
SkiData AG	AT Gartenau	Mixed holding physical access control	100	100	FC	FC
SkiData Benelux BV	NL Barendrecht	Physical access control	100	100	FC	FC
Lepanto Technologie AG	AT Gartenau	Physical access control	L	100	—	FC
SkiData Srl (Italie)	IT Bolzano	Physical access control	100	100	FC	FC
SkiData Scandinavia AB	SE Kil	Physical access control	100	100	FC	FC
SkiData (Schweiz) AG	CH Diepoldsau	Physical access control	100	100	FC	FC
SkiData Computer GmbH	DE Landshut	Physical access control	100	100	FC	FC
SkiData France Sàrl	FR Argenteuil	Physical access control	100	100	FC	FC
SkiData France SA	FR Montmélian	Physical access control	100	100	FC	FC
Medatec Computer GmbH	AT Hard	Physical access control	85	85	FC	FC
SkiData Inc.	US Hillsborough	Physical access control	100	100	FC	FC
SkiData Nippon Co. Ltd	JP Tokyo	Physical access control	100	100	FC	FC
Nagra France Holding SAS	FR Paris	Holding	100	—	FC	—
Canal+ Technologies SA	FR Paris	Intellectual property management	50	—	FC	—
TouristDataShop SA	CH Ollon	Tourism broker	50	—	FC	—
Labitzke Schaffner AG	CH Adliswil	Car park access control	100	—	FC	—
Access Arena AG	CH Rümlang	Destination management	90	41	FC	EM

(FC: Full consolidation)
(EM: Equity method)
(L: Liquidated)

Scope of consolidation

Company	Location	Activity	Percentage held		Consolidation method	
			2003	2002	2003	2002
SwissAccessGroup AG in Liquidation	CH Saint-Gall	Ticketing and access control for Expo.02	25	25	EM	EM
Digital Elektronik GmbH	AT Gartenau	Physical access control	25	25	EM	EM
APT-SkiData Limited	GB Middlesex	Physical access control	26	26	EM	EM
SkiData Parking Systems Ltd	HK Hong Kong	Physical access control	26	26	EM	EM
Kabushiki Kaisha Skidata	JP Tokyo	Physical access control	25	25	EM	EM

(EM: Equity method)

In addition to the companies in the scope of consolidation, Kudelski SA also has a 100% interest in Nagra Travel Sàrl, which according to the materiality principle is not consolidated, as well as minority insignificant investments in different companies.

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2003 and 2002

Changes in the scope of consolidation

During the financial year 2003 the main change in the scope of consolidation concerned the "MediaGuard" transaction:

- Under the terms of this transaction, Kudelski Group acquired from Thomson Group 50% of Canal+ Technologies, Paris, a company, which now focuses on intellectual property management. Nagra France Sàrl acquired the implementation and development activities for digital television security systems of Canal+ Technologies (the "MediaGuard" product line) through an asset deal. For this acquisition a new holding company was formed named Nagra France Holding SAS, Paris, which is fully owned by Kudelski Group. These companies were integrated in the scope of consolidation from December 31, 2003, therefore this acquisition has no effect on the income statement for 2003.

The scope of consolidation also changed as follows in 2003:

In 2003 the Group acquired the remaining balance of the minority interests in the following companies, bringing its share up to 100%:

- Logiways, Cheseaux and Logiways France SA (formerly Soft Technology SA), Paris, with effect from September 30, 2003. It formerly had a 51% share.
- SportAccess SA, Sion: share exchange offer with effect on August 25, 2003 (note 3.9). The Group formerly had a 78% share. Through this purchase, the Kudelski Group also holds 100% of the share capital of SportAccess Kudelski SA in liquidation, Sion, SportAccess Kudelski AG, Bregenz, as well as the subsidiaries of the Systems ticketing group, whose share was formerly 84%.

The acquisition of the remaining balance of minority interests of the above companies only has an effect on the minority interests and shareholders' equity (goodwill) of the Group, because these companies had already been consolidated under the full consolidation principle.

In addition, the Group acquired 100% of the share capital of Labitzke Schaffner AG, Adliswil, a company involved in the installation and servicing of car park systems, with effect on December 31, 2003, as well as 50% of TouristDataShop SA, Ollon, a company which operates a reservation system for hotel rooms using the internet, with effect on September 1, 2003.

The Group also increased its share in AccessArena AG, Rümlang, with effect on September 30, 2003, bringing it up to 90% (from 41% in 2002).

The partner in the company e-prica AG, Lyss, bought the Group's share with effect on January 1, 2003.

The companies Lepanto Technologies AG, Gartenau, Political rights SA (Polirights) in liquidation and Systems Produktion AG left the scope of consolidation on December 31, 2003, following their liquidation.

In 2002 the scope of consolidation was modified as follows:

- Kudelski Financial Services Holding SCA, Kudelski Luxembourg Sàrl and Kud Sàrl, all based in Luxembourg, were established in January 2002. These entities were created within the framework of the convertible bond issue. Kudelski Financial Services Holding SCA is also the issuing company of this convertible bond. They are all 100% subsidiaries.
- TicketCorner GmbH, Bad Homburg is a company established in June 2002 and a 100% subsidiary of TicketCorner SA. This company is active in the development of software and the sale of ticketing in Germany.

- The companies Logiways, Cheseaux et Soft Technology SA, Brive, are 51% owned. These companies develop and market complete real-time software solutions in the field of digital television as well as software testing tools in the same field.

- Nagra Public Access AG, Zoug, created in December 2002, is a 100% subsidiary. This holding company groups together the entities that are active in the field of public access.

The scope of consolidation has also changed due to the mergers between NagraID and Thermoplex F. Droz SA and between Nagravision SA, Lysis International SA and Lysis SA.

Nagra Italia SRL, Précision Electronique Precel SA and Lysis Asia Pte Ltd left the scope of the Group on 31 December 2002.

