KUDELSKI GROUP
2013 ANNUAL REPORT

NAGRA
KUDELSKI GROUP

HIGHLIGHTS

- Winning 15 new clients in integrated Digital TV in 2013
- Production launch of OpenTV5
- Launch of PRM at Dish Network (USA)
- Introduction of NAGRA JoinIn, the ultimate connected home platform
- Kudelski Security to see accelerating demand
- Public Access growth reaches 12.6% in constant currency
- Increased R&D investments in cybersecurity and intellectual property
- First major IP agreement with Cisco in early 2014

KEY FIGURES

2013 KEY FIGURES

Total annual revenues and other operating income reached CHF 857.8 million. In spite of the divestiture of Abilis, an entity sold on December 13, 2012, the Group reported total revenues for 2013 at substantially the same level as in the previous year.

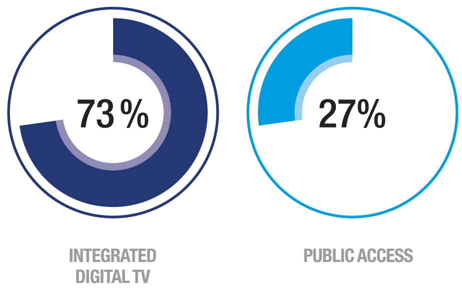
Operating income increased from CHF 35.7 million in 2012 to CHF 60.2 million in 2013, reflecting the benefits of an optimized product portfolio in IDTV. Overall, the Group improved net profits in 2013 by CHF 28.2 million over the previous year, posting a net income of CHF 43.4 million.

In 2013, the Group generated CHF 120.9 million of cash from operating activities, compared to CHF 110.5 million in 2012. The Group invested CHF 27.6 million in capital expenditures, roughly the same amount as in the previous year, which reflects continued tight management of capital expenditures.

In million CHF	2013	2012 restated	2011	2010	2009
Total revenues and other operating income	857.8	860.3	896.6	1 069.3	1 060.8
Operating income	**60.2**	**35.6**	**25.4**	**110.0**	**73.3**
Net income	**43.4**	**15.1**	**-17.7**	**66.7**	**51.1**

REVENUE BREAKDOWN — BY SECTOR

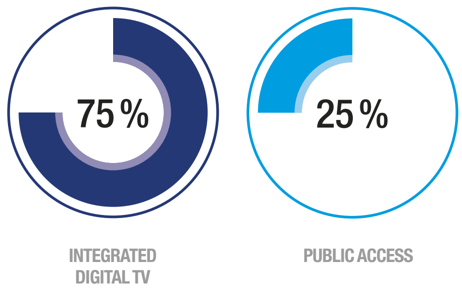
In thousand CHF	2013
Integrated Digital TV	611 779
Public Access	230 543
Total	**842 322**



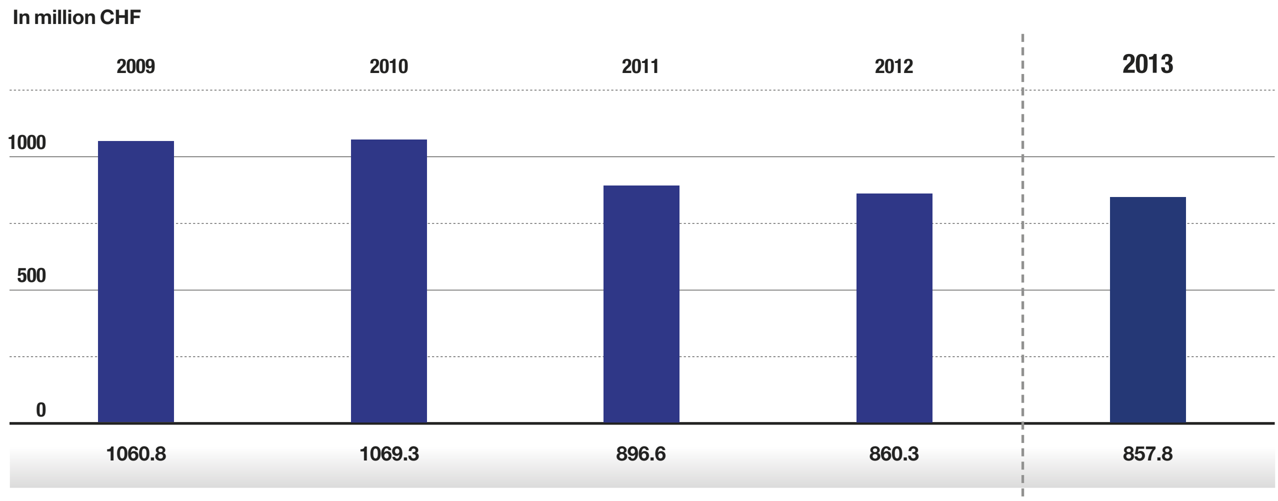
EMPLOYEE BREAKDOWN — BY SECTOR

Integrated Digital TV	75%
Public Access	25%
Total	**100%**

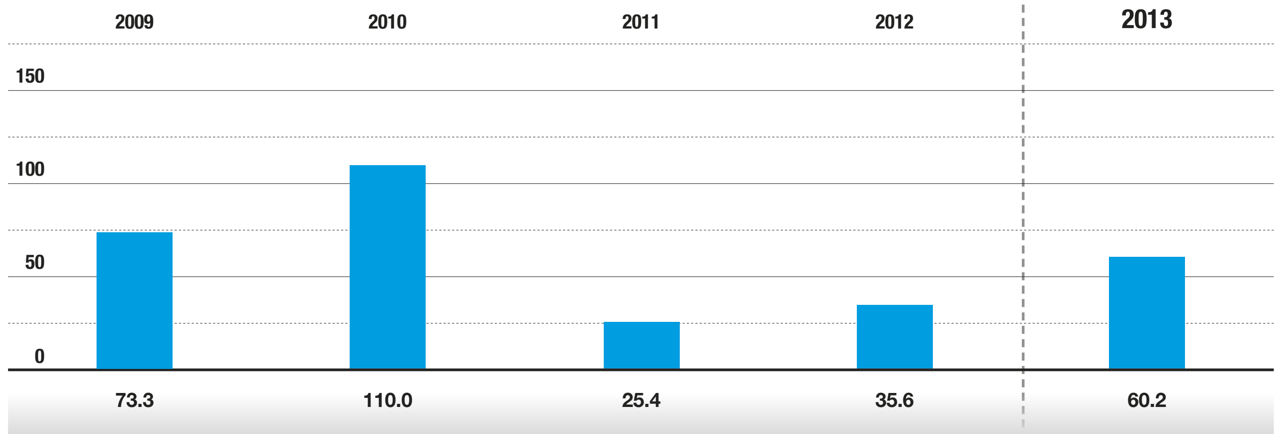
Total employees at 31.12.2013: **3078**



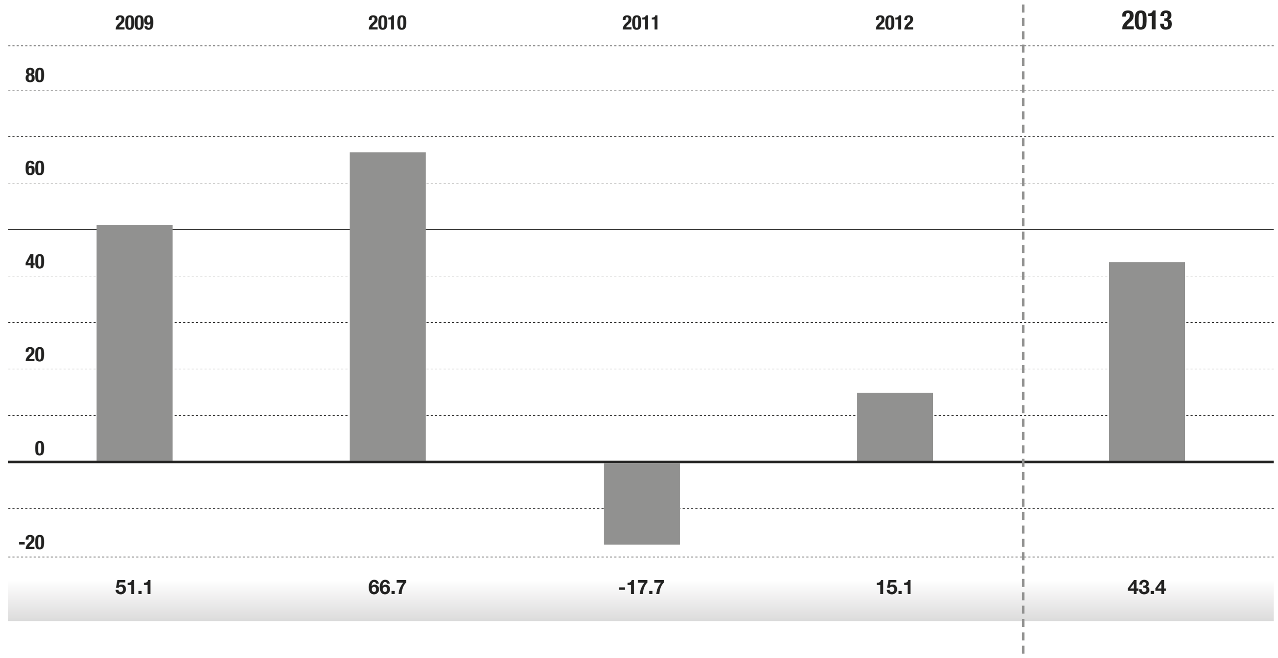
TOTAL REVENUES AND OTHER OPERATING INCOME



OPERATING INCOME



NET INCOME



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CHAIRMAN'S LETTER

With total revenues and other operating income of CHF 857.8 million, the Kudelski Group's revenues in 2013 were comparable to 2012. Operating income increased by 69% to reach CHF 60.2 million, and net profit increased to CHF 43.4 million.

