

KUDELSKI GROUP FINANCIAL STATEMENTS 2008

TABLE OF CONTENTS

● KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	P. 4
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007	P. 5
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	P. 6
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	P. 7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008	P. 8
REPORT OF THE STATUTORY AUDITOR	P. 68

● KUDELSKI SA FINANCIAL STATEMENTS

BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007	P. 70
INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2008	P. 71
NOTES TO THE FINANCIAL STATEMENTS 2008	P. 72
REPORT OF THE STATUTORY AUDITOR	P. 79

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

In CHF'000	Notes	2008	2007
Revenues	6	1 027 506	925 813
Other operating income	7	9 444	14 635
Gain on sale of subsidiary	37	–	2 087
		1 036 950	942 535
Loss on sale of subsidiary	37	–	-2 179
Cost of material		-340 477	-261 810
Employee benefits expense		-359 070	-336 107
Other operating expenses	8	-245 229	-205 273
Operating income before depreciation, amortization and impairment		92 174	137 166
Depreciation, amortization and impairment	9	-73 674	-49 511
Operating income		18 500	87 655
Interest expense	10	-16 104	-12 422
Other finance income/(expense), net	11	-18 901	4 688
Share of results of associates	17	10 413	2 465
Income/(loss) before tax		-6 092	82 386
Income tax expense	12	-903	-14 938
Net income/(loss) for the year		-6 995	67 448
Attributable to:			
– Equity holders of the company		-14 645	66 096
– Minority interest		7 650	1 352
		-6 995	67 448
In CHF	Notes	2008	2007
Earnings/(loss) per bearer share			
– basic	14	-0.2797	1.2689
– diluted	14	-0.2797	1.2672
Earnings/(loss) per registered share (not listed)			
– basic	14	-0.028	0.1269
– diluted	14	-0.028	0.1267

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

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2008 AND 2007)

Assets

In CHF'000	Notes	31.12.2008	31.12.2007
Non-current assets			
Tangible fixed assets	15	165 537	177 596
Intangible assets	16	239 146	204 117
Investments in associates	17	5 563	10 700
Deferred income taxes	18	51 856	39 750
Financial assets and other non-current assets	19	63 195	38 474
Total non-current assets		525 297	470 637
Current assets			
Inventories	20	97 350	93 813
Trade accounts receivable	21	353 932	260 239
Other current assets	22	60 974	78 030
Financial assets (short term)	23	8 993	23 310
Cash and cash equivalents	24	247 819	278 140
Total current assets		769 068	733 532
Total assets		1 294 365	1 204 169

Equity and liabilities

In CHF'000	Notes	31.12.2008	31.12.2007
Capital and reserves			
Share capital	25	523 960	521 594
Reserves		-61 077	-1 201
Treasury shares	26	-380	-380
Equity attributable to equity holders of the parent		462 503	520 013
Minority interest		106 075	105 542
Total equity		568 578	625 555
Non-current liabilities			
Long-term financial debt	27	364 180	324 868
Deferred income tax liabilities	18	5 088	4 470
Employee benefits liabilities	29	21 706	20 050
Provisions for other liabilities and charges	30	8 009	9 363
Other long-term liabilities	31	5 429	1 560
Total non-current liabilities		404 412	360 311
Current liabilities			
Short-term financial debt	32	78 904	11 954
Trade accounts payable	33	113 701	70 993
Other current liabilities	34	104 022	95 005
Current income taxes		2 645	10 790
Advances received from clients	35	12 587	21 645
Derivative financial instruments	36	2 522	359
Provisions for other liabilities and charges	30	6 994	7 557
Total current liabilities		321 375	218 303
Total liabilities		725 787	578 614
Total equity and liabilities		1 294 365	1 204 169

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

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

In CHF'000	Notes	2008	2007
Net income/(loss) for the year		-6 995	67 448
Adjustments for:			
Current and deferred income tax		903	14 938
Interest expense and other finance income/(expense), net		4 175	-228
Allocation of the equity conversion component and transaction costs of convertible bonds		5 551	5 405
Depreciation, amortization and impairment	9	73 674	49 511
Change in fair value of financial assets at fair value through profit or loss		2 027	-187
Share of result of associates	17	-10 413	-2 465
Dividends received from associated companies	17	8 750	1 229
Non-cash employee benefits expense		6 305	9 439
Net gain on sale of subsidiary		–	92
Net cash paid and received on subsidiary share based payment		–	-169
Other non cash income/expenses		3 263	1 710
		87 240	146 723
Change in inventories		-6 994	-32 660
Change in trade accounts receivable		-106 148	-8 034
Change in trade accounts payable		45 240	-6 483
Change in deferred costs (short and long term portions)		-18 337	-2 096
Change in other net current working capital headings		15 443	-18 253
Interest paid		-9 642	-6 401
Interest received		6 509	12 969
Income tax paid		-20 679	-21 323
Cash flow from operating activities		-7 368	64 442
Purchases of intangible fixed assets		-28 832	-33 878
Purchases of tangible fixed assets		-60 714	-56 528
Proceeds from sales of tangible and intangible fixed assets		1 961	2 625
Investment in financial assets		-7 594	-12 081
Divestment of financial fixed assets and loan reimbursement		22 970	34 583
Disposal of subsidiaries, cash inflow	37	–	1 709
Acquisition of subsidiaries, cash outflow	38	-34 786	-128 678
Disposal of associated companies		10 494	–
Acquisition of associated companies		-4 062	–
Cash flow used in investing activities		-100 563	-192 248
Change in bank overdrafts, long term loans and other non-current liabilities		105 817	2 058
Proceeds from employee share purchase program	42	395	277
Increase of capital in a subsidiary by minority interest		1 168	–
Cash received from exercise of stock options		19	2 703
Dividends paid to minority interest		-37	-85
Dividends paid to shareholders	41	-15 703	-31 258
Cash flow used in/from financing activities		91 659	-26 305
Effect of foreign exchange rate changes on cash and cash equivalents		-14 049	-11 756
Net increase (decrease) in cash and cash equivalents		-30 321	-165 867
Cash and cash equivalents at the beginning of the year	24	278 140	444 007
Cash and cash equivalents at the end of the year	24	247 819	278 140
Net increase (decrease) in cash and cash equivalents		-30 321	-165 867

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority interest	Total equity
January 1, 2007		519 352	56 533	-119 688	33 470	-945	-380	26 926	515 268
Currency translation adjustment						-6 520		-8 867	-15 387
Net gain / (loss) on available-for-sale financial assets					8			14	22
Net income				66 096				1 352	67 448
Total recognized income & expense for the year		-	-	66 096	8	-6 520	-	-7 501	52 083
Employee share purchase program	42	184	202	8					394
Employee stock option plan	42			245					245
Exercise of stock options by employees	42	1 180	1 180						2 360
Shares issued for employees	42	878	1 846						2 724
Dividend paid to shareholders	41			-31 258					-31 258
Minority interest arising on business combinations	4							90 371	90 371
Impact of transactions with minority interests	4			-3 644				-6 900	-10 544
Impact of subsidiaries share based payments	43			1 266				2 731	3 997
Dividends paid to minority interests								-85	-85
December 31, 2007		521 594	59 761	-86 975	33 478	-7 465	-380	105 542	625 555
Currency translation adjustment						-23 197		-7 213	-30 410
Net gain / (loss) on available-for-sale financial assets					-89			-186	-275
Net income / (loss)				-14 645				7 650	-6 995
Total recognized income & expense for the year		-	-	-14 645	-89	-23 197	-	251	-37 680
Employee share purchase program	42	451	37	13					501
Employee stock option plan	42			48					48
Shares issued for employees	42	1 915	183						2 098
Dividend paid to shareholders	41			-15 703					-15 703
Minority interest arising on business combinations	4							1 168	1 168
Impact of transactions with minority interests	4			-4 541				-2 294	-6 835
Impact of subsidiaries share based payments	43			690				1 445	2 135
Put-option on acquisition of minority interest					-2 672				-2 672
Dividends paid to minority interests								-37	-37
December 31, 2008		523 960	59 981	-121 113	30 717	-30 662	-380	106 075	568 578

Fair value and other reserves as of December 31, 2008 include kCHF 33 470 (2007: kCHF 33 470) of equity component of the convertible bond, put-option on acquisition of minority interest for kCHF -2 672 (2007: kCHF 0) and kCHF -81 (2007: kCHF 8) of unrealized gain/(loss) on available-for-sale financial assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The consolidated financial statements of the Kudelski Group ("Group" or "company") are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and its predecessor organization, the International Accounting Standards Committee (IASC).

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

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See note 2 for areas involving a higher degree of judgment and significant estimates.

The annual closing date of the individual financial statements of all Group companies is December 31.

(B) GROUP ACCOUNTING

(a) SUBSIDIARIES

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group com-

panies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group ("economic entity approach"). For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity.

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

(b) JOINT VENTURES

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

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

(c) ASSOCIATES

Associates are entities over which the Group has significant influence but which is neither a subsidiary nor a joint venture to the Group. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not to control those policies. It is presumed to exist when the Group holds at least 20% of the associate's voting power.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

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

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

(C) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Identified assets acquired include fair value adjustment on tangible fixed assets and intangible fixed assets. The Group considers when acquiring a company the intangible values in connection with development technologies, customer lists and trademarks and brands when determining the purchase price allocation. They are initially measured using valuation techniques based on the acquired company modified business plans.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as Goodwill and is denominated in the functional currency of the related acquisition.

(D) DIVESTMENTS

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

(E) FOREIGN CURRENCIES

The consolidated financial statements of the Group are expressed in Swiss francs ("CHF"), which is the company's 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 allocated to reserves.

(F) REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on historical results taking into consideration the type of customer, the type of transaction and the specific of each arrangement.

(a) SALE OF GOODS

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

(b) SERVICES RENDERED

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

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

Revenue from maintenance and training is recognized when earned (maintenance revenue is allocated over the contractual period).

(c) ROYALTIES AND LICENSES

Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled. Revenue on licenses with a fixed term is recognized upon the life of the contract on a straight line basis.

For software license arrangements, the Group recognizes new software license revenue when: (1) The company has entered into a legally binding arrangement with a customer for the license of software; (2) delivery has 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 client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms under this category. When the fair value of a particular element cannot be determined, the revenue is fully allocated to the undelivered element.

When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized in the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract and the useful lives of those assets. It is shown under depreciation in the income statement. When the title is transferred, the cost is deferred under deferred costs and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract and the useful lives of those assets. In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

exceed total contract revenue, the expected loss is recognized immediately.

(e) PAYMENT TO CUSTOMERS

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

(f) GOVERNMENT GRANTS

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

(g) INTEREST INCOME

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

(G) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(a) DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

(b) FAIR VALUE HEDGE

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

(c) CASH FLOW HEDGE

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognized in equity. Where the forecasted transaction results in the recognition of an asset or of a liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity 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 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. The derivative financial instruments are entered into with high credit quality financial institutions, consistently with specific approval, limit and monitoring procedures.

(H) TAXES

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

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

Temporary differences and tax losses carried forward that could be offset against future profits, generating deferred tax assets and liabilities are compensated within one legal entity to determine the net deferred tax asset or liability amount. Net deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against the temporary differences or tax losses carried forward can be utilized.

Deferred income tax liability have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

(I) TANGIBLE FIXED ASSETS

(a) GENERAL

All property, plant and equipment is shown 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. Financing costs associated with the construction of tangible fixed assets are not capitalized.

Building acquisitions or constructions and building improvements are allocated to components which are depreciated over their useful life. Such useful life may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.

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

Technical equipment and machinery

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

Other equipment

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

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

(b) LEASED TANGIBLE FIXED ASSETS

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

(c) FIXED ASSETS MADE AVAILABLE TO CLIENTS

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

(J) INTANGIBLE ASSETS

(a) GOODWILL

Arising after January 1, 2004

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

Arising before January 1, 2004

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

(b) INTERNAL RESEARCH AND DEVELOPMENT

Internal research and development expenses are fully charged to the income statement. The Group considers that economic uncertainties inherent in the development of new products preclude it from capitalizing development costs, except for those developments related to the deployment of complete security solutions provided to certain customers and paid for by those customers in a rental agreement. In such cases, these specific developments are capitalized under the fixed assets made available to clients and amortized using the straight-line method over their estimated useful life of 4 to 5 years.

(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 5 to 10 years once development is achieved and saleable.