Consolidation of capital Treatment of goodwill

The book value of investments has been eliminated against the share in the net assets of the companies, valued at the time of acquisition or creation. The purchase method is applied.

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

In accordance with Swiss GAAP FER 9 relating to financial statement disclosures, information on the theoretical effect on the balance sheet and the income statement of the goodwill as an asset and its amortization over the specified period of use is explained in the footnote to the statements of changes in shareholders' equity.

Foreign currencies

Translation of financial statements

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

Foreign currency transactions

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

Exchange rates	Average rate		Year-end rate	
	2003	2002	2003	2002
1 USD	1.34	1.56	1.24	1.39
1 GBP	2.20	2.33	2.21	2.23
1 EUR	1.52	1.47	1.56	1.46
100 JPY	1.16	1.24	1.16	1.17
100 SEK	16.70	16.00	17.20	15.90

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

2. Accounting policies and valuation methods

Intangible fixed assets

New developments created by the Group comprise the internal costs directly attributable to them and are capitalized where it is likely that they will generate future economic benefit.

Amortization is calculated on a straight-line basis over a useful life of 4 to 5 years from the date on which the development in a solution sold to clients is first invoiced.

Patents and software are capitalized at acquisition costs. Amortization is calculated on a straight-line basis over the estimated useful life of 4 to 8 years.

Goodwill is booked directly against shareholders' equity on the date of acquisition and the theoretical effects of accounting for goodwill as an asset are mentioned in the notes to the financial statement. The theoretical amortization period of goodwill is defined at the time of acquisition and generally varies between 10 and 20 years. A value adjustment test (impairment) is also performed in accordance with the Swiss GAAP FER 20 standard.

Financial fixed assets

The financial fixed assets primarily comprise long-term loans as well as other financial instruments such as equity interests and investments in companies over which the Group exercises neither control nor a determining influence.

These financial investments are recorded at their acquisition value after allowing for valuation adjustments necessitated by particular circumstances.

Tangible fixed assets

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

The other tangible fixed assets are stated at acquisition cost. Depreciation is calculated on a straight-line basis over the useful life.

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

Other equipment

Office furniture and equipment	5 - 7
Vehicles	4

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 short and long-term liabilities. Rentals payable under operating leases are charged to the income statement as incurred.

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 valued at cost and disclosed in the balance sheet under fixtures and fittings.

These assets are depreciated over their economic life and the expense is disclosed under depreciation.

Inventories

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

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

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

Work in progress

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

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

Trade accounts receivable

Trade receivables are carried at anticipated realizable value.

An estimate is made on a regular basis for doubtful receivables. A provision is established to this end.

Cash and cash equivalents

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

Financial derivative instruments

The Group uses derivative financial instruments to manage the foreign exchange exposure related to the operational activities as well as to its policy of acquiring companies. As a general principle the Group does not enter into speculative derivative transactions.

The instruments used during the year include forward foreign exchange contracts; currency swaps as well as zero cost option strategies with terms not exceeding six months. The derivative financial instruments are mainly utilized to cover the currency exposure of existing and anticipated receivables or payables in foreign currency.

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

Consolidated financial statements of Kudelski Group

Notes to the consolidated financial statements at December 31, 2003 and 2002

Convertible bond

The convertible bond is reported at its nominal value less issuing costs and after allowing for the reconstitution of the redemption value. The difference between the issue value and the redemption value as well as the costs of issue, are amortized over the term of the bond.

Provisions

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

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

Deferred taxes

Some restatements made to the statutory accounts in order to bring them into line with the accounting principles of the Group create temporary differences arising between the tax basis and the result stated for financial reporting purposes. These differences give rise to deferred taxes in the consolidated financial statements, which are recorded using the liability method based on the expected taxes at the time of the materialization of the debt or the liability. All changes in tax rate are accounted for in the income statement.

A deferred tax asset is recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized. The tax rate applied corresponds to the current tax rate of the company.

Pension scheme

The liability in respect of defined benefit pension plans is in all material cases the defined benefit obligation calculated annually by independent actuaries using the "projected unit credit method". The defined benefit obligation is measured at the present value of the estimated future cash flows. As permitted by Swiss GAAP FER, the Group has decided not to activate the surplus of the pension funds. The theoretical charge for such pension plans, representing the net periodic pension cost less employee contributions, is shown in note (3.15).

Sales

Sales comprise goods and services sold to third parties, net of sales taxes and discounts. The Group generates revenue from the sale of integrated hardware and software solutions in the field of pay TV and physical access. Sales of goods are recorded in the income statement upon transfer of risks and important advantages of ownership to the buyer. Revenues are recognized under the percentage of completion method for the solutions sold under license, including integration services and as well as software development.

The Group provides complete security solutions by making available assets, which nevertheless remain the property of the Group. These sales are recognized monthly on invoicing in the form of rental.

Employee stock option plan

Options granted to employees are subject to valuation at their fair value at grant date. This fair value is determined using the Black & Scholes model. The value of the options is charged against the income statement at grant date. A factor corresponding to the estimated turnover of staff who will be unable to exercise their options under the provisions of the plan has been allowed for.

The option plan put in place by the Group comprises options with vesting period of 3, 4 and 5 years and which may be exercised during a period of one year from the end of this vesting period.

Treasury shares

Treasury shares are valued at their acquisition cost and are reported in deduction of shareholders' equity.

Deferred consideration within the scope of acquisitions

When some companies were bought, the final purchase consideration depended on the future financial performance of the company ("earn out"). The liability is determined according to the best management estimate of the future performance.