The stability of the Group's revenues in 2013 was due to a combination of different factors. Our integrated Digital TV (iDTV) business segment benefitted from positive momentum in both North America, with 13% growth in constant currency, and Asia, which posted 5% growth in constant currency and constant scope of consolidation. Meanwhile, continued weak economic conditions in Europe as well as a slowdown in some emerging markets for iDTV, including Brazil, India and Africa, negatively impacted our sales during the second half 2013. SKIDATA performed well in all of its regions, with an overall sales growth of 13% in constant currency.

In 2013, cash generation remained strong with operating free cash flow of CHF 91.2 million. Over the last three years, the Group generated a total operating free cash flow of CHF 241.5 million.

The improvement of the Group's operating income and net income primarily results from the availability of new products and technologies, our successful execution of cost reduction measures in 2011-2012, ongoing cost control efforts and proactive cash and debt management.

While delivering improved profitability in a challenging economic environment, the Group has also continued to actively invest in our cybersecurity and intellectual property initiatives, both of which we expect to positively impact our future medium and long-term growth prospects.

Winning New Clients

The Kudelski Group gained 15 new iDTV clients worldwide in 2013 and continued to build upon its foundation for future growth by securing 39 new projects with 32 operators. The Group has demonstrated its capacity to extend its footprint, especially in the over-the-top (OTT) and multiscreen environments. A growing number of digital TV operators have chosen Nagra's technologies to extend their service from the traditional TV offerings into the mobile and Internet space.

Innovation & New Technologies

Overall, the Group continued to optimize the cost structure of its core business while significantly increasing R&D investments for the future, including in its cybersecurity and intellectual property initiatives:

– **Kudelski Security (Cybersecurity)**: In 2013, the Group not only secured major clients for its cybersecurity offerings by signing contracts with leading players in the financial and government sectors, but it also invested significantly in order to achieve our goal of double digit sales growth in 2014 and 2015. Ramping up capacity is the main challenge of Kudelski Security in the medium term.

– **Kudelski IP (Intellectual Property)**: The Group has expanded its dedicated team to manage its intellectual property efforts. The focus of this team is to extend and leverage the Group's intellectual property assets by increasing the number of patent filings, supporting the iDTV and SKIDATA businesses and licensing third parties who are using the Group's intellectual property.

In its core business, the Group continues to make significant investments in order to fulfill its long-term mission of serving as a privileged business partner to Digital TV and Telco operators worldwide. Today, the Group's footprint extends to the following areas of expertise:

– **Securing the Digital TV ecosystem** by offering a comprehensive suite of solutions for securing the delivery, distribution and content management of digital assets over broadcast networks and the Internet. Cybersecurity solutions allow operators to further extend asset security beyond their own delivery networks.

– **Providing a family of middleware solutions** based on OpenTV 5 technology to support advanced use cases for in-home content consumption ranging from the simple "zapper" STB software up to the full "Home Edge" gateway platform.

– **Providing MediaLive Multiscreen cloud and client solutions** enabling both in-home and on-the-go media consumption on smartphones, tablets and computers. MediaLive Multiscreen supports all major OSs available in the market today.

– **Introducing the Nagra "JoinIn" solution**, which integrates the MediaLive multiscreen cloud solution with the OpenTV 5 ecosystem to enable the ultimate in-home experience.

– **Introducing pre-integrated "QuickStart" solutions** that include content security, middleware, user experience and optimized hardware in a ready-to-deploy bundle.

– **Introducing a next generation immersive user experience** with innovative concepts that entirely redefine content discovery for large Ultra HD (4K) screens.

Public Access
Continued innovation at SKIDATA, including the virtualization of parking management systems as well as the systematic renewal of product portfolios for both car and people management solutions, position the company well for the future. In 2013, SKIDATA successfully entered new international markets by establishing additional distribution channels, particularly in emerging markets. Meanwhile, in developed markets, SKIDATA consolidated its distribution channels in order to better grow service revenues in the future. For 2014, SKIDATA expects to further expand its geographic footprint and grow its business on all continents.

Dividend
Taking into account the improvement of the Group's profitability, the Board of Directors is proposing a CHF 0.10 increase in the dividend on bearer shares for approval at the 2014 Annual Shareholders' Meeting. This would bring the dividend to CHF 0.30 per bearer share. Of this amount, it is proposed that CHF 0.20 be treated as a return of capital and CHF 0.10 be paid from retained earnings. The distribution on each registered share will amount to CHF 0.03, with CHF 0.02 treated as return of capital and 0.01 paid from retained earnings.

Outlook
With continued high levels of unemployment and a generally weak economic recovery in Europe, as well as high volatility in emerging markets, the Group expects revenues and operating income to remain relatively stable in 2014. On the positive side, the Group expects further sales of its solutions for Digital TV over Internet and multiscreen offerings and strong momentum in its Kudelski Security business, with the latter expected to grow at a percentage rate in the high double digits. The Group's recently announced patent cross license deal with Cisco represents a defining moment for its Kudelski Intellectual Property initiative, demonstrating the significant value and potential of the 4'000+ issued and pending patents owned by the Kudelski Group.

In 2014, the Group will continue to invest in new technologies for its core iDTV and Public Access businesses in order to ensure its long-term leadership in these markets. At the same time, the Group will continue with efforts to reduce its cost structure in order to improve the productivity and operational efficiency of these business units.

The Group will also materially increase its investments in both Kudelski Security and Kudelski Intellectual Property in order to support the further development and market leadership of these key initiatives. The amount of these investments will be in-line with the expected value creation potential over the medium and long term. Over the near and short term, though, we expect profitability of the Group to be negatively impacted due to the need to ramp up efforts at the pace required by the marketplace.The Group is committed to these investments despite their impact on short term Group profitability.

The ongoing transformation of the Kudelski Group continues to require important efforts at all levels of the organization. Our teams remain fully committed to act in a proactive and productive way in order to make this transformation a success. On behalf of the Board of Directors, I would like to thank our customers, employees, shareholders and other stakeholders for their support and trust during this past year.

ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

FINANCIAL REVIEW

In spite of the divestiture of Abilis, an entity sold on December 13, 2012, the Group's total revenues for 2013 were at substantially the same level as in the previous year. Operating income increased from CHF 35.7 million in 2012 to CHF 60.2 million in 2013, reflecting the benefits achieved by the 2011-2012 restructuring program. Operating income net of restructuring charges decreased by CHF 7.5 million from the previous year. Net income in 2013 was CHF 43.4 million compared to CHF 15.1 million in 2012.

Currency effects were minimal in 2013, as the positive impact of the higher EUR/CHF rate was offset by the negative impact of the decreasing USD/CHF rate.

In the current year, the Group adopted retrospectively IAS 19 (revised 2011). IAS 19R eliminates the corridor method previously applied by the Group. Accordingly, as a result of this adoption, the Group's 2012 financial statements have been restated. A detailed description of IAS 19R and the impact of its adoption is provided in note 40 to our financial statements.

GROUP REVENUES AND PROFITABILITY

Total annual revenues and other operating income in 2013 declined by CHF 2.5 million to CHF 857.8 million. The "Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 14.6 million to CHF 630.3 million. Relative to total revenues, margin after cost of material increased from 71.6% to 73.5%, in spite of the CHF 0.7 million decrease in other operating income and a higher share of revenues from the Public Access segment, a business with a lower gross margin.

Personnel expenses increased by CHF 0.7 million to CHF 369.4 million. Group headcount at the end of 2013 was 3078 full time equivalents compared to 2931 at the end of 2012.

The Group's Kudelski Security (Cybersecurity) and Kudelski IP (Intellectual Property) initiatives were the primary drivers of this headcount increase, and associated operating expenses increased by over CHF 10 million in 2013. In addition, SKIDATA internalized previously outsourced software development activities that were booked as capital expenditures and strengthened its operations in order to support increased business volumes. The Group also established a new set-top box integration center in Spain, hiring 24 full time equivalents and continues to grow its Indian operations, increasing headcount in that country by 22 in 2013.

Compared to the previous year, other operating expenses increased by CHF 1.5 million in 2013. Legal costs related to the Kudelski IP initiative, as well as additional provisions, were higher than in the previous year. On the other hand, the Group reduced administration expenses, marketing and sales expenses and building and infrastructure costs.

The Group posted an operating income before depreciation and amortization of CHF 111.7 million in 2013, an improvement of CHF 12.2 million from 2012. Depreciation, amortization and impairment were CHF 12.3 million lower than in the previous year, reflecting the full depreciation of tangible and intangible assets made available to customers and generating recurring service revenues, as well as the reduced levels of capital expenditures over the last 24 months. Capital expenditures for tangible and intangible assets were CHF 38.2 million in 2012 and CHF 30.2 million in 2013.