(d) COMPUTER SOFTWARE

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

(e) OTHER INTANGIBLES IN CONNECTION WITH BUSINESS COMBINATIONS

Under IFRS 3, in process research and development, core development technologies, customer lists and trademarks are valued as part of the process of allocating the purchase price in a new business combination. The respective values are recorded separately from Goodwill and are allocated to cash-generating units.

Acquired intangibles are amortized on a straight-line basis over the following periods with the expense recorded in the income statement:

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

(K) FINANCIAL ASSETS

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

(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(b) LOANS AND RECEIVABLES

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

(c) AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Changes in the fair value of available-for-sale financial assets are recognized in equity while exchange differences on monetary items are recognized in the income statement. When financial assets available-for-sale are sold or impaired, the accumulative fair value adjustments recognized in equity are included in the income statement.

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

(L) INVENTORIES

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

The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overheads and factory depreciation.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Furthermore, inventories which are no longer part of production and sales plans are directly written off from the gross value of inventories.

(M) TRADE ACCOUNTS RECEIVABLE

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

(N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months 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.

(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 and the nominal value of the share capital increase as well as incremental costs directly attributable to the issue of new shares or options (including stamp duties) of Kudelski SA are considered as share premium and are part of equity.

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

(Q) CONVERTIBLE BONDS

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

The fair value of the liability component of convertible bonds is determined using a market interest rate for an equivalent straight bond at in-

ception. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. Issuance costs are allocated on a proportional basis to the liability component and are expensed over the convertible bond life.

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

(R) 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.

(S) CONTINGENT CONSIDERATION

The purchase consideration for selected Group acquisitions may include contingent components, which depend on the future financial performance of the company acquired ("earn out clause"). It is based on the management's best estimate of the final consideration payable and is subject to a yearly review.

Where a portion of the contingent consideration for an acquisition is deferred to a date more than one year after the end of the current financial year, that portion is discounted to its present value and disclosed within other long term liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

(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 put in place an employee share purchase program which allows certain employees to buy a specific number of shares at preferred conditions and with a blocking period of 3 years. The difference between the fair value of these shares and the employees' payments for the shares is expensed in the income statement at subscription date. The fair value of the shares transferred is determined based on the market price of the shares adjusted to account for the estimated value effect of the blocking period.

(d) EMPLOYEE STOCK OPTION PLAN (ESOP)

The Group put in place an equity settled stock option plan for the members of the Board of Directors, the management and certain expert employees within the Group. The plan includes options with vesting periods of 3, 4 and 5 years and which may be exercised during a period of one year from the end of the vesting period.

Options are measured at fair value at the grant date using the Black & Scholes model adjusted to account for the estimated value impact of the exercise period. The determined fair value is then expensed in the income statement over the vesting period. An adjustment for future forfeited options is included in the calculation.

(e) 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 free 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.

(f) OPENTV CORP EMPLOYEE SHARE BASED PAYMENTS

OpenTV Corp, a subsidiary of the Group, recognizes compensation expenses for share and share options granted to employees and board members.

(g) 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 PAYABLES

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

(V) 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.

(W) TREASURY SHARES

Treasury shares are deducted from equity at acquisition cost. Gains or losses on the sale or cancellation of treasury shares are recognized in the retained earnings.

(X) DIVIDENDS

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

**(Y) NEW AND AMENDED ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS
STANDARDS AND INTERPRETATION
EFFECTIVE IN THE CURRENT PERIOD**

In the current year, the Group has adopted IAS 39 (amendment) Financial Instruments: recognition and measurement which is effective for annual reporting periods beginning on or after 1 July 2008. The amendment allows the reclassification of certain financial assets previously classified as «held for trading» or «available for sale» to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as «at fair value through profit or loss» under the fair value option are not eligible for this reclassification. The adoption of this amendment did not impact the Group financial statements.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 12 – Service concession arrangements;
- IFRIC 13 – Customer loyalty programmes;
- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction;
- IFRIC 16 – Hedge of a net investment in a foreign operation.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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 2009 or later periods, but which the Group has not early adopted:

- IAS 1 (amendment) – Presentation of financial statements (effective from 1 January 2009). It primarily affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosures of specific transactions and other events.
- IAS 23 (amendment) – Borrowing Costs (effective from 1 January 2009). The revised standard eliminates the previously available option to expense all borrowing costs when incurred. This revised standard will have a limited impact for Group's operations and borrowing costs incurred will be capitalized in qualifying assets.

- IAS 27 (amendment) – (effective from 1 July 2009), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. It will also specify the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These changes will impact the accounting for future transactions with non-controlling interest.

- IAS 32 and IAS 1 (amendment) (effective from 1 January 2009). The amendment requires certain puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation to be classified as equity rather than as a liability.

- IAS 39 (amendment) – (effective from 1 July 2009). Financial instruments recognition and measurement, eligible hedged items, with expected limited impact on the Group accounts.

- IFRS 2 (amendment) (effective from 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

- IFRS 3 (revised) – Business combinations (effective from 1 July 2009) requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include Goodwill related to the minority interest. All transaction costs will be expensed. The change may have a significant impact on the accounting for future business combinations.

- IFRS 8 – Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. This new requirements will have an impact on the segments presented, the items reported and their respective measurement.

- IFRS 1 (amended) and IAS 27 (revised) (effective from 1 January 2009) – A dividend paid out from pre-acquisition reserves will not be automatically considered a return of investment. Rather, based on the amendments to IAS 27R, it may be an indicator of impairment unless there are clear indications that it is part of a return of investment.

- IFRS improvement projects, with expected limited impact on Group's accounts.

Following IFRICs are not relevant or are expected to have no impact on the Group's accounts:

- IFRIC 15 – Agreements for the construction of real estate (effective from periods beginning on or after 1 January 2009);

- IFRIC 17 – Distributions of non-cash assets to owners (effective from periods beginning on or after 1 July 2009);

- IFRIC 18 – Transfer of assets from customer's (effective from periods beginning on or after 1 July 2009).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Kudelski Group's principal accounting policies are set out in note 1 of the Group's consolidated financial statements and conform to International Financial Reporting Standards (IFRS). Significant judgments and estimates are used in the preparation of the consolidated financial statements which, to the extent that actual outcomes and results may differ from these assumptions and estimates, could significantly affect the accounting in the areas described in this section.

COMPLETE SECURITY SOLUTIONS GENERATING RECURRING SERVICE REVENUES

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

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.

PROVISION FOR SMART CARD REPLACEMENT

Within the framework of certain contracts, the Group commits to provide replacement smart cards at special conditions to the customer during a certain time frame against the payment of a recurring security fee. The estimated cost to cover the risk of replacement is charged to the income statement proportionally to the remaining estimated life of each individual security device. The actual life time of the technology may significantly differ from estimates and, as a result, the recorded provision may differ significantly from the accrued costs.

DEFERRED TAX ASSETS

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

RETIREMENT BENEFIT PLANS

The Kudelski Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates. The actuarial assumptions used (note 29) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. The Group has recorded in compliance with

IFRS 1 the initial differences as of January 1, 2004 between assumed and actual income and expense as a liability in its balance sheet and uses the corridor approach in order to recognize its unrecorded gains and losses.

IMPAIRMENT OF GOODWILL

Determining whether a Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which Goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

● 3. FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including:

- forward foreign exchange contracts or option strategies to hedge the exchange rate risks;
- interest rate swaps to mitigate the risk of rising interest rates.

The Group does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded; i.e. it does not sell assets short. The Group only sells existing assets or hedges transactions and future transactions it knows it will have 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 and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

However, at the end of 2008 and 2007, the Group had no such hedging position open.

OTHER PRICE RISKS

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

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a mean of mitigating the risk of financial loss from defaults. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial informations and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the department in charge annually. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

LIQUIDITY RISK MANAGEMENT

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS**DIGITAL TELEVISION SOLUTIONS**

On February 29, 2008, the Group purchased 100 % of SAS EDSI, France, for a cash consideration of EUR 7.0 million (CHF 11.1 million). SAS EDSI is specialized in the development of high security software solutions for Digital TV, mobile phone and banking applications. The Goodwill amounting to CHF 6.8 million is attributable to a specialized workforce to develop smartcard software solutions and to potential synergies in the development of smartcard-based software. The Goodwill is allocated to the Digital Television Solutions cash generating unit.

On March 7, 2008, the Group closed an asset deal to acquire the assets of EmbedICs Inc., USA, active in embedded software and cryptography and providing hardware and software solutions to Digital TV operators, for a total consideration of USD 19.2 million (CHF 20.1 million), of which USD 17.0 million (CHF 17.8 million) were paid in cash. The Group created a new company EmbedICs LLC, USA to acquire the assets of EmbedICs Inc.

The Goodwill amounting to USD 19.1 million (CHF 20.0 million) is allocated to the Digital Television Solutions cash generating unit and is mainly attributable to the knowledge of employees to optimize system security and synergies enabling the Group to reduce its development costs.

PUBLIC ACCESS

On June 2, 2008, the Group purchased 100 % of Skibadge International, France for a cash consideration of EUR 1.1 million (CHF 1.7 million) and a contingent consideration of up to EUR 0.8 million depending upon 2008/2009 and 2009/2010 revenue and gross margin targets. Skibadge International is a provider of automated ski ticket vending equipment. The Goodwill amounting to EUR 1.2 million (CHF 1.9 million) is allocated to the Public Access cash generating unit. It is attributable to the workforce and potential synergies. As of December 22, 2008, the Group acquired 100 % of Orcus BVBA, Belgium for a cash consideration of EUR 0.2 million (CHF 0.2 million). Orcus BVBA offers access control solutions for the parking industry. The Goodwill amounting to CHF 0.7 million is allocated to the Public Access cash generating unit and is mainly based on the existing workforce of Orcus' employees.

MIDDLEWARE & ADVERTISING

On September 17, 2008, OpenTV Corp acquired 100 % ownership of Ruzz TV, Australia for a consideration of AUD 0.3 million (CHF 0.3 million). This acquisition is in line with OpenTV's strategy of winning top tier network operators and acquiring engineering talents. The Goodwill amounting to USD 0.2 million (CHF 0.2 million) is allocated to the Middleware & Advertising cash generating unit and is attributable to the knowledge of employees to develop high-quality technology solutions for broadcasters.

The aggregated assets and liabilities arising from the above 2008 business combinations are as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	476	476
Intangible fixed assets (Goodwill excl.)	3	1 235
Deferred income taxes	–	137
Financial assets and other non-current assets	37	37
Inventories	451	430
Trade accounts receivable	2 259	2 247
Other current assets	206	206
Cash and cash equivalents	4 188	4 188
Trade accounts payable	-1 276	-1 276
Other current liabilities	-1 412	-1 271
Current income taxes	-483	-572
Deferred tax liabilities	–	-413
Long term liabilities	-236	-569
Net assets	4 213	4 855
Minority interest purchased		–
Fair value of net assets acquired		4 855
Purchase consideration:		
– cash paid		31 045
– contingent consideration		2 945
– acquisition costs		370
Fair value of net assets acquired		-4 855
Goodwill		29 505
Purchase consideration:		
– cash paid		31 045
– acquisition costs		370
Cash and cash equivalents acquired		-4 188
Net cash outflow from acquisitions		27 227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

Furthermore, on January 31, 2008, the Group created a new company with its Spanish distribution partner Siatron, SkiData Iberica SL and holds a controlling interests of 51%. The remaining 49% are subject to a put option from 01.01.2009 to 31.12.2012 that entitles the partner to sell its interests in SkiData Iberica SL and a call option from 01.01.2013 to 31.12.2014 that entitles the Group to purchase the remaining interests. The redemption value of the put option that entitles the partner to sell its interests amounts to EUR 1.8 million (CHF 2.7 million) and is recognized in equity. This newly created company is distributing SkiData parking systems. The transaction resulted in Minority Interests of kEUR 784 (kCHF 1 168).

CORRECTION OF PREVIOUS PURCHASE PRICE

In August 31, 2007 the Group bought 51% of Parking Access Control Technologies SA, Belgium. The remaining 49% are subject to a forward contract agreement and will be bought in several stages until March 2010. For consolidation purposes, the acquisition of this company was considered as a 100% interest and a contingent consideration was accounted for. In 2008, the Group paid EUR 0.5 million (CHF 0.7 million) in cash and as the company results exceed the plan set-up when calculating the initial contingent consideration, the contingent consideration has been adapted within one year of the acquisition to reflect new best management estimates of the amounts to be paid. Hence, the Group has booked an additional Goodwill and contingent consideration amounting to CHF 0.8 million in the annual 2008 financial statements.