These deferred considerations are reported under current and long-term liabilities according to their terms.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

3. Notes to the consolidated balance sheet

3.1 Intangible fixed assets

	Know-how	Development of new products	Patents, software and other	Years ended December 31	
				2003	2002
in kCHF					
Gross values at January 1	5 000	47 152	17 371	69 523	71 928
Additions	—	10 865	8 943	19 808	23 850
Disposals and retirements	—	—	-420	-420	-27 092
Change in scope of consolidation	—	—	203	203	—
Currency translation and other adjustments	—	25	187	212	837
At December 31	5 000	58 042	26 284	89 326	69 523
Accumulated amortization at January 1	5 000	34 954	6 836	46 790	47 171
Systematic amortization	—	3 024	4 682	7 706	7 290
Impairment	—	57	—	57	19 152
Recovery of amortization on disposals and retirements	—	—	-382	-382	-27 092
Change in scope of consolidation	—	—	—	—	—
Currency translation and other adjustments	—	2	238	240	269
At December 31	5 000	38 037	11 374	54 411	46 790
Net values at December 31	—	20 005	14 910	34 915	22 733
Useful life in years		4-5	4-8		

The 2002 impairment relates to developments of new capitalized products for which a decision was taken in the restructuring process that the resources required to bring these projects to completion would not be made available.

3.2 Financial fixed assets

	31.12.03	31.12.02
in kCHF		
Investment (Swiss International Air Lines Ltd)	—	3 750
Associates	5 119	4 693
Non-consolidated investments	16 772	379
Loans	2 815	1 510
Guarantee deposit	7 546	—
Other financial fixed assets	535	550
	32 787	10 882

In 2001 the Group participated to the share capital increase of Swiss International Air Lines Ltd for an amount of kCHF 10 000. A total of kCHF 6 250, representing valuation adjustments of kCHF 4 464 in 2002 and kCHF 1 786 in 2001, was charged against shareholders' equity. An integral impairment has been established under this heading for the financial year under report; the total charged against shareholders' equity were brought against the income statement. The valuation adjustment charged to the financial year 2003 is thus kCHF 10 000.

The non-consolidated investments primarily include an investment in the company IndusInd Media & Communication Ltd, India. The Group has a share of about 3% in this company.

The guarantee deposit was used at the beginning of 2004 as part of a settlement with the plaintiff in litigation in the United States.

3.3 Land and buildings

	Land	Buildings	Building improvements	Years ended December 31	
				2003	2002
in kCHF					
Gross values at January 1	9 806	29 296	8 814	47 916	48 964
Additions	—	1 343	620	1 963	1 973
Disposals and retirements	—	—	-808	-808	-1 197
Change in scope of consolidation	—	—	—	—	-1 834
Currency translation and other adjustments	1	659	-3	657	10
At December 31	9 807	31 298	8 623	49 728	47 916
Accumulated depreciation at January 1	—	10 158	5 440	15 598	13 342
Systematic depreciation	—	2 082	1 784	3 866	2 783
Impairment	—	—	—	—	730
Recovery of depreciation on disposals and retirements	—	—	-808	-808	-857
Change in scope of consolidation	—	—	—	—	-136
Currency translation and other adjustments	—	433	-4	429	-264
At December 31	—	12 673	6 412	19 085	15 598
Net values at December 31	9 807	18 625	2 211	30 643	32 318
Useful life in years		20-33	4-8		

Leased land and buildings included in the table above amount to:

	31.12.03	31.12.02
in kCHF		
Leased land and buildings	8 794	8 230
Accumulated depreciation	-6 018	-5 212
Net book value	2 776	3 018
Fire insurance value of buildings	50 343	49 527
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 362	4 437

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

3.4 Fixtures and fittings

Years ended December 31 in kCHF	Technical equipment and machinery		2003	2002
	Technical equipment and machinery	Other equipment		
Gross values at January 1	57 905	8 633	66 538	58 896
Additions	57 553	308	57 861	14 025
Disposals and retirements	-1 056	-125	-1 181	-3 065
Change in scope of consolidation	3 215	5	3 220	-2 548
Currency translation and other adjustments	330	-107	223	-770
At December 31	117 947	8 714	126 661	66 538
Accumulated depreciation at January 1	36 057	4 498	40 555	34 618
Systematic depreciation	11 397	1 282	12 679	10 797
Impairment	186	—	186	—
Recovery of depreciation on disposals and retirements	-1 056	-82	-1 138	-2 236
Change in scope of consolidation	-351	-28	-379	-1 809
Currency translation and other adjustments	600	-47	553	-815
At December 31	46 833	5 623	52 456	40 555
Net values at December 31	71 114	3 091	74 205	25 983
Useful life in years	2-10	4-7		

The technical equipment and machinery comprise assets made available to clients and generating monthly revenue.

Fire insurance value	31.12.03	31.12.02
in kCHF		
Fixtures and fittings	46 242	30 686

3.5 Inventories

	31.12.03	31.12.02
in kCHF		
Raw materials and components	10 130	13 947
Devices in production	3 963	5 247
Finished goods, smart cards and digital material	37 164	38 717
	51 257	57 911
Less: Amortization	-10 048	-8 804
	41 209	49 107

3.6 Trade accounts receivable

	31.12.03	31.12.02
in kCHF		
Trade accounts receivable	180 541	239 730
./. provision for bad debts	-23 213	-26 894
	157 328	212 836

3.7 Other receivables

	31.12.03	31.12.02
in kCHF		
Other receivables	18 779	12 448
Accruals	18 738	7 220
Deferred tax asset	11 586	13 994
	49 103	33 662

The other receivables primarily comprise kCHF 6 314 in withholding tax relating to the transfer of companies. This amount was fully recovered at the start of the financial year 2004.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

3.8 Cash and cash equivalents

	31.12.03	31.12.02
in kCHF		
Cash at bank and in hand	98 360	72 367
Short-term deposits	138 747	680 715
	237 107	753 082

Derivative financial instruments

The following table presents the contract or notional amount and the carrying values of derivative financial instruments at December 31, 2003 and 2002, analyzed by contract type. The contract or notional amount shows the volume of the underlying transaction at the balance sheet date and not the total amount exposed to the risk. The carrying value shows the profit or loss, which these contracts could generate at the expiration date on the basis of the market value at December 31, 2003 and 2002.