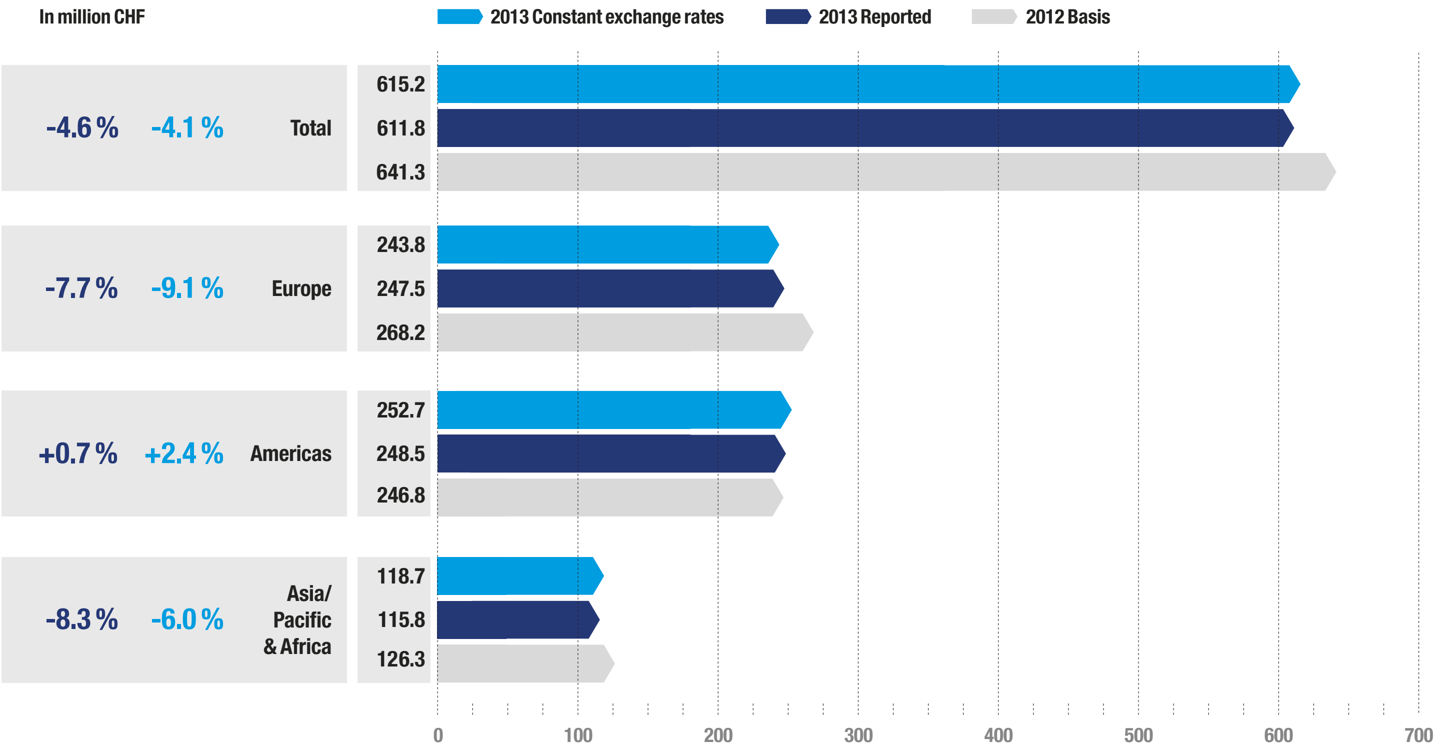
Overall, the Group generated operating income of CHF 60.2 million in 2013, representing a CHF 24.5 million improvement from 2012. Compared to the pro-forma 2012 operating income ex restructuring costs, the Group's operating profitability declined by CHF 7.5 million in 2013.

Interest expense was CHF 8.4 million in 2013, which represents less than half of the previous year, as the Group substantially reduced its indebtedness as a result of the repayment of the CHF 350 million convertible bond in October 2012. The Group posted a positive net other finance income, in spite of the marginally negative impact of foreign exchange-related items. Income tax expense in 2013 was CHF 10.2 million, which reflects the effect on deferred tax assets of a one-time accounting charge resulting from the expected decrease of the cantonal and communal income tax rate for our main operating entity from 21.8% in 2013 to 19.5% in 2016. Overall, the Group improved net profits in 2013 by CHF 28.3 million over the previous year, posting a net income of CHF 43.4 million.

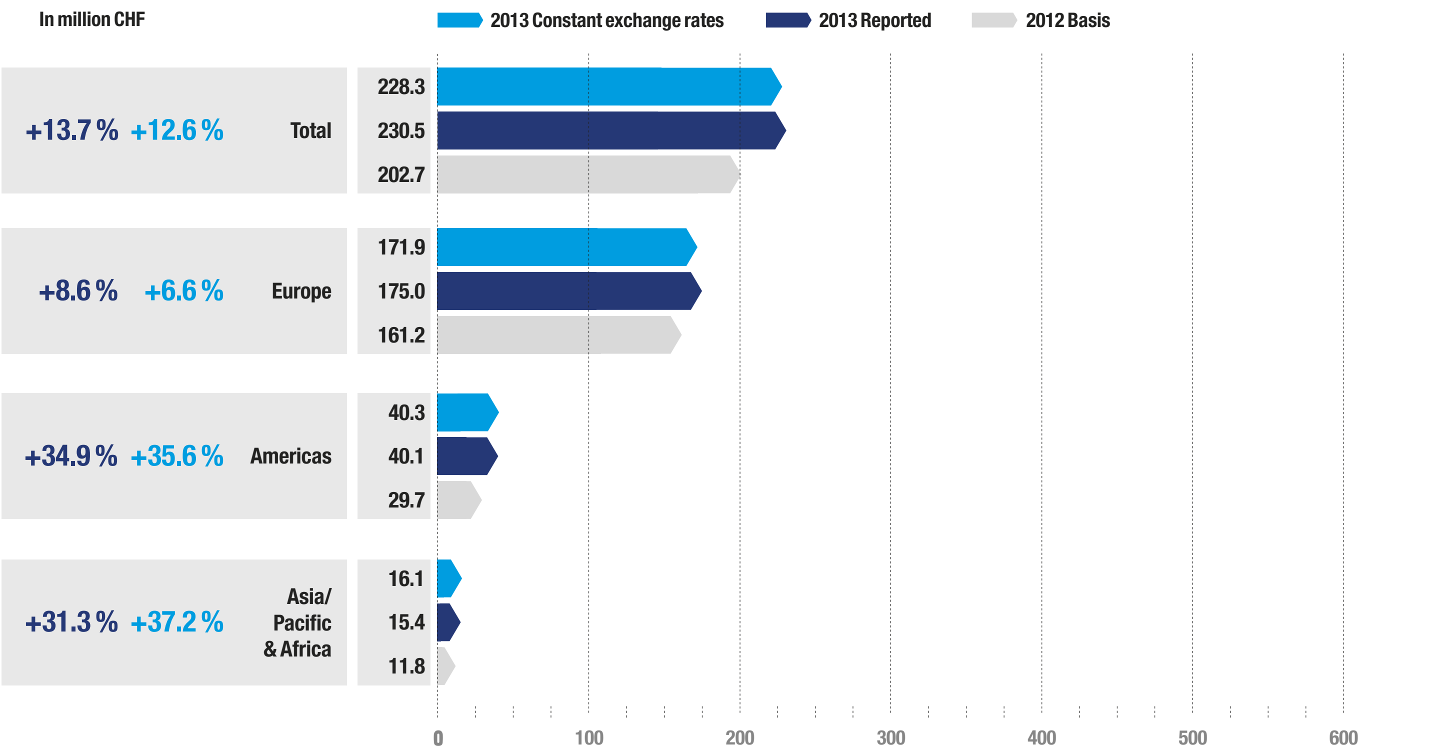
REVENUES BREAKDOWN

EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



INTEGRATED DIGITAL TV

iDTV revenues on a constant currency basis declined by 4.1% in 2013, as compared to the previous year. For the full year 2013, the segment reported revenues of CHF 611.8 million, down by CHF 29.5 million from 2012. Revenues in 2012 included CHF 11.7 million generated by Abilis, which was divested in December 2012.

The market downturn and high unemployment rates continued to affect the European Digital TV business, which was CHF 247.5 million in 2013, down CHF 20.7 million from the previous year. In constant currency, this represents a 9.1% decrease. The Italian market further declined in 2013, reflecting a weak first half and an improved second half. Segment revenues from Germany materially decreased compared to the previous year, as 2012 benefitted from the one-time effect of Astra switching off its analog satellite signal and the resulting increase in digital TV receivers and from higher deployments by Sky Deutschland.

The Americas region posted a revenue increase of 2.4% in constant currency, reaching CHF 248.5 million in 2013. For the first time since 2003, the Americas provided the largest revenue contribution of all regions to the iDTV segment, driven by the extension of the Group's footprint in South America. Telefonica's growth in markets such as Chile, Venezuela and Columbia, as well as the roll-out of the Group's latest middleware products in South America, are among the key drivers of the Group's growth in this region. On the other hand, following several years of increased growth, revenues from Brazil were CHF 28 million lower in 2013 than in the previous year, reflecting a consolidation of the Group's business in the second half of 2013. In the US, Dish Network continues to expand the scope of products and services souced from the Group, resulting in a growing revenue contribution.

The Asia/Pacific and Africa region posted a revenue decline of 6.0% in constant currency, primarily due to the effect of the divestment of Abilis. Excluding the impact of this divestiture, the region increased its revenues in 2013. The region's highlights included the addition of new cable customers in India and the extension of the Group's footprint into Indonesia. Demand for digital TV services in this region, however, remains highly volatile with, for example, the first half 2013 seeing a strong demand from African customers followed by a restrained second half. Similarly, revenues from established Indian customers consolidated in 2013 following the large volumes of smart cards and set-top boxes delivered in the first half 2012.

Beyond the core digital TV business, SmarDTV posted a strong 2013, with a double digit revenue growth and an improved profitability. The Group's multiscreen activities represent a further positive highlight, gathering momentum in 2013. On the other hand, mobile TV did not generate any material volume in 2013. The Group's advertising traffic and billing business also faced significant headwinds, resulting in weak results for the year. Finally, as in previous periods, the Group's display card business negatively impacted segment profitability, as it generated a net loss of CHF 7.5 million in 2013.