TRANSACTIONS WITH MINORITY INTERESTS

The Kudelski Group acquired additional OpenTV Corp shares for a consideration of kCHF 1 049 on the NASDAQ stock exchange in the first half of 2008. During the fourth quarter 2008, OpenTV Corp bought own shares on the NASDAQ stock exchange for a total consideration of kCHF 1 642. The acquisitions of the above shares are treated as transactions with minority interests and have resulted in a total consideration of kCHF 2 691. This was allocated to retained earnings for kCHF 946 and minority interests for kCHF 1 745. Share based payments, exercise of options and conversion rights at OpenTV Corp led to a dilution effect amounting to kCHF 170 recognized in equity.

On January 1, 2008, the Group purchased the remaining 25% interests of TESC, Test Solution Center GmbH, Germany for a cash consideration of kCHF 4 144. This acquisition of shares is treated as a transaction with minority interests and is allocated to retained earnings for kCHF 3 765 and minority interests for kCHF 379.

**BUSINESS COMBINATIONS IN 2007
OPENTV CORP**

On January 17, 2007 the Group completed the acquisition of a controlling interest in OpenTV Corp for a cash consideration of USD 132.3 million corresponding to an economic interest of 26.53% and a voting interest of 74.51%. OpenTV Corp is a leading provider of middleware technology for the delivery of digital and interactive television. OpenTV Corp is a company listed on the NASDAQ (Ticker: OPTV) and is fully consolidated in the Group financial statements from the acquisition date.

The assets and liabilities arising from the OpenTV Corp 2007 business combination were as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	7 997	7 997
Intangible fixed assets (Goodwill excl.)	23 025	20 977
Goodwill	121 136	-
Deferred income taxes	431	431
Financial assets and other non-current assets	15 665	28 959
Inventories	298	298
Trade accounts receivable	25 892	24 806
Other current assets	5 592	12 217
Financial assets (short term)	10 661	10 661
Cash and cash equivalents	59 858	59 858
Minority interest	-597	-597
Trade accounts payable	-5 124	-5 124
Other current liabilities	-54 846	-28 044
Current income taxes	-4 434	-4 434
Advances received from clients	-275	-6 153
Net assets	205 279	121 852
Minority interest purchased		-89 519
Fair value of net assets acquired		32 333
Purchase consideration:		
– cash paid		162 420
– acquisition costs		2 824
Fair value of net assets acquired		-32 333
Goodwill		132 911
Purchase consideration:		
– cash paid		162 420
– acquisition costs		2 824
Cash and cash equivalents acquired		-59 858
Net cash outflow from acquisitions		105 386

The Goodwill is attributable to the potential synergies considered when purchasing the company as well as the workforce capacity to develop new technologies and a premium for the controlling stake acquired.

TRANSACTIONS WITH MINORITY INTERESTS OF OPENTV CORP IN 2007

The Kudelski Group additionally acquired OpenTV Corp shares for a consideration of kCHF 9 069 on the NASDAQ stock exchange in the second half of 2007. In December 2007, OpenTV Corp bought own shares on the NASDAQ stock exchange for a total consideration of kCHF 1 474. The acquisitions of the above shares are treated as a transaction with minority interests and have resulted in a total consideration of kCHF 10 544 and were allocated to retained earnings for kCHF 3 504 and minority interests for kCHF 7 040.

Share based payments, exercise of options and conversion rights at OpenTV Corp led to a dilution effect amounting to kCHF 140.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

OTHER ACQUISITIONS IN 2007

As at October 24, 2007, the Group bought 50% of TESC Test Solution Center GmbH, Germany for a consideration of CHF 6.3 million. As the Group formerly owned 25 % of that company, TESC is treated as a subsidiary starting October 24, 2007. The Goodwill is essentially attributed to the workforce.

As at August 31, 2007, the Group bought 51% of Parking Access Control Technologies SA, Belgium for a cash consideration of EUR 1.6 million (CHF 2.6 million). The remaining 49% are subject to a forward contract agreement and will be bought in several stages until March 2010. For consolidation purposes, the acquisition of this company has been considered with a 100% interest and a contingent consideration has been taken into consideration. This company is active in distributing SkiData parking systems. After the acquisition the company has been renamed as SkiData SA/NV. The Goodwill is mainly attributable to the potential to attract new contracts for its parent unit.

The assets and liabilities arising from these prior year business combinations were as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	2 337	2 533
Intangible fixed assets (Goodwill excl.)	103	1 637
Inventories	1 238	1 123
Trade accounts receivable	2 356	2 122
Other current assets	126	79
Cash and cash equivalents	1 338	1 338
Trade accounts payable	-3 716	-3 606
Other current liabilities	-644	-757
Deferred tax liabilities	-	-490
Long term liabilities	-744	-744
Net assets	2 394	3 235
Minority interest purchased		-254
Fair value of net assets acquired		2 981
Purchase consideration:		
– cash paid		8 945
– contingent consideration		1 839
– acquisition costs		96
Recognized income of a purchased associate		254
Fair value of net assets acquired		-2 981
Goodwill		8 153
Purchase consideration in cash:		
– cash paid		8 945
– acquisition costs		96
Cash and cash equivalents acquired		-1 338
Net cash outflow from acquisitions		7 703

**CONTRIBUTION AND PRO FORMA DATA
INCLUDING BUSINESS COMBINATIONS
FOR ALL OF 2008**

The acquired businesses contributed net income of kCHF -821 (2007: kCHF 2 908) to the Group for the period from acquisition dates to December 31, 2008.

If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 1 030 940 (2007: kCHF 937 885) and kCHF -8 228 (2007: kCHF 65 617) respectively.

● 5. DIVESTMENTS**ARISING IN 2008**

On November 8, 2008, SkiData AG, disposed its 25% stake of Digital Elektronik GmbH for a cash consideration of EUR 6.6 million (CHF 10.5 million) after receiving a dividend of EUR 5 million (CHF 8.0 million) resulting in an excess value compared to the book value at disposal date of EUR 5.5 million (CHF 8.8 million).

ARISING IN 2007

On December 31, 2007 OpenTV Corp disposed 100% of Static 2358 Holdings Limited for a cash consideration of kCHF 255 (kUSD 225), a contingent consideration of kUSD 875, 50% of any net operating losses utilized, and a 19% stake in the newly formed holding company of Static 2358 Holdings Limited. As cash flow arising from the contingent consideration is not likely, it has been valued at zero.

On January 18, 2007 the Group disposed of a 50% interest in polyright SA, Sion for a cash consideration of CHF 1 million. The remaining 50 % stake in polyright SA is consolidated using joint venture accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 6. SEGMENT INFORMATION

PRIMARY SEGMENTS

A business segment is a group of assets and operations engaged in providing products and services subject to risks and returns that are different from those of other business segments.

OPERATING DIVISIONS

The Group is divided operationally on a worldwide basis into three divisions, Digital Television Solutions, Public Access and Middleware & Advertising. These divisions, which are also based on internal management structures, can be described as follows:

- The Digital TV Solutions division provides open conditional access solutions allowing digital TV and content providers to operate a wide range of high value-added pay TV services on a secure platform.
- The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and important events as well as multifunctional cards for universities and corporations.
- The Middleware & Advertising division provides middleware software, applications, including advanced advertising and interactive services as well as professional services for digital and interactive television.

The primary segment information for 2008 and 2007 is as follows:

In CHF'000	Operating divisions			
	Digital Television Solutions		Public Access	
	2008	2007	2008	2007
Revenues				
External sales	660 947	573 410	240 563	224 303
Inter-segment sales	4 955	8 667	65	101
Total revenues	665 902	582 077	240 628	224 404
Income statement				
Operating income/(loss)	7 266	87 981	21 587	25 776
Interest expense and other finance income/(expense), net				
Share of result of associates		-109	10 413	2 574
Income/(loss) before tax				
Income tax expense				
Net income/(loss) for the year				
Balance sheet				
Assets				
Segment assets	804 204	679 151	195 025	186 140
Investments in associates	–	–	5 563	10 700
	804 204	679 151	200 588	196 840
Liabilities				
Segment liabilities	204 376	130 655	129 312	81 233
Other information				
Capital expenditures	71 153	75 495	12 778	13 831
Depreciation and amortization	-43 668	-33 290	-7 927	-6 206
Impairment losses	-14 986	-2 897	–	–

CORPORATE

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.

INTERSEGMENT SALES

Inter-segment transactions are contracted on arm's length basis.

Middleware & Advertising		Corporate		Eliminations		Total	
2008	2007	2008	2007	2008	2007	2008	2007
125 996	128 100	–	–	–	–	1 027 506	925 813
8 842	499	–	–	-13 862	-9 267	–	–
134 838	128 599	–	–	-13 862	-9 267	1 027 506	925 813
10 186	-7 575	-20 539	-18 527			18 500	87 655
						-35 005	-7 734
–	–	–	–			10 413	2 465
						-6 092	82 386
						-903	-14 938
						-6 995	67 448
278 161	280 171	11 412	48 007			1 288 802	1 193 469
–	–		–			5 563	10 700
278 161	280 171	11 412	48 007			1 294 365	1 204 169
35 604	40 556	356 495	326 170			725 787	578 614
5 615	4 078	–	–			89 546	93 404
-7 093	-7 118	–	–			-58 688	-46 614
–	–	–	–			-14 986	-2 897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

SECONDARY SEGMENTS

A geographical segment provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

SALES

In CHF'000	Digital Television Solutions		Public Access		Middleware & Advertising		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Europe	380 721	321 996	196 467	186 420	48 160	56 918	625 348	565 334
Americas	181 562	139 898	23 900	18 378	36 242	33 861	241 704	192 137
Asia & Oceania	95 929	109 280	19 470	19 200	30 028	31 027	145 427	159 507
Africa	2 735	2 236	726	305	11 566	6 294	15 027	8 835
	660 947	573 410	240 563	224 303	125 996	128 100	1 027 506	925 813

Sales are allocated based on where the client is located.

OTHER GEOGRAPHICAL INFORMATION

In CHF'000	Europe	Americas	Others	Total
Total assets as of December 31,				
– 2008	791 757	500 282	2 326	1 294 365
– 2007	789 049	412 635	2 485	1 204 169
Capital expenditures for				
– 2008	81 294	7 974	278	89 546
– 2007	87 855	5 459	90	93 404

Assets and capital expenditures are allocated based on location of the entity owning the assets.

REVENUE CATEGORIES

In CHF'000	2008	2007
Sale of goods	635 266	546 924
Services rendered	235 024	215 985
Royalties and licenses	157 216	162 904
	1 027 506	925 813

7. OTHER OPERATING INCOME

In CHF'000	2008	2007
Government grants (research, development and training)	6 725	8 114
Settlement of litigations	122	4 228
Loss on fixed assets sales proceeds	-779	-86
Others	3 376	2 379
	9 444	14 635

8. OTHER OPERATING EXPENSES

In CHF'000	2008	2007
Development and engineering expenses	53 832	41 409
Travel, entertainment and lodging expenses	32 068	30 469
Legal, experts and consultancy expenses	42 404	47 097
Administration expenses	25 219	25 458
Building and infrastructure expenses	30 010	28 467
Marketing and sales expenses	34 717	12 284
Taxes other than income tax	6 342	5 385
Insurance, vehicles and others	20 637	14 704
	245 229	205 273

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2008	2007
Land and buildings	15	5 215	4 649
Equipment and machines	15	55 067	34 600
Total depreciation and impairment of tangible fixed assets		60 282	39 249
Intangible assets	16	13 392	10 262
Total amortization and impairment on intangible fixed assets		13 392	10 262
Depreciation, amortization and impairment		73 674	49 511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 10. INTEREST EXPENSE

In CHF'000	Note	2008	2007
Interest expense:			
– Convertible bond 2005–2012	28	11 238	11 092
– Other and bank charges		4 866	1 330
		16 104	12 422

● 11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2008	2007
Interest income		10 174	15 600
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-16 000	1 423
Net foreign exchange transaction gains/(losses)	13	-13 643	-13 489
Others		568	1 154
		-18 901	4 688

Change in fair value of kCHF -275 (2007: kCHF 22) for available-for-sale financial assets were recognized directly in equity while kCHF -63 (2007: kCHF 0) were removed from equity and recognized in the income statement.

Foreign exchange derivative financial instruments are classified as held for trading financial instruments. Change in fair value of held for trading financial assets amounting to kCHF -16 000 (2007: 1 423) are disclosed under Net gains on foreign derivative financial instruments not qualifying for hedge accounting.