Year ended December 31	Forwards and swaps		Options	2003	2002
in kCHF					
Contract notional amount	21 837	77 080		98 917	97 023
Positive replacement value	—	2 680		2 680	3 196
Negative replacement value	-261	—		-261	—
Carrying value of assets (liabilities)	-261	2 680		2 419	3 196

3.9 Shareholders' equity

Composition of share capital

	31.12.03	31.12.02
in kCHF		
46 864 936 / 46 729 868 bearer shares of CHF 10 each	468 649	467 299
46 300 000 / 46 300 000 registered shares of CHF 1 each	46 300	46 300
	514 949	513 599

Conditional share capital

	2003	2002
in kCHF		
Conditional share capital as at January 1	69 734	10 392
Share capital increase as per amended Articles of Incorporation dated January 25, 2002	—	60 000
Shares allotted to employees	-746	-658
Conditional share capital at December 31	68 988	69 734

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an Extraordinary General Meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000 by means of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by the Kudelski Group at the end of January 2002 are explained in note (3.10).

In conformity with the Articles of Incorporation, the remaining balance of the conditional capital is reserved for the exercise of stock options granted to employees.

Authorized share capital

	2003	2002
in kCHF		
3 768 164 / 3 828 632 bearer shares of CHF 10 each	37 682	38 286
3 200 000 / 3 200 000 registered shares of CHF 1 each	3 200	3 200
Authorized share capital at December 31	40 882	41 486
The change in authorized share capital is as follows:		
Authorized share capital as at January 1	41 486	41 486
Shares allotted for acquisition purposes	-604	—
Authorized share capital at December 31	40 882	41 486

In an exchange offer, 60 468 Kudelski SA bearer shares were allotted to the minority shareholders of the company SportAccess SA, Sion, with the purpose of acquiring the entirety of the share capital.

The Board of Directors is authorized to increase the share capital in one or more stages until May 24, 2004, for the purposes of acquiring companies, parts of companies or for financing the full or partial acquisition of other companies.

Treasury shares

	Number of bearer shares	Book value
At January 1, 2003	—	—
Transactions during the financial year:		
- acquisitions	20 155	380
At December 31, 2003	20 155	380

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

Major shareholders

	Voting rights		Shareholdings	
	31.12.03	31.12.02	31.12.03	31.12.02
Kudelski family	64%	64%	34%	34%

Employee stock option plan

In April 2003 the Kudelski Group set up a stock option plan for certain employees.

The Board of Directors and Executive management determined the modalities and the conditions governing the grant of options.

The following options were granted:

Year of grant	Number of options	Vesting	Maturity	Ratio	Exercise price in CHF
2003	125 000	1.4.2006	1.4.2007	1:1	20
2003	125 000	1.4.2007	1.4.2008	1:1	20
2003	125 000	1.4.2008	1.4.2009	1:1	20

375 000 options, to a total theoretical value of kCHF 3,023 were granted. This value was calculated and is disclosed in the financial statements in accordance with the accounting principles and valuation method set out in the notes.

The following table summarizes the changes in options held by these employees:

Changes in stock option plan in CHF	Number	Average	Number	Average
	of options 2003	exercise price 2003	of options 2002	exercise price 2002
In circulation on January 1	—	—	—	—
– of which exercisable	—	—	—	—
New rights issued	375 000	20	—	—
Rights exercised	—	—	—	—
Rights cancelled/forfeited	—	—	—	—
In circulation on December 31	375 000	20	—	—
– which exercisable	—	—	—	—

The expense charged against the income statement for the financial year 2003 amounts to kCHF 2 720. The expense recorded assumes that on a weighted average 10% of the beneficiaries will not be able to exercise their options in conformity with the provisions of the plan.

3.10 Convertible bond

	2003	2003	2002
	in kUSD	in kCHF	in kCHF
Balance at January 1	232 653	323 388	—
Issue	—	—	557 296
Redemption and partial cancellation	-59 725	-80 629	-143 600
Exchange rate effect	—	-28 328	-90 308
Convertible bond on December 31	172 928	214 431	323 388
Allocated issuing costs	-2 645	-3 280	-6 493
Reconstitution of the redemption value	2 811	3 486	2 296
At December 31	173 094	214 637	319 191

At the end of January 2002, Kudelski Financial Services Holding S.C.A., a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of kUSD 325 000. The conversion price was fixed at CHF 127.50 per ordinary bearer share of Kudelski SA. It was changed on July 31, 2003 to CHF 100.00 in conformity with the provisions of the bond public offering prospectus. Kudelski SA guarantees this issuance unconditionally and irrevocably.

Each bond has a nominal value of USD 1,000 and the issue price was 100%; the interest rate is 2.25% per annum, calculated on the nominal amount of the bonds and payable semi-annually (on January 31 and July 31, commencing on July 31, 2002). The yield to maturity is 3% per annum on a semi-annual basis.

At the January 31, 2009 maturity date, the issuer will redeem the bonds at 105.79% of their nominal amount. The issuer may redeem all of the bonds at any time after January 31, 2005 and before January 31, 2007. For the purposes of valuing the reconstitution of the redemption value in the financial statements, the redemption price considered is 104.01% assuming an early redemption on January 31, 2007.

3.11 Provisions

Years ended December 31 in kCHF	Legal fees	Deferred	Other	2003	2002
	lawsuits and risks on contracts	tax liability			
At January 1	15 539	2 807	4 202	22 548	41 276
Allocation	2 969	949	639	4 557	5 769
Reintegration into goodwill	—	—	—	—	-10 000
Reversed amounts and utilization	—	-2 184	-2 026	-4 210	-13 268
Conversion difference	-550	-3	—	-553	-1 229
At December 31	17 958	1 569	2 815	22 342	22 548

The provision for legal fees and contractual risks covers all the costs relating to the legal actions taken against Group companies, mainly in the United States. Comments on the legal and arbitration proceedings under way are set out in note (3.17).