Overall, the segment's operating income strongly recovered in 2013, increasing from CHF 43.3 million to CHF 62.8 million. The reduction of operating expenses resulting from the 2011/2012 restructuring program substantially improved the cost base of the Group's core digital TV business, enabling the increase in operating profit and freeing up investment capabilities for the new Kudelski Security and Kudelski IP initiatives.

Cybersecurity secured several new customers in the financial services, government and media segments in 2013. The Group made significant investments in its Kudelski IP initiative, including headcount and legal costs. Although the Group did not generate material revenues from this initiative in 2013, a significant licensing deal with Cisco was announced in February 2014.

PUBLIC ACCESS

SKIDATA posted a 12.6% revenue increase in constant currency, reaching CHF 230.5 million in 2013. This represents the highest ever constant currency growth rate for the Public Access segment.

In Europe, SKIDATA's revenues recovered strongly in the second half of 2013, resulting in a year-on-year constant currency growth of 6.6%. Southern European markets also suffered in the Public Access sector, translating in declining revenues from markets such as France and Italy. Among the positive highlights, Germany benefitted from a strong year, and against the backdrop of the high profile win of eight prime soccer stadia, the Turkish market was a further growth contributor for SKIDATA in 2013.

In the Americas, SKIDATA performed well, with constant currency revenues increasing by 35.6% in 2013. The increase was driven by growth in both North American and South American markets, including in particular SKIDATA's first installations in Ecuador, Peru, Columbia and Uruguay, as well as new contracts for airport parking projects in the US, Chile and Uruguay.

Finally, constant currency revenues for Asia/Pacific and Africa increased by 37.2%, reaching CHF 15.4 million in 2013. This reflects improvements in the Japanese ski market and SKIDATA's first installations in several African markets, including Nigeria, Kenya and Angola.

At CHF 13.7 million, the segment's operating income was CHF 4.1 million higher in 2013 than in the previous year, reflecting a revenue acceleration in the second half of the year, which improved by CHF 6.2 million compared to the second half of 2012.

BALANCE SHEET AND CASH FLOW

Total non-current assets decreased by CHF 45.6 million to CHF 439.3 million at the end of 2013, with tangible fixed assets decreasing by CHF 7.3 million and intangible assets by CHF 18.9 million. The Group's tight control of capital expenditures enabled the reduction of both balance sheet positions. The full depreciation of assets made available to clients and generating recurring service revenues, including smart cards and equipment, also contributed to this decrease. The CHF 13.9 million reduction of financial assets and other non-current assets was primarily driven by a CHF 9.1 million reduction of long-term deferred contract costs, including the ongoing release of deferred costs related to a capitalized asset linked to the Echostar contract.

Total current assets decreased by CHF 20.3 million to CHF 411.8 million at the end of 2013. The reduction of Digital TV chips in inventory led to a CHF 4.2 million decrease of inventory to CHF 64.4 million. Trade accounts receivables increased by CHF 0.8 million in 2013, whereby the Group reduced past due amounts by CHF 5.7 million. Other current assets declined by CHF 7.0 million in 2013, reflecting a CHF 7.9 million reduction of advances to suppliers and employees. At the end of 2013, cash and cash equivalents amounted to CHF 100.3 million.

Total equity increased by CHF 28.1 million to CHF 446.5 million. The adoption of IAS 19R had a negative equity impact of CHF 17.2 million at the end of 2013.

Total non-current liabilities declined by CHF 73.8 million due to a further reduction of long-term financial debt, which decreased by CHF 71.3 million to CHF 123.4 million at the end of 2013. The Group reduced total current liabilities by CHF 20.2 million, mainly through the CHF 14.8 million reduction of short-term financial debt to CHF 59.3 million, which was enabled by another strong year of cash generation.

In 2013, the Group generated CHF 120.9 million of cash from operating activities, compared to CHF 110.5 million in 2012. The Group used CHF 27.6 million of cash for investing activities in 2013, roughly the same amount as in the previous year, which reflects continued tight management of capital expenditures. Cash used for financing activities amounted to CHF 102.1 million. This included a CHF 86.7 million reimbursement of bank overdrafts, long-term loans and other non-current liabilities, as well as the CHF 10.8 million dividend paid by Kudelski SA in 2013. The effect of changes in foreign exchange rates on cash and cash equivalents was less than CHF 1 million in 2013.

OUTLOOK

For 2014, the Group expects a growing top line and forecasts a stable profitability. While the revenue contribution from the Kudelski IP initiative is difficult to predict, a significant patent cross license agreement was signed with CISCO in January 2014 and will provide a positive contribution to the Group's 2014 P&L, supporting the increasing levels of investments in 2014. The Group expects its cybersecurity business line to maintain its positive momentum coming into 2014, further contributing to Group's top line growth. On the other hand, other operating income is expected to be lower in 2014. In the core Digital TV market, weak fundamentals in Europe will continue to affect volumes. Finally, in the Public Access segment, the Group expects a solid single digit revenue growth as well as further positive development of operating income.

United States of America from innovation to reality

San Francisco
California

GROUP PROFILE

A GLOBAL LEADER

The Kudelski Group is a global leader in digital security and convergent media solutions for the delivery of digital and interactive content. Its technologies are used in a wide range of services and applications requiring access control and rights management to secure the revenue of content owners and services providers for digital television and interactive applications across broadcast, broadband and mobile delivery networks. The Group also offers cybersecurity solutions and services focused on protecting companies' data and systems and helping them assess risks and vulnerabilities. The Kudelski Group is a world leader in the area of public access systems to manage access of people and vehicles to sites and events. Kudelski is headquatered in Cheseaux, near Lausanne, Switzerland, and is listed on the SIX Swiss Exchange (KUD.S).

Innovation as a corporate culture
Since its founding more than 60 years ago, innovation has been at the heart of Kudelski's corporate culture. It is this very innovation that has allowed the company to continually reinvent itself and maintain strong and stable performance over the past few decades despite fundamental market changes. The Group's innovations are continuously contributing to the evolution of the digital television ecosystem, enabling operators to extend their multimedia offerings and stay ahead of the trends

Furthermore, the Group has been an innovator in the Public Access Sector through its company SKIDATA, the inventor of the handsfree access system and a number of technologies and features that have brought comfort to users and performance improvements to operators.

Founded	• 1951
Main sectors	• Integrated Digital Television solutions • Public Access solutions
Headquarters	• Cheseaux-sur-Lausanne, Switzerland
Number of employees (Dec. 31, 2013)	• 3,078
2013 revenues and other operating income	• CHF 857.8 million

ACTIVITY SECTORS

INTEGRATED DIGITAL TV SOLUTIONS

The Integrated Digital Television division (iDTV) provides secure digital TV access and management systems. These technologies offer content providers and digital TV operators worldwide with secure, open, integrated platforms and applications over broadcast, broadband and mobile networks enabling compelling and personalized viewing experiences. They address the entire digital media ecosystem with a focus on bringing premium entertainment to every type of screen. This extensive security expertise is also leveraged in the Group's cybersecurity offering designed to protect companies' operations and reputation as well as individuals' privacy. The Group also holds expertise in design and manufacturing of smart devices.

NAGRA KUDELSKI — Integrated security and multiscreen solutions for digital TV operators and content providers.

OpenTV — State-of-the-art middleware platform for the deployment of a consistent cross-device user experience and interactive applications; advanced advertising solutions.

SMARDTV — Renewable Conditional Access Modules for digital TV access.

KUDELSKI SECURITY — Tailor-made cybersecurity solutions and services for enterprises, financial institutions, government agencies and media customers.

nagra ID — Development and production of modules and smart cards for contact and contactless identification systems. Leader in display cards.

PUBLIC ACCESS SOLUTIONS

The Public Access division designs integrated solutions to provide seamless, user-friendly access for people and vehicles to sites and installations such as car parks, ski-lifts, stadiums, arena and amusement parks.

SKIDATA KUDELSKI GROUP — Integrated access and management solutions for car parks, ski lifts as well as sports, cultural, entertainment and exhibition facilities.

The Kudelski Group strives to be proactive and to play a key role in innovation by continually making significant investments in research and development.

HISTORICAL OVERVIEW

1951
- Creation of the company by Stefan Kudelski and launch of the first portable recorder, the Nagra I.

1958
- Release of the Nagra III, the legendary radio, TV and cinema recorder.

1965
- US Agencies start using the miniature NAGRA SN secretly. Worldwide expansion from 1974.

1983
- Joint project with Ampex (USA) and launch of the AMPEX-NAGRA VPR-5, the world's smallest, lightest professional portable C-format video recorder.

1989
- Canal+ adopts Kudelski's access control system for pay television.

1991
- André Kudelski succeeds Stefan Kudelski as Chairman and Chief Executive Officer.
- First million analog decoders sold. Conditional access television systems become Kudelski's core business.

1992
- Creation of Nagra+, a joint-venture with Canal+.
- Launch of the Nagra D, the first portable professional 4-track 24 bits digital recorder.

1995
- First contract (with EchoStar) for a Nagravision digital system, marking the arrival of Nagravision on the North American market.

1996
- André Kudelski receives an Emmy Award from the National Academy of Television Arts and Sciences for achievements in the area of pay-TV conditional access and scrambling systems.

1997
- Digital pay television becomes the company's core business.
- Nagra Audio launches a range of high-end Hi-Fi products.

1998
- Creation of NagraStar, a joint-venture with EchoStar; creation of NagraCard.