● 12. INCOME TAX EXPENSE

In CHF'000	Note	2008	2007
Current income tax		-12 202	-18 863
Deferred income tax	18	11 998	6 158
Other taxes		-699	-2 233
		-903	-14 938

Other taxes include non reimbursable with holding taxes.

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

In CHF'000	2008	2007
Income/(loss) before taxes	-6 092	82 386
Expected tax calculated at domestic tax rates in the respective countries	2 225	-11 343
Effect of income not subject to income tax or taxed at reduced rates	3 266	4 249
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	16 651	298
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-18 889	-6 085
Effect of disallowed expenditures	-340	-404
Effect of prior year income taxes	-673	75
Effect of non-refundable withholding tax	-699	-2 233
Other	-2 444	505
Tax expense	-903	-14 938

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 -2 376 (2007: kCHF 0) and is disclosed under other in the above table.

The weighted average applicable tax rate was 36.52 % (2007: 13.77 %). The increase in tax rate is mainly attributable to change in the profitability mix of the subsidiaries (different countries and tax regimes).

13. NET FOREIGN EXCHANGE RESULT

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

In CHF'000	2008	2007
Sales	-14 071	-5 493
Cost of material	6 429	-367
Other finance income/(expense) net	-13 643	-13 489
Total exchange differences	-21 285	-19 349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 14. EARNINGS PER SHARE (EPS)

BASIC EARNINGS PER SHARE

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

In CHF'000	2008	2007
Net income attributable to bearer shareholders	-13 350	60 221
Net income attributable to registered shareholders	-1 295	5 875
Total net income	-14 645	66 096
Weighted average number of bearer shares outstanding	47 730 808	47 457 434
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (CHF)		
Bearer shares	-0.2797	1.2689
Registered shares	-0.0280	0.1269

DILUTED EARNINGS PER SHARE

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

In CHF'000	2008	2007
Net income attributed to equity holders of the company	-14 645	66 096
Elimination of interest expense on convertible debt *	-	-
Tax impact on above adjustments	-	-
Net income used to determine earnings per share	-14 645	66 096
Of which:		
- attributable to bearer shareholders	-13 350	60 229
- attributable to registered shareholders	-1 295	5 867
	-14 645	66 096
Weighted average number of bearer shares outstanding	47 730 808	47 457 434
Effect of dilutive potential bearer share:		
- employee stock option plan (ESOP) *	-	71 911
- convertible bond*	-	-
Weighted average number of bearer shares for the purpose of diluted earnings per share	47 730 808	47 529 345
Weighted average number of registered shares for the purpose of diluted earnings per share	46 300 000	46 300 000
Diluted earnings per share (CHF)		
Bearer shares	-0.2797	1.2672
Registered shares	-0.0280	0.1267

* Shares equivalent of 5 225 440 (2007: 5 225 440) relating to the convertible bonds were excluded from the calculation of diluted earnings per share as they were anti-dilutive. In 2008, the employee stock option plan is anti-dilutive since the strike price of the options is greater than the year average stock market price.

15. TANGIBLE FIXED ASSETS

Tangible fixed assets comprise the following:

In CHF'000	31.12.2008	31.12.2007
Land and buildings	79 694	80 579
Equipment and machines	85 843	97 017

165 537 177 596

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Construction in progress	Total
Gross values at cost					
As of January 1, 2007	15 576	75 305	9 391	3 040	103 312
Additions	-	4 348	1 671	310	6 329
Disposals and retirements	-	-	-1 507	-	-1 507
Change in scope of consolidation	184	794	3 248	-	4 226
Currency translation adjustment	34	432	-126	-	340
Reclassification & others	-	1 021	-	-3 187	-2 166

As of January 1, 2008	15 794	81 900	12 677	163	110 534
Additions	-	1 630	4 439	1 531	7 600
Disposals and retirements	-	-2 787	-456	-	-3 243
Change in scope of consolidation	-	105	58	-	163
Currency translation adjustment	-139	-1 905	-287	-2	-2 333
Reclassification & others	-	-	-	107	107

As of December 31, 2008	15 655	78 943	16 431	1 799	112 828
--------------------------------	---------------	---------------	---------------	--------------	----------------

Accumulated depreciation and impairment

As of January 1, 2007	-	-16 607	-7 980	-	-24 587
Systematic depreciation	-	-3 393	-1 256	-	-4 649
Recovery of depreciation on disposals and retirements	-	-	1 507	-	1 507
Change in scope of consolidation	-	-68	-1 853	-	-1 921
Currency translation adjustment	-	-265	40	-	-225
Reclassification & others	-	-26	-54	-	-80

As of January 1, 2008	-	-20 359	-9 596	-	-29 955
Systematic depreciation	-	-3 488	-1 727	-	-5 215
Recovery of depreciation on disposals and retirements	-	472	456	-	928
Change in scope of consolidation	-	-90	-	-	-90
Currency translation adjustment	-	1 084	114	-	1 198
Reclassification & others	-	-	-	-	-

As of December 31, 2008	-	-22 381	-10 753	-	-33 134
--------------------------------	----------	----------------	----------------	----------	----------------

Net book values as of December 31, 2007	15 794	61 541	3 081	163	80 579
--	---------------	---------------	--------------	------------	---------------

Net book values as of December 31, 2008	15 655	56 562	5 678	1 799	79 694
--	---------------	---------------	--------------	--------------	---------------

Useful life in years	Indefinite	10–50	4–8		
----------------------	------------	-------	-----	--	--

In CHF'000	31.12.2008	31.12.2007
Fire insurance value of buildings	90 079	96 074
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 160	4 579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
Gross values at cost			
As of January 1, 2007	157 631	11 940	169 571
Additions	49 646	1 481	51 127
Disposals and retirements	-9 417	-1 426	-10 843
Change in scope of consolidation	25 827	4 342	30 169
Currency translation adjustment	-265	-270	-535
Reclassification & others	3 198	-477	2 721
As of January 1, 2008	226 620	15 590	242 210
Additions	51 417	1 696	53 113
Disposals and retirements	-71 785	-661	-72 446
Change in scope of consolidation	1 006	291	1 297
Currency translation adjustment	-9 756	-237	-9 994
Reclassification & others	-	-816	-816
As of December 31, 2008	197 502	15 862	213 363
Accumulated depreciation and impairment			
As of January 1, 2007	-91 233	-7 606	-98 839
Systematic depreciation	-29 750	-1 953	-31 703
Impairment	-2 897	-	-2 897
Recovery of depreciation on disposals and retirements	9 417	1 426	10 843
Change in scope of consolidation	-19 467	-2 623	-22 090
Currency translation adjustment	688	209	897
Reclassification & others	-1 844	440	-1 404
As of January 1, 2008	-135 086	-10 107	-145 193
Systematic depreciation	-38 293	-1 789	-40 082
Impairment	-14 931	-55	-14 986
Recovery of depreciation on disposals and retirements	67 452	354	67 805
Change in scope of consolidation	-758	-136	-894
Currency translation adjustment	5 328	499	5 828
Reclassification & others	-	-	-
As of December 31, 2008	-116 287	-11 234	-127 521
Net book values as of December 31, 2007	91 534	5 483	97 017
Net book values as of December 31, 2008	81 215	4 628	85 843
Useful life in years	2–10	4–7	

The technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. Impairment losses mainly consist in assets made available to clients that were written off due to swaps out of those assets.

In CHF'000	31.12.2008	31.12.2007
Fire insurance value of technical equipment and machinery	128 350	128 880

16. INTANGIBLE ASSETS

In CHF'000	Technology	Customer lists, Trademarks & Brands	Software	Goodwill	Other intangibles	Total
Gross values at cost						
As of January 1, 2007	33 323	812	12 329	1 829	116	48 409
Additions	30 206	–	5 752	–	–	35 958
Disposals and retirements	-7 641	–	-1 664	–	–	-9 305
Change in scope of consolidation	18 545	3 245	7 914	141 062	–	170 766
Currency translation adjustment	-1 316	-136	-349	-10 589	3	-12 387
Reclassification & others	–	–	1 464	–	-33	1 431
As of January 1, 2008	73 117	3 921	25 446	132 302	86	234 872
Additions	18 314	–	7 321	–	202	25 837
Disposals and retirements	-51	–	-4 038	–	–	-4 089
Change in scope of consolidation	789	271	–	30 337	174	31 571
Currency translation adjustment	-2 416	-237	-973	-7 529	-57	-11 211
Reclassification & others	–	–	710	–	–	710
As of December 31, 2008	89 753	3 955	28 465	155 111	405	277 689
Accumulated depreciation and impairment						
As of January 1, 2007	-11 030	-64	-8 804	–	-106	-20 004
Systematic amortization	-6 474	-564	-3 224	–	–	-10 262
Recovery of amortization on disposal and retirements	5 014	-19	1 664	–	21	6 680
Change in scope of consolidation	14	–	-7 105	–	–	-7 091
Currency translation adjustments	91	18	325	–	-1	433
Reclassification & others	–	–	-511	–	–	-511
As of January 1, 2008	-12 385	-629	-17 655	–	-86	-30 755
Systematic amortization	-8 473	-528	-4 339	–	-52	-13 392
Recovery of amortization on disposal and retirements	51	–	4 033	–	–	4 084
Change in scope of consolidation	–	–	–	–	–	–
Currency translation adjustments	531	44	940	–	6	1 520
Reclassification & others	–	–	–	–	–	–
As of December 31, 2008	-20 276	-1 113	-17 021	–	-133	-38 543
Net book values as of December 31, 2007	60 732	3 292	7 791	132 302	–	204 117
Net book values as of December 31, 2008	69 477	2 842	11 444	155 111	272	239 146
Useful life in years	5–10	5–10	3–4	Indefinite	4	

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units. Cash generating units are defined within the frame of the Group to their reporting segment. kCHF 115 988 (2007: kCHF 122 304) have been allocated to Middleware & Advertising, kCHF 33 786 (2007: kCHF 7 645) to Digital Television Solutions and kCHF 5 337 (2007: kCHF 2 353) to Public Access Solutions.

The Middleware & Advertising Goodwill value in use has been determined based on a value in use calculation which uses cash flow projections approved by the Group management covering a four-year period (2007: a five-year period), and a weighted average cost of capital used as discount rate of 12.0 % (2007: 12.8 %). The cash flows beyond that four-year period (2007: five-year period) have been extrapolated using a steady 3.0 % (2007: 3.0 %) per annum growth. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. As 2009 Digital Television budgeted operating profits and cash flows are greater than carrying value of Goodwill allocated to this cash generating unit, this value is not to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 17. INVESTMENTS IN ASSOCIATES

In CHF'000	2008	2007
At January 1	10 700	9 441
Acquisition of associates	4 206	–
Change in scope of consolidation	–	-254
Share of profit/(loss)	1 645	2 465
Dividends received	-8 750	-1 229
Carrying value of an associate at disposal date	-1 727	–
Exchange differences	-511	277
At December 31	5 563	10 700

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

Name of associate	Principal activity	Interest held	
		2008	2007
Digital Elektronik GmbH, Austria	Manufacture of Electronics products	0%	25%
APT-SkiData Ltd, United Kingdom	Sales of Physical Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Physical Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Physical Access products	26%	0%
Resort Technology Partners LLC, USA	Sales of Physical Access products	25%	0%
TESC Test Solution Center GmbH, Germany	Services for Digital Television	–	*
Ticketcorner Holding AG	Event distribution and ticketing	28%	28%

* consolidated as a subsidiary starting October 24, 2007

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2008	31.12.2007
Total assets	143 925	183 308
Total liabilities	147 991	152 128
Net assets	-4 066	31 180
Group's share of associates' net assets	5 563	10 700
	2008	2007
Revenue	140 499	163 629
Result of the period	976	10 720
Group's share of associates' result for the period	10 413	2 465

The Group's share in the consolidated net assets of its associate Ticketcorner Holding AG, as adjusted for the unrealized portion of its revalued assets and liabilities, is negative. As the Group has no legal or constructive obligation on behalf of the associate, it has not recognized its share of the negative equity. It will resume recognizing its share of subsequent profits once these equal the share of losses not recognized.

The Group's share of associates results in 2008 includes the gain on sale of the 25% stake in Digital Elektronik GmbH of kCHF 8 767, corresponding to the difference between the sale consideration of kCHF 10 494 and the Group's portion of net assets in the associate at disposal date amounting to kCHF 1 727. Further information is described in note 5.