The provision for litigation of kCHF 10 000 was dissolved during the financial year 2002 by reintegration into the goodwill, having been established that the litigation risk no longer existed.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

Deferred tax liability

	31.12.03	31.12.02
in kCHF		
Tax liabilities by temporary differences category:		
Investments	1 507	2 670
Tangible fixed assets	62	137
	1 569	2 807

3.12 Short-term provisions

Years ended December 31	Restructuring provision and benefit plan for employees	Other provisions	2003	2002
in kCHF				
At January 1	17 534	4 366	21 900	31 645
Additional provision	54	811	865	10 578
Reversed amounts and utilization	-13 207	-93	-13 300	-20 323
At December 31	4 381	5 084	9 465	21 900

The use of the restructuring provision covered mainly costs relating to personnel and other charges connected with the ongoing restructuring.

3.13 Accrued liabilities and other payables

	31.12.03	31.12.02
in kCHF		
Income tax liabilities	3 250	6 387
Accrued liabilities	43 581	23 087
Deferred income	2 343	875
Other payables	26 465	16 704
Deferred consideration on acquisitions of companies (earn-out)	3 472	—
	79 111	47 053

In 2003, the accrued liabilities comprise the balance to be paid for the acquisition costs of MediaGuard to the sum of kCHF 14 070.

3.14 Other information

	31.12.03	31.12.02
in kCHF		
Guarantees in favor of third parties	2 811	13 556
Current assets pledged to secure own commitments	2 747	2 440
Pension fund liability	1 306	354
Off balance sheet lease commitments:		
– less than 1 year	1 354	156
– more than 1 year and less than five years	2 465	192
Employees (including MediaGuard)	1 400	1 220

3.15 Retirement benefit plan

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

All employees in Switzerland are covered by these plans, which are defined benefit plans under Swiss GAAP FER 16. An independent actuary revises all liabilities and all assets periodically.

Abroad, the Group does not have any significant liabilities resulting from benefits plans, with the exception of Austria. This plan was included in the figures below, for the financial year 2003. An independent actuary revised all the liabilities and assets.

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

The following table sets forth the financial position of the defined benefit pension plan at December 31, 2003 respectively 2002, based on actual assumptions, in accordance with Swiss GAAP FER 16:

	2003	2002
in kCHF		
Fair value of plan assets	42 010	37 883
Projected benefit obligation	-38 837	-43 267
Funded status	3 173	-5 384
Unrecognized transition asset	-391	-426
Unrecognized net (gains)/losses	-4 666	6 461
(Net liability)/asset	-1 884	651

The net liability recognized in the balance sheet at December 31, 2003 is kCHF 1 884.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

The main assumptions used for the calculation of the pension cost and the projected benefit obligation for the year 2003 are the following:

	Switzerland	Abroad
Discount rate	4,5%	3,5%
Rate of future increase in compensation	2,0%	1,5%
Rate of future increase in current pensions	1,0%	—
Interest rate credited on savings accounts	3,25%	—
Expected long-term rate of return on plan assets	5,0%	—
Retirement age: males/female	As agreed	65/60 years
Turnover (on average)	5%	13%

According to Swiss GAAP FER 16, the following amount should have been recorded as net pension cost in the income statement of the financial year 2003, respectively 2002:

	2003	2002
in kCHF		
Expected return on plan assets	1 894	2 252
Service cost	-5 212	-4 817
Interest cost	-2 018	-2 535
Amortization of gains/(losses)	-151	-342
Amortization of transition asset	34	34
Employees' contributions	2 355	2 326
Net pension (cost)/income	-3 098	-3 082
Employer contributions (cost)	-2 663	-2 777

The net pension cost for the financial year 2003 amounts to kCHF 3 098. To this total is added a cost of kCHF 64 for exchange rate differences relating to obligations abroad.

3.16 Related parties

	2003	2002
in kCHF		
Sale of services:		
SwissAccessGroup AG	—	264
Purchases of goods and components:		
Digital Elektronik GmbH	27 568	31 205

These transactions have been recorded with the Group related parties in conformity with the provisions contained in Swiss GAAP FER 15. Digital Elektronik GmbH is the principal supplier of access control material for the SkiData group. The transactions are effected under normal market conditions, i.e. "at arm's length".

3.17 Legal and arbitration proceedings

The Group is subject to three lawsuits – relating to the alleged infringement of intellectual property rights – before American and German courts. The necessary provisions for legal proceedings are recorded.

The pending litigation between IPPV Entreprise, LLC Maast Inc. and Echostar Communication Corp., Nagravisio SA and Nagrastar LLC was settled during the first quarter 2004. No additional provision is needed for this settlement.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

4. Notes to the consolidated income statement

4.1 Segmental analysis

The 2003 distribution by geographical area and by product category of sales, including sales within the scope of long-term contracts, is as follows:

	Europe	America	Asia and Oceania	Africa	Total 2003
in kCHF					
Pay television and broadband internet	61 504	94 452	62 033	787	218 776
Physical access control and data access	158 802	7 222	6 597	29	172 650
	220 306	101 674	68 630	816	391 426

and for the financial year 2002:

	Europe	America	Asia and Oceania	Africa	Total 2002
in kCHF					
Pay television and broadband internet	62 611	116 468	39 696	2 031	220 806
Physical access control and data access	147 723	10 987	4 920	230	163 860
	210 334	127 455	44 616	2 261	384 666

4.2 Capitalization of developments, installations and capitalized systems

This item represents internal developments, installations and software, which were capitalized in the years 2003 and 2002. They are broken down as follows:

	2003	2002
in kCHF		
Capitalization of generic projects to the Group:		
– internal development of new products	10 865	11 570
– development contracted to third parties	—	6 119
Internal development of "ticketing" software	2 668	—
Internal development of specific installations made available to clients	7 433	—
	20 966	17 689

4.3 Cost of goods and components sold

	2003	2002
in kCHF		
Purchase of goods and components	-149 546	-147 300
Change in inventories	-7 898	-5 022
	-157 444	-152 322

4.4 Salaries and wages

	2003	2002
in kCHF		
Salaries and wages	-131 154	-120 385

The global amount of salaries and wages for the group is kCHF 135 425 for the year 2003 (2002: kCHF 137 526) including departure indemnities from restructuring plan. The 2003 figure in particular includes costs relating to the stock option plan as well as the associated social security costs.