2001
- Expansion into the public access business. Acquisition of SKIDATA, inventor of the first handsfree ski access system.

2006
- Acquisition of the Digital TV activity of SCM Microsystems resulting in the creation of SmarDTV.
- First mass deployments of the Nagra Mobile solutions.

2007
- The Group becomes a leader in middleware and interactivity for digital television with the acquisition of a controlling interest in OpenTV.
- Launch of new IPTV solutions .
- Launch of a new generation of security solutions.
- Excellent performance of Nagra Public Access.

2009
- Massive deployments on digital terrestrial television markets.
- OpenTV becomes a 100% Kudelski entity.

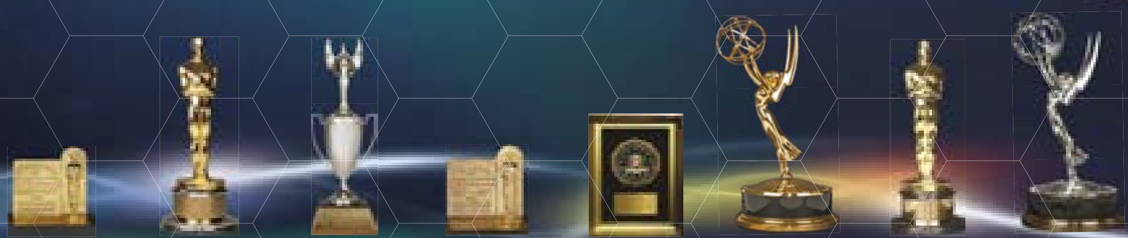
2010
- Expansion strategy focusing on emerging markets.
- Renovation of the Middleware & Advertising activity.
- Success in Over-The-Top and US cable markets.

2012
- Launch of Kudelski Security, the cybersecurity activity of the Group.
- iDTV new generation solutions adopted by major operators.
- Continued extension of Public Access global footprint.

2013
- Production launch of OpenTV5.
- Launch of PRM at Dish Network (USA).
- SKIDATA growth reaches 12.6% in constant currency.

2014
- First major IP agreement signed with Cisco.
- To be continued…

Throughout its history the Group has stayed at the forefront of innovation



1965 1970 1972 1977 1978 1984 1991 1996

WORLDWIDE PRESENCE

47

47 locations across the world

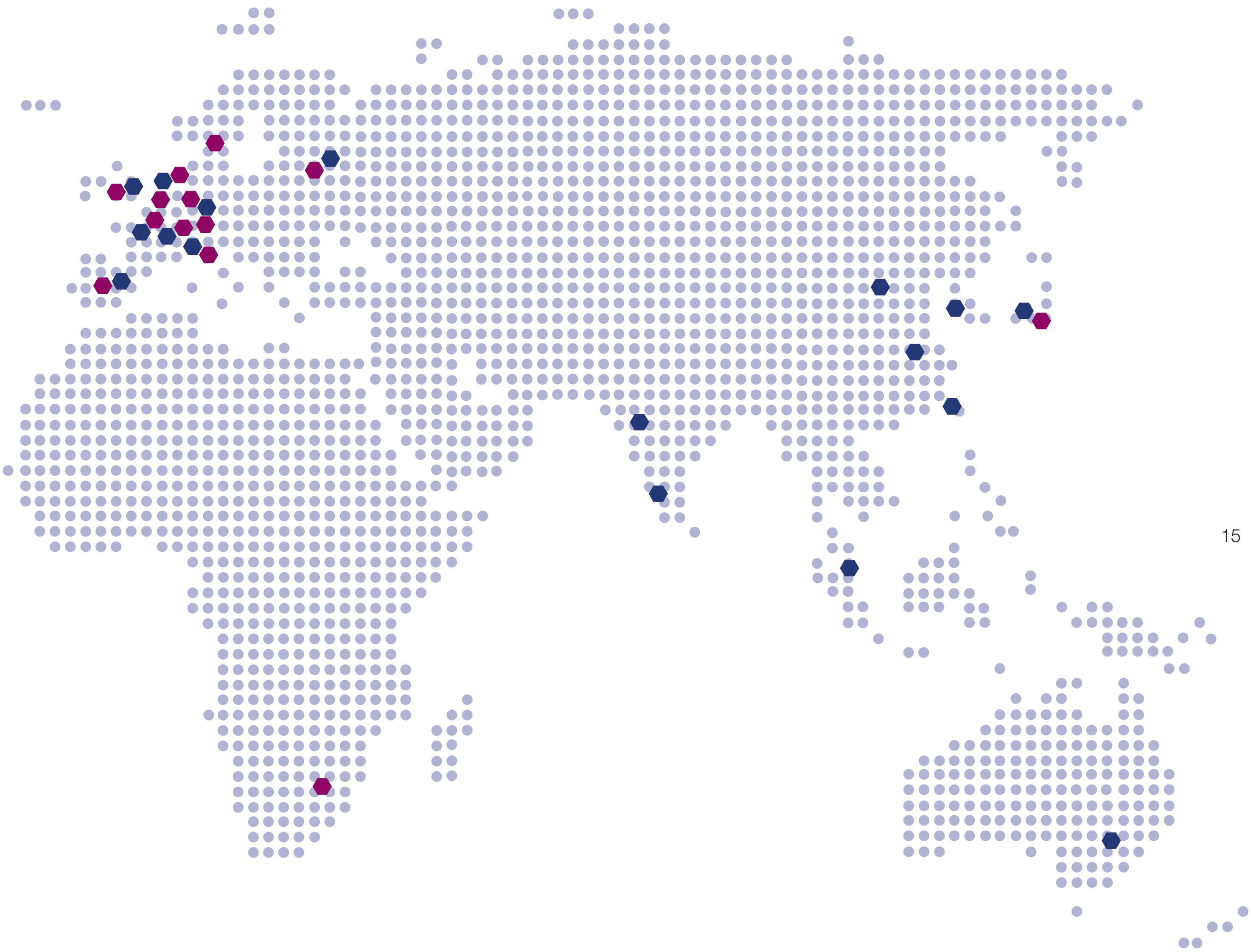
23

Operations in 23 countries

70

Business in more than 70 countries

INTEGRATED DIGITAL TELEVISION
PUBLIC ACCESS



Kudelski is headquartered in Switzerland and benefits from a wide-spread international presence. The Group has operations in 23 countries across the world and a wide-spread customer base in more than 70 countries across the globe.

INTEGRATED DIGITAL TV

END-TO-END DIGITAL TV SOLUTIONS

NAGRA, the digital TV division of the Kudelski Group, provides security and multiscreen user experience solutions for the monetization of digital media. With more than 25 years of experience, NAGRA is the leading independent player in the area of content protection, securing more than 120 services providers worldwide. Today, the Group leverages this exceptional know-how and experience to enable the development of new cross-device, multi-network concepts without compromising on security.

NAGRA's offering covers the entire digital television ecosystem including conditional access, digital rights management, content management and protection, interactivity, user interfaces and security modules.

NAGRA has been recognized in the most highly regarded awards events in the industry with innovative solutions that set a new milestone in the very competitive landscape of pay-TV.

INDUSTRY RECOGNITION

	AWARD	SOLUTION	CATEGORY	
2013	TV Connect Industry Award	NAGRA Cloud Services	"Highly commended" recognition for Best Cloud Service Delivery	
2012	Connected TV Awards	Jazztel powered by NAGRA Multiscreen	Outstanding Connected TV Service	
2012	Connected World TV Awards 2012	NAGRA OpenTV	Middleware and CPE Technology	
2010	CSI 2010 Awards	NAGRA PRM	Best Content Protection Technology	
2010	TV Innovation awards	OpenTV nX cross platform user experience	Advanced User Interface	
2009	Telco TV 2009 Innovation awards	NAGRA MediaAccess ELK conditional access system	Conditional Access	
2009	InfoVision Awards International Engineering Consortium	NAGRA Service Delivery Platform	Content, Entertainment, Applications and Services	
1996	Emmy Award from the National Academy of Television Arts and Sciences	Development and implementation of technology for high security encryption of signals for home television reception	Outstanding achievement in technical/engineering development	

PREMIUM ENTERTAINMENT ON EVERY SCREEN

CONTENT SECURITY

CORE CONTENT PROTECTION SOLUTIONS

Although the Kudelski Group has continued to broaden its skillsets and offerings over the last decade, security remains a fundamental area of expertise and differentiation for the Group. A range of Content and Asset Security technologies has been developed and implemented, based on the operators' objectives, service offering and the applications they wish to deploy. These technologies include a range of Conditional Access Systems (CAS) with smartcards for broadbcast, embedded security for broadband networks, an award-winning DRM solution and a media player for open devices.

NAGRA MediaAccess
NAGRA MediaAccess is a family of best-in-class content protection and security solutions designed to ensure the proper level of content protection for any type of content on any type of network. Protected by state-of-the-art security mechanisms, NAGRA MediaAccess is designed to enable the secure delivery of premium content to pay-TV subscribers while ensuring revenue growth for service providers and faster time-to-market of new services.

MEDIAACCESS

Based on 25 years of experience, NAGRA offers the broadest range of security technologies in the industry. It is the leading independent player in the area of content protection, securing more than 120 service providers worldwide.

- **Integrated end-to-end solutions**
- **Optimized for each type of network**
- **Flexibility and diversified security**
- **Protection plans from basic services up to premium content**
- **Proven long-term sustainability**
- **Ease of integration**
- **Short time-to-market**

NAGRA MEDIAACCESS FAMILY OF SOLUTIONS

Conditional access and beyond…

The Kudelski Group has a proven track record of deploying powerful and advanced solutions for digital television with the protection of premium content along with a compelling user experience.