18. DEFERRED INCOME TAXES

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

The offset amounts are as follows:

In CHF'000	31.12.2008	31.12.2007
Deferred tax assets	51 856	39 750
Deferred tax liabilities	-5 088	-4 470
	46 768	35 280

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

In CHF'000	Note	2008	2007
At January 1		35 280	29 265
Exchange differences		-234	-84
Impact of business combinations		-276	-59
Income statement (expense)/income	12	11 998	6 158
At December 31		46 768	35 280

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, 2008	Income statement effect	Business combinations	Exchange differences	At December 31, 2008
Deferred tax assets associated with:					
- intangibles	16 748	1 681	-	-30	18 399
- employee benefits	3 926	496	41	-67	4 396
- tax losses	15 049	4 944	-	-1	19 992
- provisions and other elements tax deductible when paid	1 086	4 032	-	-142	4 976
- inter-company profit elimination	3 623	471	-	-338	3 756
- others	29	558	-	-22	565
Total deferred tax assets (gross)	40 461	12 182	41	-600	52 084
Deferred tax liabilities associated with:					
- affiliates and allowances for Group companies	-4 567	695	-	234	-3 638
- provisions & accelerated tax depreciation	-594	-	-317	76	-835
- others	-20	-879	-	56	-843
Total deferred tax liabilities (gross)	-5 181	-184	-317	366	-5 316
Net deferred tax asset/(liability)	35 280	11 998	-276	-234	46 768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

And for the past year:

In CHF'000	At January 1, 2007	Income statement effect	Business combinations	Exchange differences	At December 31, 2007
Deferred tax assets associated with					
– intangibles	15 531	828	431	-42	16 748
– employee benefits	3 403	509	–	14	3 926
– tax losses	9 759	5 290	–	–	15 049
– provisions and other elements tax deductible when paid	295	777	–	14	1 086
– inter-company profit elimination	3 506	149	–	-32	3 623
– others	519	-490	–	–	29
Total deferred tax assets (gross)	33 013	7 063	431	-46	40 461
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-3 526	-960	–	-81	-4 567
– provisions & accelerated tax depreciation	-17	-134	-490	47	-594
– others	-205	189	–	-4	-20
Total deferred tax liabilities (gross)	-3 748	-905	-490	-38	-5 181
Net deferred tax asset/(liability)	29 265	6 158	-59	-84	35 280

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 775.0 million (2007: 657.6 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 205.2 million (2007: CHF 173.5 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 569.8 million (2007: CHF 484.1 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	2008	2007
Expiration within:		
One year	0.2	1.6
Two years	0.2	8.7
Three years	–	25.1
Four years	–	–
Five years	5.2	0.7
More than five years	564.2	448.0
Total	569.8	484.1

19. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

In CHF'000	Note	31.12.2008	31.12.2007
Available-for-sale financial assets:			
– equity instruments with no quoted market price		2 672	2 675
– marketable securities	23	1 260	3 470
Loans – third parties		5 158	2 978
Loans – related parties		24 114	22 217
Deferred contract cost (long term portion)		26 188	3 769
Others		3 803	3 365
		63 195	38 474

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 2 672 (2007: kCHF 2 675) and marketable securities for kCHF 1 260 (2007: kCHF 3 470) which have a maturity exceeding twelve months. Third party and associated company loans are measured at amortized cost. The loans to associated companies include a kCHF 19 715 (2007: kCHF 19 715) loan to Ticketcorner AG which bears a 8% (2007: 7%) interest rate and includes accrued interests for kCHF 4 149 (2007: kCHF 2 327). The effective interest rate on third party loans was 4.83% (2007: 2.13%). Others mainly consist of guarantee deposits.

20. INVENTORIES

In CHF'000	31.12.2008	31.12.2007
Raw materials	13 614	14 851
Work in progress	7 090	6 795
Finished goods	76 646	72 167
	97 350	93 813

Write-downs of inventories recognized as an expense amount to kCHF 3 984 (2007: kCHF 5 851).

Changes in inventories of finished goods and work in progress included in cost of material are kCHF 403 (2007: kCHF 31 850).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2008	31.12.2007
Trade accounts receivable	355 978	253 758
Less: provision for impairment	-21 839	-7 851
Trade accounts receivable related parties	11 705	9 051
Trade receivables – net	345 844	254 958
Amounts due from customers for contract work, of which kCHF -1'252 provision (2007: kCHF -420)	8 088	5 281
Total	353 932	260 239

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	2008	2007
January 1	-7 851	-13 241
Change in scope	-60	-418
Provision for impairment charged to income statement	-16 743	-1 735
Utilization	762	769
Reversal	1 720	6 772
Translation effects	333	2
December 31	-21 839	-7 851

The creation and release of provision for impairment are included in other operating expenses (sales expenses) in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -16 743 (2007: kCHF -1 735). 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	31.12.2008	31.12.2007
Not overdue	133 958	134 314
Past due and not impaired:		
– not more than one month	75 655	41 582
– more than one month and not more than three months	79 931	39 942
– more than three months and not more than six months	44 814	19 045
– more than six months and not more than one year	7 971	14 605
– more than one year	3 515	5 470
Total trade accounts receivable, net	345 844	254 958

● 22. OTHER CURRENT ASSETS

In CHF'000	31.12.2008	31.12.2007
Loans – short term portion	6 055	11 196
Prepaid expenses	8 284	7 162
Accrued income	3 933	6 878
Premium in connection with business combination to receive	–	16 139
State and government institutions	22 562	20 089
Advances to suppliers and employees	7 690	10 596
Deferred contract cost (short term portion)	10 042	–
Other receivables	2 408	5 970
	60 974	78 030

Loans are measured at amortized cost. The effective interest rate on short term loans was 5.57% (2007: 5.76%).

● 23. FINANCIAL ASSETS

In CHF'000	Note	31.12.2008	31.12.2007
Financial assets held for trading:			
– derivative financial instruments	36	681	546
Financial assets available-for-sale:			
– marketable securities		8 312	22 764
		8 993	23 310

Available-for-sale marketable securities include the following:

In CHF'000	31.12.2008	31.12.2007
Corporate debt securities	4 719	8 955
Asset-backed securities	915	5 233
Money market securities	961	9 344
US agency debt securities	1 071	1 131
Certificates of deposits	1 355	1 571
US government debt securities	551	–
	9 572	26 234
of which:		
– short term	8 312	22 764
– long term	1 260	3 470
	9 572	26 234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2008	31.12.2007
Cash at bank and in hand	224 065	196 281
Short term deposits	23 754	81 859
	247 819	278 140

The effective interest rate on short term deposits was 2.7% (2007: 3.7%). These deposits have an average maturity of 30 days. The Group only enters into transactions with high rated banks.

● 25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2008	31.12.2007
47'765'974 / 47'529'417 bearer shares, at CHF 10 each	477 660	475 294
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	523 960	521 594

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).

AUTHORIZED SHARE CAPITAL

In CHF'000	2008	2007
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 April 22, 2010, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2008	2007
Conditional share capital as of January 1	109 844	112 085
Increase of conditional share capital	–	–
Employee share purchase plan	-450	-184
Exercise of options	–	-1 180
Shares allotted to employees	-1 916	-877
Conditional share capital as of December 31	107 478	109 844
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:		
747'782 / 984'339 bearer shares, at CHF 10 each	7 478	9 844
	107 478	109 844

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 000 000, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2005 General Assembly approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 15 841 760 consisting of 1 584 176 bearer shares of a nominal value of CHF 10.

● 26. TREASURY SHARES

	Number of bearer shares	Book value in CHF'000
As of January 1, 2007, December 31, 2007 and 2008	20 155	380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 27. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2008	31.12.2007
Bank loans		36 537	2 775
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	28	327 643	322 093
		364 180	324 868

The fixed interest rate paid in 2008 for bank loans is 4.8% (2007: 2.0%).

● 28. CONVERTIBLE BOND 2005/2012

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

Following the payment of an extraordinary dividend on May 30, 2007, conversion price has been set at CHF 66.98 per bearer share.

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

In CHF'000	2008	2007
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	13 242	7 838
Interest expense for the year	11 238	11 092
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	-1 343	-1 343
Liability component as of December 31	327 643	322 093

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	2008	2007
Base interest (1.625%)	5 688	5 688
Allocation of the equity conversion component	4 733	4 587
Effective interest expense (effective yield rate of 3.2%)	10 421	10 275
Allocation of transaction costs	817	817
Interest expense	11 238	11 092

● 29. EMPLOYEE BENEFITS LIABILITIES

In addition to the social security plans mandated by the law, the Group sponsors an independent pension plan in Switzerland. All employees in Switzerland 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.

In certain locations abroad, the Group is subject to termination and jubilee benefits treated as defined benefit plans according to IAS 19.

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

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

In CHF'000	31.12.2008	31.12.2007	31.12.2006	01.01.2006
Fair value of plan assets	75 443	87 081	69 994	55 886
Defined benefit obligation	-111 687	-107 717	-99 328	-81 006
Funded status	-36 244	-20 636	-29 334	-25 120
Unrecognized gains/(losses)	-14 537	-586	-11 721	-11 040
Prepaid/(accrued) pension cost	-21 707	-20 050	-17 613	-14 080

The liability that is recognized in the balance sheet at December 31, 2008 amounts to kCHF 21 707 (kCHF 20 050 at December 31, 2007).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2008 (respectively 2007):

In CHF'000	2008	2007
Service cost	-13 858	-12 701
Interest cost	-3 848	-2 839
Expected return on plan assets	4 354	3 500
Employees contributions	4 979	4 422
Amortization of gains/(losses)	394	-38
Curtailment gain/(loss)	-	22
Net pension (cost)/income	-7 979	-7 634
Exchange rate difference	611	-141
Employer contribution	6 042	5 338

The net pension cost for the financial year 2008 amounts to kCHF 7 979 (kCHF 7 634 for the financial year 2007).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2008 and 2007 are as follows:

	31.12.2008	31.12.2007
Switzerland		
Discount rate	3.50%	3.50%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	1.00%	1.00%
Expected long-term rate of return on plan assets	4.50%	5.00%
Turnover	4.8% on average	5.3% on average
Retirement age	according to the rules	according to the rules
Abroad		
Discount rate	5.50%	5.00%
Rate of future increase in compensations	3.33%	3.39%
Turnover	11.9% on average	12.6% on average
Retirement age	according to the law	according to the law

The changes in defined benefit obligation, fair value of plan assets and unrecognized gains/(losses) during the year 2008 and 2007 are as follows:

A. Change in defined benefit obligation

In CHF'000	2008	2007
Defined benefit obligation as of 1.1.	-107 717	-99 328
Service cost	-13 858	-12 701
Interest cost	-3 848	-2 839
Change in assumptions	5 112	21 304
Actuarial (gains)/losses	3 993	-9 671
Acquisition	-331	-
Curtailment gain/(loss)	-	22
Benefits payments	4 351	-4 363
Exchange rate difference	611	-141
Defined benefit obligation as of December 31,	-111 687	-107 717

B. Change in fair value of plan assets

In CHF'000	2008	2007
Fair value of plan assets as of 1.1.	87 081	69 994
Expected return on plan assets	4 354	3 500
Employees' contributions	4 979	4 421
Employer's contribution	6 042	5 338
Plan assets gains/(losses)	-22 662	-535
Benefits (paid)/received	-4 351	4 363
Fair value of plan assets as of December 31,	75 443	87 081

C. Change in unrecognized gains/(losses)

In CHF'000	2008	2007
Unrecognized gains/(losses) as of 1.1.	-586	-11 721
Amortization	-394	38
Change in assumptions	5 112	21 304
Actuarial gains / (losses)	3 993	-9 671
Plan assets gains / (losses)	-22 662	-536
Unrecognized gains/(losses) as of December 31,	-14 537	-586

The actual return on plan assets amounts to kCHF -18 308 for the year 2008 (kCHF 2 964 for the year 2007). The estimated employer's contribution to the pension plans for the financial year 2009 amounts to kCHF 5 787.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

The categories of plan assets and their corresponding expected return at December 31, 2008 (respectively December 31, 2007) are as follows:

In CHF'000	Proportion in % 31.12.2008	Expected return 31.12.2008	Proportion in % 31.12.2007	Expected return 31.12.2007
Cash	13.2%	1.5%	8.8%	1.5%
Swiss bonds	31.9%	2.5%	29.6%	2.5%
Foreign bonds	9.6%	3.9%	10.5%	3.9%
Swiss shares	16.2%	8.3%	17.9%	8.3%
Foreign shares	18.5%	8.9%	21.7%	8.9%
Real estates	8.4%	4.4%	8.9%	4.4%
Structured products	2.2%	4.0%	2.6%	4.0%
Total	100.0%	4.8%	100.0%	5.0%

30. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2008	Total 2007
As of January 1	2 648	3 780	10 492	16 920	15 143
Additional provisions	–	16	4 621	4 637	8 400
Unused amounts reversed	–	-1 590	-532	-2 122	-1 904
Used during the year	-1 128	–	-2 981	-4 109	-4 720
Business combinations impact	–	–	106	106	–
Exchange differences	-56	-95	-278	-429	2
As of December 31	1 464	2 111	11 428	15 003	16 920
Thereof:					
– Short term	240	551	6 203	6 994	7 557
– Long term	1 224	1 560	5 225	8 009	9 363
	1 464	2 111	11 428	15 003	16 920

RESTRUCTURING PROVISIONS

Restructuring provisions mainly include lease terminations considered as onerous contracts.