4.5 Operating expenses

	2003	2002
in kCHF		
Expenses on projects – external fees	-10 104	-15 277
Capital and other taxes	-376	-2 202
Other operating expenses	-26 443	-22 477
	-36 923	-39 956

4.6 Sales and administration costs

	2003	2002
in kCHF		
Administration costs	-10 142	-12 955
Promotion and sales costs	-23 437	-21 661
Third-party fees and other	-13 688	-8 994
	-47 267	-43 610

4.7 Non-recurring operating expenses (reorganization)

	2003	2002
in kCHF		
Non-recurring personnel expenses	—	-9 688
Non-recurring operating costs	—	-5 976
Costs of cessation of activities and projects, reorganization	—	-4 141
Other restructuring costs	—	-2 730
	—	-22 535

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

4.8 Financial income

	2003	2002
in kCHF		
Interest income	5 445	13 980
Exchange gains	36 453	11 469
Gains on redemption of the convertible bond and other gains	28 409	60 503
Result from associated companies	2 383	—
	72 690	85 952

4.9 Financial expenses

	2003	2002
in kCHF		
Interest expense	-8 785	-15 663
Exchange losses	-14 869	-18 902
Write off on financial fixed assets	-9 970	—
Other financial expenses	-2 704	-2 671
Result from associated companies	-1 681	64
Costs of issuance of the convertible bond	-2 715	-5 074
	-40 724	-42 246

4.10 Extraordinary items

	2003	2002
in kCHF		
Extraordinary profit	—	3 606
Extraordinary expenses	-3 208	—
	-3 208	3 606

The extraordinary profits and expenses correspond to adjustments in provisions for the purpose of covering potential interest post-judgment on the IPPV proceedings in the United States.

4.11 Income tax

	2003	2002
in kCHF		
Income taxes	-5,698	-9 195
Change in deferred taxes	-1 126	6 924
	-6 824	-2 271

Capital taxes disclosed under operating expenses amount to kCHF 956 (2002: kCHF 2 202).

4.12 Earnings per share (EPS)

	2003	2002
Basic earnings per share (in CHF)	0.65	0.20
Net income (in kCHF)	33 167	10 031
Weighted average number of bearer shares outstanding (pro rata temporis)	46 737 595	46 729 868

Basic earnings per share is calculated by dividing the net income attributable to shareholders owning shares of a nominal value of CHF 10 by the weighted average number of bearer shares outstanding during the year, excluding from the issued shares the average number of shares purchased by the Group and held as treasury shares.

	2003	2002
Diluted earnings per share (in CHF)	0.64	0.20
Net income (in kCHF)	33 167	10 031
Weighted average number of bearer shares outstanding (pro rata temporis)	46 737 595	46 729 868
Adjustment for stock option plan	516 847	—
Weighted average number of bearer shares for diluted earnings per share	47 254 442	46 729 868

The diluted earnings per share calculation takes into account all potential dilutions to the earnings per share arising from the convertible bond and the employee stock option plan.

Share equivalents of 3 746 668 (2002: 3 527 187) relating to the convertible bond were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

Consolidated financial statements of Kudelski Group
Notes to the consolidated financial statements at December 31,
2003 and 2002

5. Notes to the consolidated statements of cash flows

5.1 Operating cash flow

in kCHF	2003	2002
Net income, Group's interest	33 167	10 031
Financial income	-29 733	-25 449
Financial expenses	8 785	42 310
Loss on Swiss International Airlines investment	10 000	—
Profit on redemption of convertible bond	-25 661	-60 503
Amortization of costs and redemption value of convertible bond	4 268	7 643
Income tax	6 824	2 271
Shares allotted to employees	746	658
Options granted to employees	2 720	—
Depreciation and amortization	21 923	20 870
Impairment	243	19 882
Change in long-term provisions	1 582	-9 423
Change in deferred tax liability	-3 643	2 145
Use in provision for restructuring	-8 752	-18 835
Minority interest in net income	-1 170	2 988
Result from associated companies	-334	—
Cash flow	20 965	-5 412
Change in inventories	8 147	4 279
Change in work in progress	280	-7 380
Change in trade accounts receivable	71 407	79 074
Change in other receivables	—	30 857
Change in other assets	-12 875	-975
Change in trade accounts payable	-34 364	-8 388
Change in other liabilities	-8 969	-53 773
Change in short-term provisions	-3 254	9 089
Operating cash flow	41 337	47 371

5.2 Acquisition/sale of subsidiaries, cash outflow/inflow

The Group bought or completed its share in 6 companies or groups of companies in the course of the 2003 financial year for a total sum of kCHF 374,460 and sold one company for kCHF 0.

The Group sold 2 companies in the course of the 2002 financial year for a total sum of kCHF 480.