MediaAccess
Content protection solutions

MediaAccess PRM
Digital Rights Management

MediaAccess ELK
For IP networks

MediaAccess CLK
Smartcard solution for broadcast

MediaAccess DLK
Entry-level solution for one way networks

MediaAccess Mobile
For mobile networks

CAS Cloud Service
CAS solution operated as a cloud service

MIDDLEWARE

AWARD-WINNING MIDDLEWARE

Middleware powers the creation and the management of innovative interactive features that take the TV experience far beyond simply watching programs. It enables operators to develop a consistent user interface, service portfolio and set of applications across different devices. Middleware also allows the rollout of advanced advertising solutions.

With a competitive technology and a strong IP portfolio, the Kudelski Group has been a pioneer in middleware with OpenTV. It is today a leading provider of television middleware solutions, backed by more than 15 years of innovation.

Substantial investments made by the Group led to the development and launch of new generation middleware platform OpenTV5. This new platform enables the distribution of video services within the home and beyond to support TV and extended media consumption across numerous devices. OpenTV5 is fully integrated with NAGRA's end-to-end multiscreen platform. Major operators are using OpenTV5 such as Telefonica and Starhub.

NAGRA OpenTV Gravity Ultra next generation user experience

OPENTV5

OpenTV5 empowers service providers to take advantage of new opportunities in the rapidly evolving television landscape. It includes a feature-rich television operating system with an increased focus on the visual impact of the TV user experience.

- **Open architecture providing an efficient, flexible and reliable environment**
- **Award-winning platform fully supporting HTML5 and Javascript industry standards**
- **Modular architecture covering all use cases from "zapper" to home gateways**
- **Combines Internet velocity with broadcast reliability**
- **Includes a rich set of built-in TV centric features (broadcast, PVR, on-demand, OTT services, etc.)**
- **10 user experience implementations already available from NAGRA and third parties**
- **Supports multiple platforms (current and future)***
- **Optimized application environments for superior 2D and 3D graphics performance**

*may require porting

Middleware is a powerful enabler of a unified user experience across a range of devices.

View the OpenTV5 video!
http://www.nagra.com/dtv/ibc/share/opentv-51/

ADVANCED ADVERTISING

OPENTV'S ADVANCED ADVERTISING SOLUTIONS

OpenTV continues to set the standard for the most reliable, scalable and forward-looking advertising management systems. Trusted to manage more than 3 billion dollars of advertising revenue a year in nearly 70% of locally insertable MVPD (multi-channel video programming distributor) households in the U.S., OpenTV is the advanced advertising foundation of choice for many of the world's largest media companies. Unique in the industry, OpenTV has a proven ability to deploy and support very large-scale traffic and billing systems.

Market deployments
At the end of 2013, the OpenTV team successfully implemented the EclipsePlus® product for GCI, a new customer and Alaska's largest telecommunications provider. OpenTV also started implementing the newest Eclipse product for one of the largest U.S. cable operators and existing customer.

ECLIPSE AND VISABILITY

- **OpenTV's Eclipse line of traffic and billing products helps customers maximize revenue and efficiency, minimize workflow friction and errors, reduce training time of new users and simplify multi-platform advertising**
- **Product range includes next generation Eclipse/xG Billing and Eclipse/xG LinearTV products**
- **OpenTV's VISability™ makes addressable targeting investments more powerful by giving media sellers the tools to help their customers more effectively market products to the right household**

OpenTV's VISability™ product makes addressable targeting investments more powerful by giving media sellers the tools to help their customers more effectively market products to the right household.

COMPELLING USER EXPERIENCE

ELEVATING THE USER EXPERIENCE

With smartphones, tablets and computers, consumers have raised their expectation standards in terms of user experience. Multiscreen further raises consumer user-friendliness requirements as navigation between screens is expected to be smooth and seamless. NAGRA guide solutions provide universal interfaces that integrate traditional broadcast television with all locally stored media, internet media and on demand content.

THE ULTIMATE NAGRA 4K EXPERIENCE

Ultra High Definition represents the highest resolution now available on the market. Deploying a superior user interfaces for the next generation of television technology is of high importance for service providers looking at reinventing their market leadership or gaining new subscribers with exclusive innovation. NAGRA launched its next generation user interface and user experience solution especially designed for Ultra HD television, NAGRA Gravity Ultra.

GRAVITY ULTRA

An extension of the NAGRA Gravity Edge ready-to-roll user interface, Gravity Ultra is NAGRA's next generation user interface for 4K television:

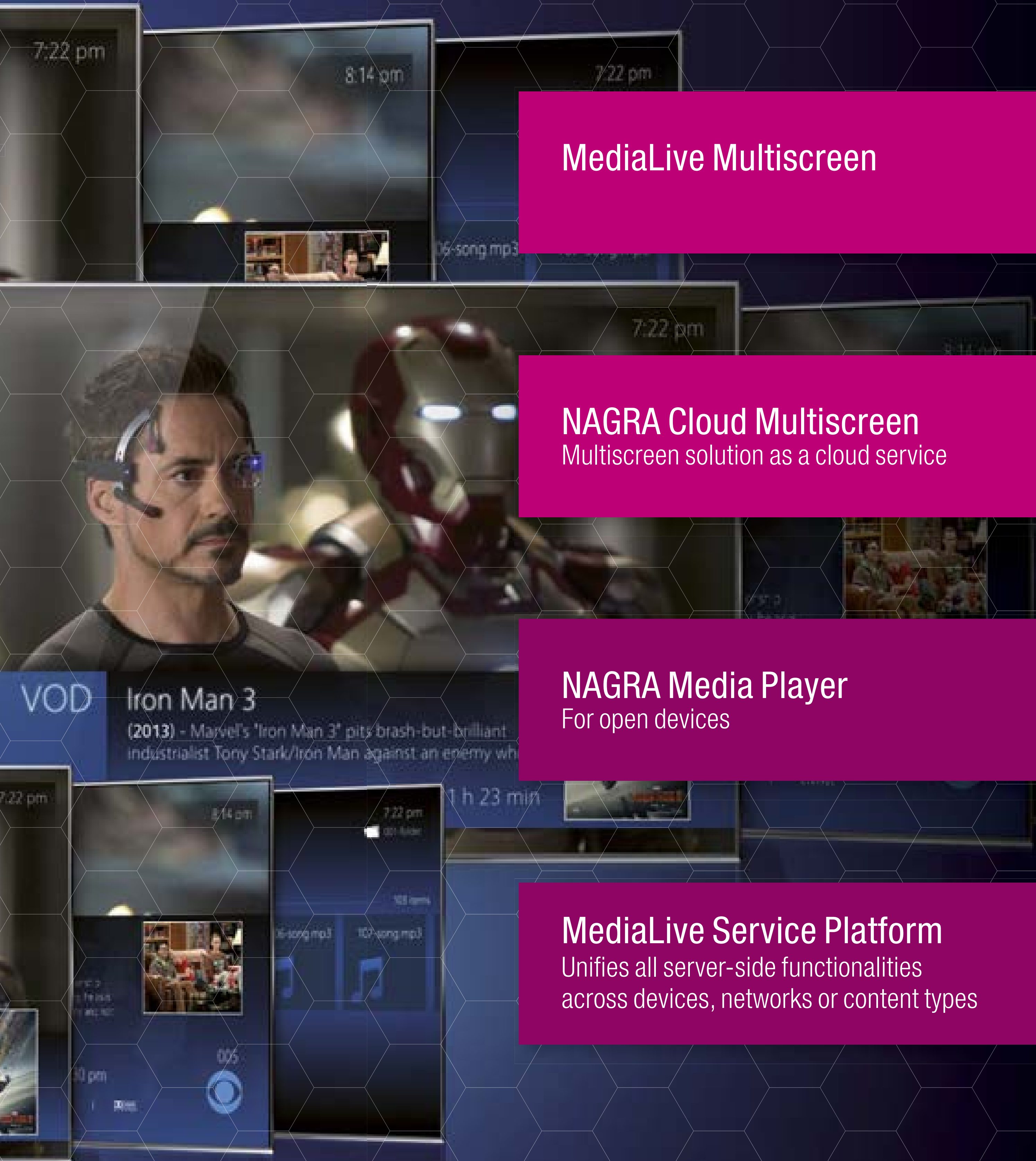
- **Multiplatform adaptability**
- **Integrates social features**
- **A new engaging navigation paradigm with a real home cinema effect**
- **Zoomable interface that revolutionizes content discovery, based on fully-rendered three dimensional spaces**
- **Leverages tablets and smartphones as control devices**
- **Intuitive navigation through touch gestures and voice control**

NAGRA Gravity Edge user interface
NAGRA and its UEX (User Experience) Studio team demonstrated its next generation user interface/user experience solution for the Ultra HD resolution revolution at the Consumer Electronics Show at the IBC 2013 show in Amsterdam. Gravity Ultra is NAGRA's model user interface for Ultra HD 4K TV, combining NAGRA's extensive user interface, enabling technology and content protection expertise. Gravity Ultra takes advantage of all that the higher resolution and bigger screens have to offer. It blends live TV, VOD, music, social TV applications and more with companion device control and navigation, as well as speech and voice search recognition.

Gravity Ultra's zoomable user interface revolutionizes content discovery by replacing time with space to offer engaging navigation.

ULTRA HD A NEW IMMERSIVE EXPERIENCE

You choose your own model !