LEGAL FEE AND LITIGATIONS

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

PROVISION FOR WARRANTY

Provision for warranty includes kCHF 5 120 (2007: kCHF 4 498) to cover the risk of smart card replacement for certain customers paying a recurring security fee.

● 31. OTHER LONG TERM LIABILITIES

In CHF'000	31.12.2008	31.12.2007
Contingent consideration - long term portion	5 179	1 360
Loans granted by third parties	250	200
	5 429	1 560

Loan granted by third parties bears a 4% interest rate (2007: 4%).

● 32. SHORT TERM FINANCIAL DEBT

In CHF'000	31.12.2008	31.12.2007
Short term bank borrowings	78 768	11 934
Other short term financial liabilities	136	20
	78 904	11 954

The average effective interest paid in 2008 for short term bank borrowings is 3.83% (2007: 3.18%).

● 33. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2008	31.12.2007
Trade accounts payable – third parties	113 681	57 533
Trade accounts payable – related parties	20	13 460
	113 701	70 993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 34. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2008	31.12.2007
Accrued expenses	68 465	67 602
Deferred income	10 821	9 929
Payable to pension fund	1 886	1 145
Contingent consideration - short term portion	2 344	477
Other payables	20 506	15 852
	104 022	95 005

● 35. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2008	31.12.2007
Amounts due to customers for contract work	2 175	5 940
Advances from clients	10 412	15 705
	12 587	21 645

● 36. DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Contract of underlying principal amount		Assets		Liabilities	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Currency related instruments:						
– forward foreign exchange contracts	–	1 582	–	23	–	–
– over the counter currency options	16 050	28 250	681	–	66	357
– cross currency swaps	–	17 445	–	523	–	2
– currency Target redemption notes ("TaRN")	5 350	–	–	–	2 456	–
Total of currency related instruments	21 400	47 277	681	546	2 522	359

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. In 2008 and 2007, they did not qualify for hedge accounting purposes and are classified as held-for-trading. The contractual maturity date of all these derivative instruments is less than one year and the undiscounted planned cash inflow and outflow are kCHF 36 555 and kCHF 37 450 respectively (2007: kCHF 30 235 and kCHF 29 832).

● 37. CASH FLOWS ARISING FROM DIVESTMENTS OF SUBSIDIARIES

In CHF'000	2008 Disposals	2007 Disposals
Financial fixed assets	-	220
Tangible fixed assets	-	147
Net working capital	-	2 291
Short term financial debt	-	-857
Cash and cash equivalents	-	958
Fair value of net assets disposed of	-	2 759
Gain on disposal of subsidiaries	-	2 087
Loss on disposal of subsidiaries	-	-2 179
Disposal expenses	-	675
Total sale proceeds	-	3 342
Cost related to the disposal	-	-675
Cash and cash equivalents disposed of	-	-958
Net cash inflow/(outflow) on disposals	-	1 709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 38. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

In CHF'000	2008 Acquisitions	2007 Acquisitions
Tangible fixed assets	476	10 530
Intangible fixed assets (excluding Goodwill)	1 235	22 614
Deferred income taxes	137	431
Financial assets and other non-current assets	37	28 959
Net working capital	-236	-7 473
Financial assets - short term portion	-	10 661
Minority interests	-	-597
Deferred tax liabilities	-413	-490
Long term liabilities	-569	-744
Cash and cash equivalents	4 188	61 196
Fair value of net assets acquired	4 855	125 087
Minority interest purchased	-	-89 773
Recognized income of a purchased associate	-	-254
Fair value of net assets acquired for the Group	4 855	35 060
Goodwill	29 505	141 064
Impact of transaction with minority interests	6 834	10 543
Total acquisition costs	41 194	186 667
Of which:		
- cash consideration paid	37 879	181 908
- contingent consideration not paid	2 945	1 839
- acquisition costs	370	2 920
	41 194	186 667
To adjust for:		
- contingent consideration not paid	-2 945	-1 839
- prior years contingent considerations paid	725	5 044
- cash and cash equivalents acquired	-4 188	-61 196
Net cash outflow from acquisitions	34 786	128 676

● 39. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Kudelski family pool	57%	57%	23%	22%

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

● 40. RESEARCH AND DEVELOPMENT

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

In CHF'000	2008	2007
Research and development	221 539	210 558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 41. DIVIDEND

The ordinary dividend paid in 2008 was kCHF 15 703 (2007: kCHF 15 629) which corresponds to a dividend of CHF 0.30 (2007: CHF 0.30) per bearer share and CHF 0.03 (2007: CHF 0.03) per registered share. Moreover, an extraordinary dividend of kCHF 0 was paid in 2008 (2007: kCHF 15 629) corresponding to an extraordinary dividend of CHF 0.00 (2007: CHF 0.30) per bearer share and CHF 0.00 (2007: CHF 0.03) per registered share.

For the current year, the Board of Directors proposes a dividend of CHF 0.15 per bearer share and CHF 0.015 per registered share. The dividend to be paid is kCHF 7 860 and may fluctuate upon exercise of option and conversion rights. The dividend is subject to the approval of shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

● 42. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE STOCK OPTION PLAN

In April 2003 the Kudelski Group set up a stock option plan for the members of the Board of Directors, the management and certain expert 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
2003	125 000	01.04.2006	01.04.2007	1:1	20
2003	125 000	01.04.2007	01.04.2008	1:1	20
2003	125 000	01.04.2008	01.04.2009	1:1	20
2005	1 000	01.04.2007	01.04.2008	1:1	20
2005	1 000	01.04.2008	01.04.2009	1:1	20

CHANGES IN OPTIONS HELD

The following table summarizes the changes in options held:

Changes in options held	Strike price		Strike price	
	Options 2008	in CHF 2008	Options 2007	in CHF 2007
In circulation on January 1	145 072	20	274 245	20
– of which exercisable	32 980	20	40 199	20
New rights issued	–	–	–	–
Rights exercised	–	20	-118 024	20
Rights forfeited	-36 135	20	-11 149	20
In circulation on December 31	108 937		145 072	20
– of which exercisable	108 937		32 980	

The expense charged against the income statement for the financial year 2008 amounts to kCHF 48 (2007: kCHF 245). The expense assumes a departure rate based on the fact that some beneficiaries will not be able to exercise.

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.

	Shares 2008	Options 2008	Shares 2007	Options 2007
Shares underwritten by employees	41 511	–	16 241	–
Bonus shares and options from ESPP	3 534	4 768	2 180	1 068
Total employee share program	45 045	4 768	18 421	1 068

In CHF'000	Shares 2008	Options 2008	Shares 2007	Options 2007
Amount paid by employee	395	–	277	–
Booked corporate charges (excluding social charges)	93	13	109	8
	488	13	386	8

SHARES ISSUED FOR EMPLOYEES

In 2008, 191 512 bearer shares of Kudelski SA (2007: 87 732) were given to employees for no consideration as part of their remuneration, of which 130 562 (2007: 0) include a seven-year blocking period, 0 include a five-year blocking period (2007: 55 000) and 39 720 include a three year blocking period (2007: 17 116). The fair value recognized for this equity based compensation is kCHF 2 099 (2007: kCHF 2 723) and was fully accrued in the prior year.

● 43. OPENTV CORP - SHARE BASED PAYMENTS

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

STOCK OPTION PLAN

No options were given in 2008 to employees and board members. In 2007, management and board members received 557 500 options of Open TV Corp with a strike price of USD 2.02. The option granted in 2007 under the current option plan were granted to an exercise price equal to the fair market value of the underlying shares on the date of grant and typically vest 25% after one year from the date of grant and 1/48th over each of the next 36 months. The fair values of the options have been measured using the Black-Scholes option pricing model at grant date. The expense is recognized against the income statement over the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

In 2008, employees and board members of OpenTV exercised 39 464 (2007: 275 906) options with an average strike price of USD 0.44 (2007: USD 1.10). The table below summarizes movements in options since acquisition date:

	Options outstanding	Exercise price	Weighted average exercise price
		in USD	in USD
Balance, January 17, 2007	9 680 385		5.04
Options granted	557 500	1.03–2.72	2.02
Options exercised	-275 906	0.33–2.29	1.10
Options forfeited	-1 494 220	1.51–5.04	3.00
Options expired	-2 609 084	1.51–54.25	6.31
Balance, December 31, 2007	5 858 675	–	4.89
Options granted	688 800	1.04–1.97	1.34
Options exercised	-39 464	0.33–1.05	0.44
Options forfeited	-341 164	1.03–4.00	2.61
Options expired	-981 772	0.33–54.25	3.67
Balance, December 31, 2008	5 185 075		4.84

The following table summarizes information with respect to the options outstanding as of December 31, 2008:

Exercise price in USD	Options outstanding			Options currently exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		in years	in USD		in USD
0.33–1.33	550 650	7.66	1.13	125 528	1.05
1.46–2.12	571 112	6.77	1.70	150 357	1.85
2.13–2.69	401 257	6.99	2.41	259 166	2.39
2.70–2.70	899 600	5.95	2.70	868 115	2.70
2.73–2.82	254 587	6.52	2.78	215 987	2.79
2.84–2.84	1 030 025	6.88	2.84	760 896	2.84
2.85–3.23	573 000	6.25	3.02	403 741	3.02
2.35–3.23	567 647	3.39	6.59	522 474	6.85
9.90–82.06	336 197	1.44	32.38	336 197	32.38
88.00–88.00	1 000	5.97	88.00	1 000	88.00
	5 185 075	6.38	4.84	3 643 461	6.28

And as of December 31, 2007:

Exercise price in USD	Options outstanding			Options currently exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		in years	in USD		in USD
0.33–2.11	624 202	4.58	1.34	387 498	1.26
2.12–2.69	569 940	8.35	2.37	142 489	2.39
2.70–2.70	1 178 598	6.52	2.70	876 815	2.70
2.72–2.82	302 537	7.49	2.78	177 342	2.78
2.84–2.84	1 335 530	7.71	2.84	679 468	2.84
2.85–3.05	619 241	6.76	2.98	304 495	2.99
3.06–6.00	619 119	5.97	4.39	431 830	4.75
6.04–54.25	599 508	2.71	22.14	599 508	22.14
81.00–88.00	9 000	2.09	81.35	9 000	81.35
88.00–88.00	1 000	1.92	88.00	1 000	88.00
	5 858 675	6.38	4.89	3 609 445	6.28

On June 27, 2007, OpenTV Corp repurchased 1 150 000 stock options for kCHF 189 from James A. Chiddix, the former CEO, in connection with his resignation as CEO.

EMPLOYEE AND BOARD MEMBERS SHARE ALLOCATIONS

In 2008, OpenTV Corp issued 100 000 restricted Class A ordinary shares each for OpenTV's executive chairman and chief executive officer. The restriction from sale or transfer of these shares shall lapse with respect to one-third of the restricted shares on each March 5, 2009, 2010, 2011. The fair value of the shares is based on the stock market price at the date of grant.

In March 2007, 60 000 restricted shares of OpenTV Corp for no consideration were issued for no consideration to a management member. Such shares were fully vested upon issuance but are restricted from sale or transfer for a specified period of time and as such, the cost was entirely expensed to the income statement at the date of grant.

In December 2007, OpenTV Corp issued 1 211 250 restricted Class A ordinary shares to employees, in lieu of option grants consideration. These shares are restricted from sale or transfer and subject to forfeiture for a period of time that is equivalent to the normal vesting schedule applied to stock options granted under the current option plan. The fair value of the grant has been determined as being the stock market value at the date of grant of USD 1.04 per ordinary share. The expense is recognized over the remaining requisite service period.