The fair values of the assets acquired/sold and debts taken in charge/transferred on the acquisition date are as follows:

in kCHF	Acquisitions 2003	Disposals 2003	Disposals 2002
Intangible fixed assets	203	—	—
Tangible fixed assets	3 664	-65	-2 437
Net working capital (including short-term deferred consideration and projected restructuring costs)	-23 148	1 412	1 997
Long-term liabilities	-18 003	1 000	730
Cash and cash equivalents	5 483	-2	—
Fair value of net assets acquired/sold	-31 801	2 345	290
Goodwill	401 697	—	-770
Total acquisition costs/sales proceeds	369 896	2 345	-480
Minus:			
Cash and cash equivalents acquired/disposed of	-5 483	2	—
Effect of full consolidation of a former associated company	1 688	—	—
Minority interests acquired/disposed of	1 249	-2 345	—
Shares allotted	-604	—	—
Acquisition/disposal of subsidiaries, cash outflow/inflow	366 746	2	-480
Detail of acquisition cost:			
Acquisition/disposal of subsidiaries, net of cash acquired	366 746	2	—
Cash and cash equivalents acquired/disposed of	5 483	-2	—
Liquidity	372 229	—	—
Shares allotted (at nominal value)	604	—	—
Total	372 833	—	—
Average market value of shares allotted	2 231	—	—

Kudelski SA

Report of the Group auditors

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

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statements of changes in shareholders' equity and notes) included on pages 4 to 37 of Kudelski SA for the year ended December 31, 2003.

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

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

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

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

PRICEWATERHOUSECOOPERS 



F. Roth

Ph. Tzaud

Lausanne, March 11, 2004

Financial statements of Kudelski SA
Balance sheets at December 31, 2003 and 2002

Assets

	Notes	31.12.03	31.12.02
in kCHF			
Fixed assets			
Intangible fixed assets	3.1	50	240
Financial fixed assets			
Investments	3.2	297 069	245 592
Other long-term investments	3.3	—	3 750
Loans to Group companies		100 598	44 237
Total fixed assets		397 717	293 819
Current assets			
Loans to affiliated companies (short-term)		1 769	—
Accounts receivable from Group companies		236 951	295 245
Other accounts receivable and accruals	3.4	16 272	3 372
Treasury shares	3.6	380	—
Securities		906	—
Cash and cash equivalents	3.5	133 712	201 635
Total current assets		389 990	500 252
Total Assets		787 707	794 071

Shareholders' equity and liabilities

	Notes	31.12.03	31.12.02
in kCHF			
Shareholders' equity			
Share capital		514 949	513 599
General reserve		59 000	57 719
Reserve for treasury shares		380	—
Retained earnings		159 304	135 910
Net income		2 732	25 055
Total shareholders' equity	3.6	736 365	732 283
Long-term liabilities			
Provisions	3.7	1 856	1 856
Loans from Group companies		27 646	40 093
Total long-term liabilities		29 502	41 949
Current liabilities			
Short-term provisions	3.8	14 300	8 465
Short-term loans from Group companies		1 652	3 933
Other liabilities		3 139	5 108
Accruals		2 749	2 333
Total current liabilities		21 840	19 839
Total shareholders' equity and liabilities		787 707	794 071

Financial statements of Kudelski SA
Income statements and proposal for appropriation
of available earnings

Income statements for the years ended December 31, 2003 and 2002

in kCHF	Notes	2003	2002
Financial income	4.1	19 376	62 008
Total income		19 376	62 008
Administrative and other expenses	4.2	-3 419	-5 179
Financial expenses	4.3	-2 600	-1 058
Impairment of financial fixed assets	4.4	-9 634	-20 339
Loss on sale of investments	4.5	-751	-7 501
Exceptional charge	4.6	—	-2 876
Depreciation and amortization		-240	—
Net income		2 732	25 055

Proposal for appropriation of available earnings for the year 2003

in kCHF	2003
Balance brought forward from previous year	159 684
Allocation to the reserve for treasury shares	-380
Net income	2 732
Total available earnings	162 036
Proposal of the Board of Directors:	
General reserve allocation	137
Balance to be carried forward	161 899
Total available earnings	162 036

Notes to the financial statements at December 31,
2003 and 2002

1. General comments

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

2. Accounting policies

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.

Financial statements of Kudelski SA
Notes to the financial statements at December 31,
2003 and 2002

3. Notes to the balance sheet

3.1 Intangible fixed assets

This item includes brands registered by the Group as well as the capitalization of software licences.

3.2 Investments

Company	Location	Activities	Share capital	Percentage held	
				2003	2002
Nagravision SA	CH Cheseaux	Digital TV and audio production	kCHF 12 000	100	100
NagraCard SA	CH Cheseaux	Secure smart cards	kCHF 100	100	100
Nagra Trading SA	CH Cheseaux	No activity	kCHF 100	100	100
Nagravision Iberica SL	ES Madrid	Digital TV sales and support	kEUR 3	100	100
Nagra France Sàrl	FR Paris	Digital TV and audio production	kEUR 53	100	100
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	kGBP 1	100	100
Nagra Kudelski GmbH	DE Munich	Sales and support	kEUR 25	100	100
Nagra USA, Inc.	US Nashville	Sales and support	kUSD 10	100	100
Nagra Public Access AG	CH Zoug	Holding in physical access	kCHF 15 000	100	100
Nagra Plus	CH Cheseaux	Analog TV	kCHF 2 000	50	50
Nagra-Futuris SA	CH Neuchâtel	Digital broadcast solutions	kCHF 1 000	50	50
NagraID SA	CH Chaux-de-Fonds	Smart card production	kCHF 4 000	100	100
MediaCrypt AG	CH Zurich	Fundamental scrambling technology	kCHF 3 000	50	50
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	kUSD 32 500	100	100
Kudelski Luxembourg Sàrl	LU Luxembourg	Finance	kEUR 13	100	100
Political Rights SA (Polirights) en liquidation	CH Genève	No activity	kCHF 450	L	66
e-prica AG	CH Lyss	Smart cards in health sector	kCHF 500	—	50
Livewire Communications Inc.	US Gainesville	Software for set-top-boxes	kUSD 1	T	100
Leman Consulting SA	CH Nyon	Intellectual property consulting	kCHF 100	100	100
Logiways	CH Cheseaux	Software solutions for digital TV	kCHF 3 710	100	51
AccessArena AG	CH Rümlang	Destination management	kCHF 2 000	T	41
Pay TV SA	CH Lausanne	TV operator	kCHF 490	6	6
Nagra Travel Sàrl	CH Cheseaux	Travel agency	kCHF 50	100	100

(T: Transferred to other Group companies)

(L: Liquidated)

3.3 Other long-term investments

This is the investment in Swiss International Air Lines Ltd. A full impairment on this item was charged to the 2003 financial year (kCHF 3 750).