MediaLive Multiscreen

NAGRA Cloud Multiscreen
Multiscreen solution as a cloud service

NAGRA Media Player
For open devices

MediaLive Service Platform
Unifies all server-side functionalities across devices, networks or content types

MULTISCREEN

NAGRA MEDIA LIVE FAMILY OF SOLUTIONS

MEDIALIVE

Medialive Multiscreen securely enables premium TV content delivery across a broad range of devices and gadgets.

- **Addresses consumer needs to access premium content on any screen**
- **Integration of companion devices with the main TV screen**
- **Consistent branded experience across all devices**
- **Enables further extension of high-value content distribution**
- **Catalog of advanced features (in-home content sharing, social networking, etc.)**
- **Integrated in NAGRA's end-to-end secure product ecosystem**
- **Built with a high level of flexibility and efficiency to address present and future needs**
- **Cost efficiency for operators**

ENTERTAINMENT ON EVERY SCREEN

The ability to access any content at any time regardless of the type of device has now become a universal requirement from consumers. Based on the state-of-the-art conditional access and encryption technologies, NAGRA's comprehensive suite of cross-network and multiscreen solutions allows service providers to securely deploy a multitude of services over a range of devices. Services enabled by NAGRA's technology include subscription and on-demand services such as TV programs, video-on-demand, digital video recorder functionality, push VOD, season tickets and many more.

Kudelski addresses today's dynamic, multiscreen world by providing a rich, yet modular set of solutions addressing the key existing and emerging requirements of the digital video landscape.

NAGRA Medialive Multiscreen
Medialive Multiscreen is an integrated multiscreen solution that includes all the components required to deploy a secure multiscreen platform with fast time-to-market. It enables the secure delivery of premium TV content across multiple devices and gadgets, from hybrid and OTT set-top boxes to connected TVs, conditional access modules, game consoles, computers, tablets and smartphones.

CONNECTED HOME

TV BEYOND THE MAIN SCREEN

The rapid growth of multiscreen TV delivered via the Internet to tablets and smartphones is creating new challenges as well as new opportunities. Within their homes, consumers expect to have linear TV and on-demand content delivered to their personal connected devices as well as to the bigger TV screen. Service providers are looking at ways to optimize over-the-top video traffic while ensuring that their content is securely delivered over the home network.

JoinIn
In 2013, NAGRA introduced JoinIn, its home domain solution. JoinIn is an innovative secure and flexible solution for the seamless delivery and sharing of premium content on every screen within the connected home. It combines open standards and best-of-breed technologies and practices. With JoinIn, service providers can engage viewers with a consistent user experience, monetize content and applications and secure the delivery of premium content to every screen.

JOININ

NAGRA has its own end-to-end pre-integrated solution for the connected home based on the JoinIn architecture. The solution includes the NAGRA HomEdge Gateway, OpenTVW5 middleware, NAGRA MediaAccess CAS and DRM and NAGRA MediaLive Multiscreen products. Key features of JoinIn include:

- **Rich and engaging user experience**
- **Enables a wide variety of content viewing scenarios**
- **Fully integrated experience for consumers**
- **Optimized, flexible and innovative architecture**
- **Reduced time-to-market and integration costs**
- **Comprehensive content protection**

View the JoinIn video!
http://www.nagra.com/dtv/ibc/joinin/

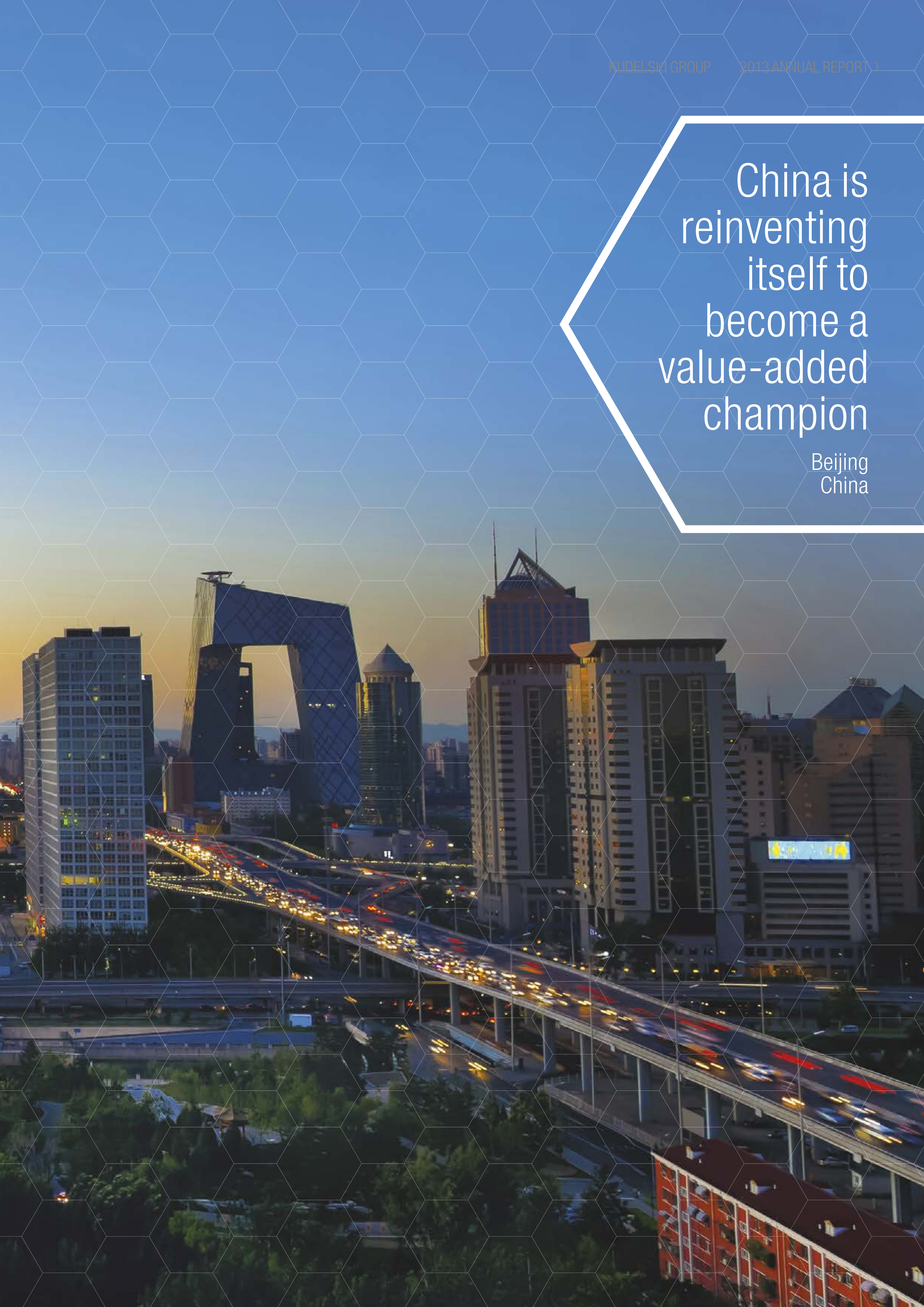
JoinIn embodies a real-life integration of all our cutting-edge products: OpenTV5, MediaLive, MediaAccess and SmarDTV, all pre-integrated for our customers to offer an engaging, secure and monetized experience.

VIVEK KHEMKA
SENIOR VP PRODUCT MANAGEMENT
DISH NETWORK

"Customers now value to view both satellite and IP content on all types of screens – TV's, tablets and mobile devices – and want to be able to watch their favorite content anytime, anywhere. The NAGRA JoinIn architecture has allowed us to deliver just that – while helping us maintain strong security across all platforms. Any service provider looking to implement connected home solutions will benefit from this solution framework".

Dish's connected home
In 2013, Dish Network (EchoStar) in the US launched a connected home solution allowing for a wide range of advanced content distribution scenarios between a home gateway and mobile devices, all secured by NAGRA's PRM solution.

dish ANYWHERE



China is reinventing itself to become a value-added champion

Beijing
China

NAGRA MARKET REVIEW

EXPANDED FOOTPRINT IN OUR MARKETS

Americas

In 2013, we continued to expand our global footprint in our markets. In particular, we gained momentum in emerging markets of regions such as Latin America and Asia.

After successfully developing its North American business, the Kudelski Group established a strong presence in South America. Since it first came to the region in the 1990s, NAGRA has delivered and deployed a variety of advanced television services to service providers in the cable, satellite, terrestrial and telco markets. A number of operators in the region have adopted NAGRA's technologies, including Unotel, NET, Globo, ClaroTV, Oi TV, Telefonica, CNT and Entel.

Even with the slowdown seen during the second half of last year, 2013 was yet again a particularly good year for our Group in Latin America, a fast-growing region in terms of television subscribers. Brazil's market alone has now over 18 million subscriber homes. In this market, the largest in the region, the socio-economic revolution of the mid 2000s resulted in the strong growth of the middle class, which now represents more than half of the population. NAGRA has a strong presence in this market. The digital television market has gone through a deep transformation with the arrival of telecom mobile operators and the launch of a large-scale DTH offering with several players, including ClaroTV – an operator who met with huge success. NAGRA supported the launch of ClaroTV's services as from 2008 and accompanied this operator throughout its development. ClaroTV is today among the leading satellite operators in Brazil. It uses NAGRA's conditional access technologies and OpenTV's middleware platform.

Cable operator NET, the first Brazilian operator, also uses NAGRA's conditional access system and OpenTV's middleware platform to secure its services.