In addition as of December 31, 2007, OpenTV Corp's board of directors approved a grant of 1 020 232 restricted Class A ordinary shares including performance and service elements for certain OpenTV's senior management and other key employees. This grant allows for both performance and service elements. Accordingly, once vesting is considered probable, expense is recognized on a straight-line basis over the remaining requisite service period. Final compensation cost is recognized only for awards that ultimately vest. As part of this plan, 1 020 232 Class A ordinary shares were issued in August 2007 as 2007 Management Restricted Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

The following table summarizes the activity relating to OpenTV's unvested restricted shares during the years ended December 31, 2008 and 2007:

	Number of shares	Weighted average grant date fair value
Former management member restricted shares granted	60 000	2.65
Former management member restricted shares vested	-60 000	2.65
Unvested 2007 Management Restricted Shares granted	1 020 232	1.43
Unvested 2007 Restricted Shares granted	1 211 250	1.04
Unvested share balance, December 31, 2007	2 231 482	1.22
Unvested restricted shares granted	200 000	1.17
Unvested restricted shares forfeited and cancelled	-679 923	1.28
Restricted shares vested	-771 212	1.34
Unvested shares balance, December 31, 2008	980 347	1.07

As a result, 771 212 shares vested and were issued, 419 090 shares vested, were issued and immediately cancelled in order to satisfy with holding tax payment on the shares issued in favour of the employees and 260 833 shares forfeited.

OTHER SHARE BASED TRANSACTIONS

Minority interest of OpenTV Corp subsidiaries converted their subsidiary shares into OpenTV Corp shares for kCHF 2 (2007: kCHF 20).

OPENTV SHARE BASED TRANSACTIONS IMPACTS

The impact of the above transactions on the Group financial statements is as follows:

In CHF'000	Retained earnings	Translation difference	Income statement	Retained earnings	Translation difference	Income statement
	2008	2008	2008	2007	2007	2007
Stock option and share based compensation expense recognized	2 705	-25	-2 730	3 823	-224	-4 058
Repurchase of options	-	-	-	-189	-	-
Exercise of options	19	-	-	343	-	-
Conversion by minority into OpenTV Corp shares	2	-	-	20	-	-
Impact of shares cancelled for withholding tax purposes	-592	-	-	-	-	-
Total in OpenTV Corp books	2 134	-25	-2 730	3 997	-224	-4 058
To adjust for minority interests	-1 444	17	1 847	-2 731	153	2 337
Total	690	-8	-883	1 266	-71	-1 721

● 44. RELATED PARTIES

TRADING TRANSACTIONS

Transactions between the Group and its subsidiaries, which are related parties of the Group have been eliminated on consolidation and are not disclosed in this note.

During the year, Group entities entered into the following significant trading transactions with related parties that are not member of the Group, associates or joint ventures:

In CHF'000	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
	2008	2007	2008	2007	31.12.08	31.12.07	31.12.08	31.12.07
Digital-Elektronik GmbH		16	47 717	46 007		12 073		
APT-SkiData Ltd	13 277	12 551				28	3 661	4 755
SkiData Parking system	10 519	11 876					3 057	2 142
SKIDATA India Private Limited, India	407				10		150	
Resort Technology Partners LLC, USA					43			
Tickercorner Group	6			4 500			23 864	22 059
Total associated companies	24 209	24 443	47 717	50 507	53	12 101	30 732	28 956
polyright SA	247	140	34	38	10	30	274	199
Nagra Thomson Licensing		165					22	48
Total joint ventures	247	305	34	38	10	30	296	247

Digital Elektronik is the main supplier of access control material for SkiData and the Group disposed of its 25 % stake in 2008. APT SkiData and SkiData Parking Ltd are sales representatives companies for SkiData Group. The amounts owed by Ticketcorner Group comprise a kCHF 19 715 loan and accrued interest thereon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 45. COMPENSATION, SHAREHOLDINGS AND LOANS

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2008 and 2007 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Variable compensation in OpenTV Corp shares (number)	Variable compensation in OpenTV Corp options (number)	Other CHF	Total 2008 CHF
Board of Directors							
Kudelski André, chairman	498 400	–	–	50 000	–	–	549 600
Smadja Claude, vice chairman	201 155	–	–	–	10 000	–	216 977
Bucher Norbert, member	60 000	–	–	–	–	–	60 000
Dassault Laurent, member	40 000	–	–	–	–	–	40 000
Foetisch Patrick, member	50 000	–	–	–	–	173 653	223 653
Lescure Pierre, member	60 000	–	–	–	–	–	60 000
Kudelski Marguerite, member	50 000	–	–	–	–	–	50 000
Zeller Alexandre, member	40 000	–	–	–	–	–	40 000
Total board members	999 555	–	–	50 000	10 000	173 653	1 240 230
Management							
Kudelski André, CEO	529 000	1 860 000	250 000	–	–	25 734	3 806 734
Other management members	3 398 617	1 299 231	171 816	–	30 000	109 500	5 915 217
Total Management	3 927 617	3 159 231	421 816	–	30 000	135 234	9 721 951
Former board members							
Kudelski Stefan, founder and "Président d'honneur"	205 020	–	–	–	–	–	205 020
Total compensation 2008							
	Base compensation Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Variable compensation in OpenTV Corp shares (number)	Variable compensation in OpenTV Corp options (number)	Other CHF	Total 2007 CHF
Board of Directors							
Kudelski André, chairman	505 600	–	–	50 000	–	–	559 671
Smadja Claude, vice chairman	206 840	–	–	–	10 000	–	223 549
Bucher Norbert, member	60 000	–	–	–	–	–	60 000
Dassault Laurent, member	40 000	–	–	–	–	–	40 000
Foetisch Patrick, member	60 000	–	–	–	–	–	60 000
Lescure Pierre, member	60 000	–	–	–	–	–	60 000
Kudelski Marguerite, member	50 000	–	–	–	–	–	50 000
Zeller Alexandre, member	40 000	–	–	–	–	–	40 000
Total board members	1 022 440	–	–	50 000	10 000	–	1 093 220
Management							
Kudelski André, CEO	514 125	3 280 000	115 000	–	–	25 734	4 917 879
Other management members	2 938 855	1 000 317	76 512	–	20 000	110 979	5 083 879
Total Management	3 452 980	4 280 317	191 512	–	20 000	136 713	10 001 758
Former board members							
Kudelski Stefan, founder and "Président d'honneur"	205 020	–	–	–	–	–	205 020

Shares allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 331 444 (2007: 130 562) bearer shares granted to certain management members include a 7 year blocking period and 78 569 (2007: 39 720) bearer shares are subject to a 3 year blocking period. Variable compensation in cash and granted in Kudelski bearer shares, were granted based on the Remuneration Committee's assessment of the achievement of the objectives, but were neither paid nor issued as of December 31, 2008 and 2007. They were nevertheless fully accrued while establishing the financial statements.

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, 2008 and 2007, 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, 2008, the members of the Board of Directors and members of the management had following interest within the company (without including shares from 2008 variable compensation - issued in 2009):

	31 December 2008			
	Registered shares	Bearer shares	Options	Convertible bond
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	7 424 113	19 195	-
Smadja Claude, vice chairman	-	1 300	1 000	-
Bucher Norbert, member	-	1 700	1 000	-
Dassault Laurent, member	-	1 141 050	1 000	-
Foetisch Patrick, member	-	1 000	1 000	-
Lescure Pierre, member	-	2 000	1 000	-
Kudelski Marguerite, member	-	3 005 112	-	-
Zeller Alexandre, member	-	7 200	-	-
Total board members	46 300 000	11 583 475	24 195	-
Management				
Kudelski André, CEO	see above	see above	see above	see above
Saladini Mauro, CFO	-	62 806	6 165	125 000
Roy Pierre, COO	-	18 741	4 785	-
Egli Charles, CEO Public Access	-	32 807	4 234	-
Gani Lucien, General Counsel	-	10 490	-	-
Osadzinski Alex, EVP Product	-	-	-	-
Pitton Yves, SVP Business Development	-	1 840	200	-
Goetschmann Nicolas, Corporate Secretary	-	6 593	4 474	-
Burke John, SVP head of Human Resources	-	8 739	520	-
Total Management	-	142 016	20 378	125 000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

And for 2007:

	31 December 2007		
	Registered shares	Bearer shares	Options
Board of Directors			
Kudelski André, chairman (family pool)	46 300 000	6 753 147	19 000
Smadja Claude, vice chairman	–	1 300	2 000
Bucher Norbert, member	–	1 700	2 000
Dassault Laurent, member	–	1 195 050	1 000
Foetisch Patrick, member	–	1 000	1 000
Lescure Pierre, member	–	2 000	2 000
Kudelski Marguerite, member	–	3 000 342	–
Zeller Alexandre, member	–	–	–
Total board members	46 300 000	10 954 539	27 000
Management			
Kudelski André, CEO	see above	see above	see above
Saladini Mauro, CFO	–	18 364	5 405
Roy Pierre, COO	–	9 109	6 785
Egli Charles, CEO Public Access	–	11 894	4 234
Gani Lucien, General Counsel	–	3 770	–
Corboud Adrienne, EVP Business Development	–	3 254	3 334
Goetschmann Nicolas, Corporate Secretary	–	4 189	4 234
Burke John, SVP head of Human Resources	–	1 596	–
Total Management	–	52 176	23 992

At December 31, 2008 and 2007, Marguerite Kudelski together with another family member as well as their respective descendants are the beneficial owners, through a common investment structure, of 3 000 000 Kudelski SA bearer shares, which represent 3.2% of the company's voting rights.

46. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2008	2007
Within one year	6 483	7 540
In the second to fifth year inclusive	6 774	11 390
	13 257	18 930

47. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2008:

Assets as per balance sheet date December 31, 2008 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2008
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		2 672		2 672
– marketable securities	19		1 260		1 260
– long term loan	19			29 272	29 272
– guarantee deposits	19			3 803	3 803
Trade accounts receivable	21			345 844	345 844
Other current assets:					
– loans	22			6 055	6 055
Financial assets:					
– marketable securities	23		8 312		8 312
– derivatives	36	681			681
Cash and cash equivalents	24			247 819	247 819
		681	12 244	632 793	645 718

Liabilities as per balance sheet date December 31, 2008 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2008
Long term financial debt	27		364 180	364 180
Other long term liabilities	31		250	250
Short term financial debt	32		78 904	78 904
Trade accounts payable	33		113 701	113 701
Other payables	34		20 508	20 508
Derivative financial instruments	36	2 522		2 522
		2 522	577 543	580 065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

And for 2007:

Assets as per balance sheet date December 31, 2007 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available- for-sale	Loans and receivables	Total 31.12.2007
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		2 675		2 675
– marketable securities	19		3 470		3 470
– long term loan	19			25 195	25 195
– guarantee deposits	19			3 364	3 364
Trade accounts receivable	21			254 958	254 958
Other current assets:					
– loans	22			11 196	11 196
– premium to receive	22			16 139	16 139
Financial assets:					
– marketable securities	23		22 764		22 764
– derivatives	36	546			546
Cash and cash equivalents	24			278 140	278 140
			546	28 909	588 992
					618 447

Liabilities as per balance sheet date December 31, 2007 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2007
Financial liabilities				
Long term financial debt	27		324 868	324 868
Other long term liabilities	31		200	200
Short term financial debt	32		11 954	11 954
Trade accounts payable	33		70 993	70 993
Other payables	34		15 852	15 852
Derivative financial instruments	36	359		359
			359	423 867
				424 226

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In CHF'000	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Financial liabilities				
– CHF 350 million unsubordinated convertible bond	327 643	330 716	322 093	305 472

49. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

The following table analyses the Group's remaining contractual maturity for its non-derivative financial liabilities.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Due within	Due within	Due > 1	Due > 1	Due > 5	Due > 5	Adjust-	Adjust-	Total	Total
	1 year	1 year	year < 5	year < 5	years	years	ment	ment	book	book
In CHF'000	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Convertible bond	5 688	5 688	367 064	372 752	–	–	-45 109	-56 347	327 643	322 093
Long term bank loans	1 632	97	40 977	2 441	433	1 046	-6 505	-809	36 537	2 775
Long term loans – third parties	10	8	260	208	–	–	-20	-16	250	200
Short term financial debt	79 818	11 954	–	–	–	–	-914	–	78 904	11 954
Trade accounts payable	113 701	70 993	–	–	–	–	–	–	113 701	70 993
Other payables	20 508	15 852	–	–	–	–	–	–	20 508	15 852
Total	221 357	104 592	408 301	375 401	433	1 046	-52 548	-57 172	577 543	423 867

The Group has sufficient liquidities and credit facilities to manage the liquidity risks generated by the respective maturities of financial liabilities.