3.4 Other receivables

	31.12.03	31.12.02
in kCHF		
Other accounts receivables	9 790	3 257
Prepaid expenses	433	115
Withholding tax	6 049	—
	16 272	3 372

3.5 Cash and cash equivalents

	31.12.03	31.12.02
in kCHF		
Cash at bank and in hand	17 768	1 656
Short-term deposits	115 944	199 979
	133 712	201 635

Financial statements of Kudelski SA
Notes to the financial statements at December 31,
2003 and 2002

3.6 Change in shareholders' equity

	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total shareholders' equity
in kCHF					
At December 31, 2001	512 941	53 589	—	140 040	706 570
General reserve allocation		4 130		-4 130	—
Share capital increase	658				658
Net income				25 055	25 055
At December 31, 2002	513 599	57 719	—	160 965	732 283
General reserve allocation		1 281		-1 281	—
Share capital increase	1,350				1 350
Purchase of treasury shares			380	-380	—
Net income				2 732	2 732
At December 31, 2003	514 949	59 000	380	162 036	736 365

Treasury shares

	Number of bearer shares	Book value
in kCHF		
At January 1, 2003	—	—
Transactions during the financial year:		
– acquisitions	20 155	380
At December 31, 2003	20 155	380

Treasury shares are capitalized at the lower of acquisition cost or stock market price.

In conformity with Article 659 a para 2 CO, the company allocated a total corresponding to the acquisition value of treasury shares to a separate reserve.

Composition of share capital

	31.12.2003	31.12.2002
46 864 936 / 46 729 868 bearer shares of CHF 10 each	468 649	467 299
46 300 000 / 46 300 000 registered shares of CHF 1 each	46 300	46 300
	514 949	513 599

Conditional share capital (Article 6 of Articles of Incorporation)

	2003	2002
in kCHF		
Conditional share capital as at January 1	69 734	10 392
Share capital increase as per amended Articles of Incorporation dated January 25, 2002 reserved for the convertible bond	—	60 000
Shares allotted to employees	-746	-658
Conditional share capital as at December 31	68 988	69 734

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an Extraordinary General Meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000 by the issuance of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued progressively upon the exercise of the rights to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by the Kudelski Group at the end of January 2002 are explained in note (3.10) of the consolidated accounts.

In conformity with the Articles of Incorporation, the balance of the conditional capital is reserved for the exercise of stock options granted to employees.

Authorized share capital (Article 7 of Articles of Incorporation)

	2003	2002
3 768 164 / 3 828 632 bearer shares of CHF 10 each	37 682	38 286
3 200 000 / 3 200 000 registered shares of CHF 1 each	3 200	3 200
Authorized share capital as at December 31	40 882	41 486
The change in authorized share capital is as follows:		
Authorized share capital as at January 1	41 486	41 486
Shares allotted for acquisition purposes	-604	—
Authorized share capital as at December 31	40 882	41 486

In an exchange offer, 60 468 Kudelski SA bearer shares were allotted to the minority shareholders of the company SportAccess SA, Sion, with the purpose of acquiring the entirety of the share capital.

The Board of Directors is authorized to increase the share capital in one or more stages until May 24, 2004, for the purposes of acquiring companies, parts of companies, of financing the full or partial acquisition of other companies.

Financial statements of Kudelski SA
Notes to the financial statements at December 31,
2003 and 2002

Major shareholders

	Voting rights		Shareholdings	
	31.12.03	31.12.02	31.12.03	31.12.02
Kudelski family	64%	64%	34%	34%

3.7 Provisions

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

3.8 Short-term provisions

This item mainly records the unrealized exchange gains on loans from/to affiliated companies in foreign currency, kCHF14 300 for 2003 (2002: kCHF 8 088).

4. Notes to the income statement

4.1 Financial income

	2003	2002
in kCHF		
Dividends received from Group subsidiaries	—	56 000
Financial revenues	2 933	—
Interest income third parties	635	3 903
Interest on loans to Group subsidiaries	3 189	1 117
Net exchange gains	12 382	988
Other income	237	—
	19 376	62 008

4.2 Administrative and other expenses

	2003	2002
in kCHF		
Administrative expenses	-2 842	-3 482
Taxes other than income tax	-577	-1 697
	-3 419	-5 179

4.3 Financial expenses

	2003	2002
in kCHF		
Interest on loans from Group subsidiaries	-1 835	-837
Interest expense	-212	-221
Net exchange losses	-369	—
Other financial expenses	-184	—
	-2 600	-1 058

4.4 Impairment of financial fixed assets

	2003	2002
in kCHF		
Impairment of equity interest and loans to Group companies	-5 884	-15 875
Impairment of other long-term investments	-3 750	-4 464
	-9 634	-20 339

4.5 Losses on sales of equity interests

The 2003 losses on the realization of financial fixed assets are due to the sale of the e-prica investment.

In 2002 the losses were due to the sale of the holdings in Précision Electronique Précél SA and Nagra Italia SRL.

4.6 Exceptional charge

This item covers the costs of restructuring the physical access control division, carried in the 2002 financial year.

5. Commitments and contingencies

	31.12.03	31.12.02
in kCHF		
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	214 431	323 388
Deposits and guarantees in favor of third parties	3 517	4 388
	217 948	327 776
Other commitments		
Penalty risk for non-accomplishment of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Comfort letters signed in favor of Group companies	p.m.	p.m.

Kudelski SA
Report of the statutory auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) included on pages 42 to 51 of Kudelski SA for the year ended December 31, 2003.

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

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

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

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

PRICEWATERHOUSECOOPERS 



F. Roth

Ph. Tzaud

Lausanne, March 11, 2004