50. SENSITIVITY ANALYSIS

FOREIGN CURRENCY

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% increase and decrease to the USD and a 10% (2007: 5%) 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	
	2008	2007	2008	2007
In CHF'000				
Post-tax net income:				
– increase	16 200	14 515	2 264	7 655
– decrease	-16 200	-14 515	-2 264	-7 655
Equity (post-tax effect):				
– increase	7 501	–	27 488	9 103
– decrease	-7 501	–	-27 488	-9 103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

INTEREST RATES

The sensitivity analyses 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: 100 basis points (2007: 100 basis points)
- EUR: 100 basis points (2007: 50 basis points)
- CHF: 50 basis points (2007: 50 basis points)

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, 2008 would increase/decrease by kCHF 1 274 (2007: decrease/increase by kCHF 1 927). This is mainly due to the interest rate exposure on cash balances.
- other equity reserves would increase/decrease by kCHF 83 (2007: decrease/increase by kCHF 228) mainly as a result of the fact that available-for-sale marketable securities are linked to debt instruments.

EQUITY PRICES

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

51. COLLATERAL RECEIVED AND GIVEN

In CHF'000

31.12.2008 31.12.2007

Guarantee in favor of third parties

17 347 60 313

52. RISK CONCENTRATION

At December 31, 2008, no financial asset exposure was more than 10% (2007: 5%) of the financial assets, except with a high rated bank counterparty representing 11.3% at December 31, 2008.

53. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantitative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2008 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

● 54. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow-to-net financial debt ratio as at 31 December 2008 was -3.8% (2007: 107.0%).

● 55. PRINCIPAL CURRENCY TRANSLATION RATES



















	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2008	2007	2008	2007
1 USD	1.070	1.130	1.080	1.200
1 EUR	1.490	1.655	1.590	1.643
1 GBP	1.560	2.260	2.000	2.400
1 SGD	0.740	0.780	0.760	0.796
100 MYR	30.900	34.000	32.500	34.900
100 SEK	13.700	17.600	16.500	17.750




● 56. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

These consolidated financial statements have been approved for issue by the Board of Directors on February 26, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

● 57. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held		
			2008	2007	
Digital Television solutions					
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products		100	100
NagraCard SA	CH – Cheseaux	Secure smartcards		100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production		100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products		100	100
Nagra USA, Inc.	US – Nashville	Sales and support		100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services		100	100
Quative Ltd	UK – London	IPTV solutions		100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iTV and conditional access modules		100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support		50	50
Nagra plus SA	CH – Cheseaux	Analog Pay-TV solutions		50	50
Nagra Thomson Licensing SA	FR – Paris	Intellectual property management		50	50
Public Access solutions					
Nagra Public Access AG	CH – Zug	Holding in public access		100	100
SkiData Group	AT – Gartenu	People and car access systems		100	100
Ticketcorner Group	CH – Rümlang	Event distribution and ticketing		28	28
polyright SA	CH – Sion	Multifunction chipcard systems		50	50
Middleware & Advertising					
OpenTV Corp.	British Virgin Islands	Middleware for set-top-boxes and advertising solutions		32*	32*
Corporate					
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group		100	100
Kudelski Financial Services SCA	LU – Luxemburg	Finance, convertible bearing company		100	100

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

*The Group has 77% of the voting power in OpenTV Corp

● 58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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

GLOBAL RISK MANAGEMENT

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

FINANCIAL RISK MANAGEMENT

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

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

REPORT OF THE STATUTORY AUDITOR

TO THE GENERAL MEETING OF KUDELSKI SA CHESEAUX-SUR-LAUSANNE REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 4 to 67), for the year ended December 31, 2008.

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 December 31, 2008 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 

PricewaterhouseCoopers SA



Felix Roth
Audit expert

Auditor in charge



Stéphane Jaquet
Audit expert

Lausanne, February 26, 2009

BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007

ASSETS

In CHF'000	Notes	31.12.2008	31.12.2007
Fixed assets			
Financial fixed assets			
Investments	3.1	459 311	382 177
Loans to Group companies		582 171	466 405
Total fixed assets		1 041 482	848 582
Current assets			
Accounts receivable from Group companies		98 546	135 176
Other accounts receivable and accruals	3.2	1 764	1 101
Treasury shares	3.4	225	380
Cash and cash equivalents	3.3	8 673	40 267
Total current assets		109 208	176 924
Total assets		1 150 690	1 025 506

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2008	31.12.2007
Shareholders' equity			
Share capital		523 960	521 594
General reserve		78 648	75 727
Reserve for treasury shares		380	380
Retained earnings		241 758	206 379
Net income		48 321	53 782
Total shareholders' equity	3.4	893 067	857 862
Long-term liabilities			
Loans from Group companies		192 266	124 180
Total long-term liabilities		192 266	124 180
Current liabilities			
Short-term loans from Group companies		33 347	42 185
Other liabilities and accruals		505	1 279
Bank, short term loan		25 000	-
Bank overdraft		6 505	-
Total current liabilities		65 357	43 464
Total liabilities		257 623	167 644
Total shareholders' equity and liabilities		1 150 690	1 025 506

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2008

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

In CHF'000	Notes	2008	2007
Financial income	4.1	74 983	78 246
Administrative and other expenses	4.2	-5 701	-5 561
Financial expenses and exchange result	4.3	-13 573	-11 281
Impairment of financial fixed assets	4.4	-7 235	-7 457
Income before tax		48 474	53 947
Income tax		-153	-165
Net income		48 321	53 782

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2008

In CHF'000	2008
Balance brought forward from previous year	241 758
Net income	48 321
Total available earnings	290 079
Proposal of the Board of Directors:	
Ordinary dividend:	
– CHF 0.15 on 47'765'974* bearer shares	7 165
– CHF 0.015 on 46'300'000 registered shares	695
General reserve allocation	2 460
Balance to be carried forward	279 759
Total available earnings	290 079

*This figure represents the number of bearer shares which are dividend bearing as of December 31, 2008. It may fluctuate due to the exercise of option and conversion rights between December 31, 2008 and the ordinary General meeting date.

NOTES TO THE FINANCIAL STATEMENTS 2008

● 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.

● 3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital	Percentage held		
				2008	2007	
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	kCHF	12 000	100	100
NagraCard SA	CH – Cheseaux	Secure smart cards	kCHF	100	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	GB – St. Albans	Sales and support	kGBP	1	100	100
Nagravision GmbH	DE – Hildesheim	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	1 010	100	100
Nagra Public Access AG	CH – Zoug	Physical access holding	kCHF	15 000	100	100
Nagra plus SA	CH – Cheseaux	Analog Pay-TV solutions	kCHF	2 000	50	50
NagralD SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	100	100
Nagra Trading SA	CH – Cheseaux	Trading of set-top-boxes	kCHF	100	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	kCHF	1 000	100	100
Kudelski Financial Services Holding SCA	LU – Luxembourg	Finance	kCHF	37 050	100	100
Kudelski Luxembourg Sàrl	LU – Luxembourg	Finance	kEUR	13	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
Kudelski Malaysia SDN. BHD.	MA – Kuala Lumpur	Services	kMYR	–	100	100
Abilis Systems Sàrl	CH – Plan-les-Ouates	Research & development for mobile phones	kCHF	20	100	100
Nagravision Shanghai Technology	CN – Shanghai	Software integration for Digital TV	kUSD	200	100	100
Quative Ltd	UK – London	IPTV Solutions	kGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Services	kEUR	25	100	75
Nagravision Italy Srl	IT – Milan	Services	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagralD Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	50	–
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	15	15
Thema SAS	FR – Paris	Worldwide brokerage for existing audio-visual thematic channels	kEUR	46	10	10

NOTES TO THE FINANCIAL STATEMENTS 2008

3.2 OTHER RECEIVABLES

In CHF'000	31.12.2008	31.12.2007
Other accounts receivable	12	141
Prepaid expenses and accrued income	–	467
Third party loan	1 605	–
Withholding tax	147	493
	1 764	1 101

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2008	31.12.2007
Cash at bank and in hand	8 673	6 267
Short-term deposits	–	34 000
	8 673	40 267

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2006	519 352	68 249	380	241 888	829 869
General reserve allocation		4 251		-4 251	–
Dividend				-31 258	-31 258
Share capital increase	2 242	3 227			5 469
Net income				53 782	53 782
As of December 31, 2007	521 594	75 727	380	260 161	857 862
General reserve allocation		2 700		-2 700	–
Dividend				-15 703	-15 703
Share capital increase	2 366	221			2 587
Net income				48 321	48 321
As of December 31, 2008	523 960	78 648	380	290 079	893 067

TREASURY SHARES

	Number of bearer shares	Purchase cost	Value adjustment	Book value
		CHF '000	CHF '000	CHF '000
As of December 31, 2007 and 2006	20 155	380	-	380
Adjustment to stock market value as at December 31, 2008	-	-	-155	-155
As of December 31, 2008	20 155	380	-155	225

No transaction occurred during the last two financial years. Treasury shares are measured at the cost of acquisition or the stock market price, whichever is lower. 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.

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2008	31.12.2007
47'765'974 / 47'529'417 bearer shares, at CHF 10 each	477 660	475 294
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	523 960	521 594

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	2008	2007
Conditional share capital as of January 1	109 844	112 085
Increase of conditional share capital	-	-
Employee share purchase plan	-450	-184
Exercise of options	-	-1 180
Shares allotted to employees	-1 916	-877
Conditional share capital at December 31	107 478	109 844
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:		
747'782 / 984'339 bearer shares, at CHF 10 each	7 478	9 844
	107 478	109 844

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 million, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2005 General Assembly approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 15 841 760 consisting of 1 584 176 bearer shares of a nominal value of CHF 10.

NOTES TO THE FINANCIAL STATEMENTS 2008

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2008	31.12.2007
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 April 22, 2010, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Kudelski family pool	57%	57%	23%	22%

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2008	2007
Dividends received from Group subsidiaries	46 700	52 700
Interest income third parties	411	2 412
Interest on loans to Group subsidiaries	26 810	23 134
Other financial income	1 062	-
	74 983	78 246

Other financial income relates to a payment received from Lufthansa in connection with the Swiss shares.

4.2 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2008	2007
Administrative expenses	-4 098	-4 058
Taxes other than income tax	-1 603	-1 503
	-5 701	-5 561

4.3 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2008	2007
Net currency exchange losses	-4 020	-4 068
Interest on loans from Group subsidiaries	-9 270	-7 073
Interest expenses and bank charges	-283	-140
	-13 573	-11 281

4.4 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2008	2007
Allocation to provisions on Group investments and loans	-7 080	-9 511
Value adjustment on treasury shares	-155	-
Reversal of provision on third party loan	-	2 054
	-7 235	-7 457

NOTES TO THE FINANCIAL STATEMENTS 2008

● 5. COMMITMENTS AND CONTINGENCIES

In CHF'000

31.12.2008 31.12.2007

Guarantee commitments

Guarantees for the repayment of the capital and interest of the convertible bond	350 000	350 000
Commitment in favor of third parties	35	45 200
Guarantees for a subsidiary commitment	–	866
	350 035	396 066

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.

● 6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

● 7. RISK ASSESSMENT DISCLOSURES

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

REPORT OF THE STATUTORY AUDITORS

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 70 to 78), for the year ended December 31, 2008.

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 December 31, 2008 comply with Swiss law and the company's articles of incorporation.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

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

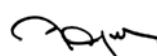
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers SA



Felix Roth
Audit expert
Auditor in charge



Stéphane Jaquet
Audit expert

Lausanne, February 26, 2009

KUDELSKI SA

22-24, route de Genève
PO Box 134
1033 Cheseaux
Switzerland

Tel. + 41 21 732 01 01
Fax + 41 21 732 01 00
info@nagra.com
www.nagra.com

This report is published in English and translated into French.

Printed in Switzerland

© Kudelski Group 2009

KUDELSKI SA

22-24, route de Genève
PO Box 134
1033 Cheseaux
Switzerland
T +41 21 732 01 01
F +41 21 732 01 00
info@nagra.com
www.nagra.com