Still in Brazil, Unotel launched a new offering including NAGRA technology in 2013. The new service will be offered to the 4 million broadband subscriber base of the shareholders and partners of Unotel with commercial launch expected for the second quarter of 2014. The growth plan will take advantage of the sports events that will take place in Brazil in 2014 (World Soccer Cup) and 2016 (Olympics). It will enable small and medium regional operators to offer triple play (broadband, voice and video) to their existing broadband customers. NAGRA will provide its content protection technology and OpenTV5 middleware.

NAGRA supplies Telefonica with a multi-country satellite TV and Cable TV platform for their operations throughout Latin America. In 2013, NAGRA helped expand the platform by introducing a number of new subscriber set-top box platforms. These platforms include a high end multi-featured platform with NAGRA's new OpenTV5 middleware software. This middleware allows Telefonica to author and build their own unique user experience and easily port and modify this user interface to consumer set-top boxes using web-centric tools including HTML5. This new platform with OpenTV5 also allows Telefonica to deliver OTT content to the set-top box through the Telefonica Broadband network.

NAGRA also launched two additional set-top box platforms to serve other business initiatives at Telefonica. One was a vertical solution delivered by NAGRA's SmartDTV division. This solution is a cost-effective way for Telefonica to add subscribers to their DTH platform. NAGRA supplies a device with an integrated user interface and Livewire middleware. The second is a high definition set-top box provided by NAGRA's partner Technicolor. NAGRA supplies the user interface, Livewire middleware and integration services for this platform.

In 2013, Telefonica continued to grow its DTH subscribers in the region with these new NAGRA products, in particular in Chile, Colombia and Venezuela.

Latin American telephone companies continued to expand their voice, mobile and broadband offering by adding pay-TV subscribers using NAGRA technologies. In particular in 2013, American Movil in Central America, Entel Chile, CNT Ecuador and Oi Brazil increased their pay-TV subscribers with NAGRA.

Dish Mexico was a steady business in 2013.

In the US, cooperation with EchoStar and Dish was further strengthened. In addition to providing Conditional Access solutions for Dish's DTH services, NAGRA now provides its state-of-the-art Persistent Rights Management (PRM) solution to secure Dish's streaming and side-loading services. Streaming allows content to be sent from a home gateway (Hopper) to mobile devices using EchoStar's Sling technology. Side-loading allows transfer of content from the Hopper DVR to mobile devices. NAGRA's cutting-edge security combined with a high level of flexibility will allow NAGRA PRM to be used for more online EchoStar and Dish services in the future.

Also in the US, NAGRA continued to help CableOne move their video platform from analog to digital. CableOne operates a cable platform in 41 cities in the United States. CableOne has embarked on a multiyear plan to turn off their analog network and move to all digital. NAGRA is the video system integrator providing the end-to-end platform for CableOne's digital service. NAGRA provides an end-to-end integrated consumer HD MPEG set-top box, the middleware, the user experience and the Conditional Access system. By digitizing their network and removing their analog video system from their cable plant, CableOne frees up cable bandwidth which allows them to offer other value-added services to their client base including higher speed broadband services.

In Canada, BellTV began in 2013 to introduce a new generation smart card and is proactively converting its subscriber base.

Asia / Pacific and Africa

In China, NAGRA had the privilege of being selected by Shandong Cable to deploy its smartcard-based and cardless-embedded CAS in the province. This new win reinforces the company's growing footprint in the region and marks an important milestone for NAGRA as the first large-scale deployment in China of the company's device-embedded conditional access solution. NAGRA VOD solution has been launched commercially by Guangdong Cable. Both Guangdong and Shandong Cable belong to the small club of the world's largest cable operators with over 20 million subscribers each.

The mass development of Digital TV in Asia has continued throughout China, India, Taiwan and Indonesia, where the main digitization objectives set by the authorities have been substantially met, and innovation-led countries such as Singapore and South Korea have kept introducing advanced services.

In Mongolia, NAGRA was selected by Sansar (largest cable TV operator in Mongolia) and DDishTV (satellite service serving rural areas) and successfully replaced the incumbent vendor with a turnkey pre-integrated solution for broadcast over both cable and satellite and for OTT and VOD, comprised of NAGRA CAS, middleware, back-office systems and SmarDTV set-top boxes, delivered and put in service in the short duration of three months.

In India, NAGRA has seen significant expansions of its cable customers and has introduced advanced and interactive services with its satellite customers. Its solutions are now installed in 25 million Indian households and are used by over 125 million Indian people.

In Taiwan, NAGRA's four existing customers, KBRO,TBC, CNS, HYA and the new customer won in 2013, Nankou, are following the digitization targets set by the government and have collectively reached over 1.5 million digital subscribers; this has allowed them to introduce new services such as in-home multi-screen.

StarHub in Singapore has selected NAGRA CAS, DRM and OpenTV5 HTML5 middleware for their next generation platform on both DVB-C and IPTV platforms. They have also selected NAGRA as their turnkey System Integrator for both platforms.

Indonesia experienced a strong growth of Digital TV with NAGRA solutions, with both PT First Media cable platform and with IMTV's DTH commercial launch.

Skylife, the Group's DTH customer in South Korea has passed the mark of 4 million NAGRA smartcards, a very rapid growth since the system was installed in the middle of 2010 and a 60% growth in 2013 alone.

AFRICA

The African continent has seen a significant growth of the Group's footprint with the signature of AzamTV in Tanzania, which launched a new DTH bouquet in December and will shortly target other East African countries such as Kenya and Uganda. Thanks to the ownership of football rights of local championship, they hope to grow rapidly in the whole region.

Another DTH operator signed up by NAGRA is Consat in Nigeria, which is planning to reach quickly a million subscribers by capitalizing on the local digital migration. In South Africa, Sentech has launched its DTH operation called Freevision. In DTT, BTL in Tanzania has successfully launched in the second quarter of 2013 in the Dar Es Salam region and is looking at covering most of the major cities of the country before the end of the year.

In Northern, Central and Eastern Europe, a generally more mature digital TV market, NAGRA has successfully acquired new operators and extended its product footprint with its existing customers.

Europe

In Spain, the Group signed a contract with Vodafone to deploy a new hybrid OTT-DTT set top box on the Spanish market. This set-top box designed by SmarDTV integrates the NAGRA PRM product to secure the OTT streams. It also features the middleware latest generation, OpenTV5, to provide a rich and advanced user experience. With a very innovative design, this set top box will a low Vodafone to provide a truly convergent offer to its subscribers and get access to premium Prisa TV service CANAL+.

In Northern, Central and Eastern Europe, a generally more mature digital TV market, NAGRA has successfully acquired new clients and extended its product footprint with its existing customers.

A specific effort to penetrate the over-the-top and multiscreen market has proven to be successful. By the end of 2013, Liberty Global, Deutsche Telekom Group, HD+, Cyfrowy Polsat, RCS/RDS and others have installed multiscreen and OTT solutions from NAGRA. With Deutsche Telekom and RCS joining the long list of operators sourcing Conditional Access modules from SmarDTV, more than nine out of ten of NAGRA´s customers in Northern and Central Europe are now relying on this to serve their subscribers.

NAGRA has been selected in Russia by ER-Telecom, the second largest broadband telecom operator and third largest pay TV operator in the country. NAGRA will provide an end-to-end Pay-TV security solution for cable and OTT, covering both set-top boxes and tablets/smartphones, with NAGRA's CAS, DRM and Media Player products.

SMARDTV SOLUTIONS AND MARKETS

SMARDTV - CONDITIONAL ACCESS MODULES

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

Innovative technologies

SmarDTV showcased at IBC 2013 the DVB CI Plus 1.4 standard designed to enable content delivery via IP and therefore allow telco and OTT operators to benefit from CI Plus in the same manner as traditional DVB operators have done to date. CI Plus hosts can be directly connected to operator managed IPTV networks without the use of proprietary set-top boxes.

NAGRA Quick Start Solutions

In 2013, NAGRA introduced a full range of SmarDTV pre-integrated devices featuring NAGRA MediaAccess content protection and OpenTV middleware products. The NAGRA and SmarDTV turnkey solution is a feature-rich broadcast platform designed to be brought to market in less than three months while still providing service operators the ability to customize the solution to their own requirements.

This solution made its debut in Asia with two service providers in Mongolia, cable operator Sansar HD and satellite provider DDishTV. Sansar HD is the largest cable operator in Mongolia; DDishTV is a satellite and internet provider with the mission of service rural areas of Mongolia. Both are owned by GEM international.

NAGRA and SmarDTV demonstrated at the IBC 2013 a Quick Start OTT solution with OpenTV5, allowing for rapid user interface customization via HTML5.

SmarDTV continued to deploy set-top boxes embedding the iDecode device in Africa and Latin America. A new set-top box incorporating this device was also launched in Vietnam (VSTV).

In 2013, SmarDTV launched a new solution specifically designed for the hospitality sector. SmarDTV was chosen to team-up with Pico Digital (San Diego, USA) to provide Dish Network with a reliable, scalable and integrated solution in order to deliver premium content to hotel chains in the US. The solution based on NAGRA CAS and SmarDTV Professional CAMs ensures a robust content security from the satellite broadcast to the TVs in hotel rooms. The same solution can be extended to other collectivities, setting a solid basis for the future distribution of the coming 4K content.

SmarDTV deployed its SmarCAM-3.5 modules on Telenet's network in Flanders and Brussels. SmarDTV's SmarCAM-3.5 modules embed the latest generation of the NAGRA conditional access system, ensuring the highest security for all Telenet channels.

SmarDTV's CAMs were also adopted by the Romania Cable and Satellite operator RCS & RDS for its network in Romania and Hungary. RCS & RDS is one of the leading telecommunications operators in South-Eastern Europe, providing services in Romania, Hungary, Czech Republic, Serbia, Spain and Italy.

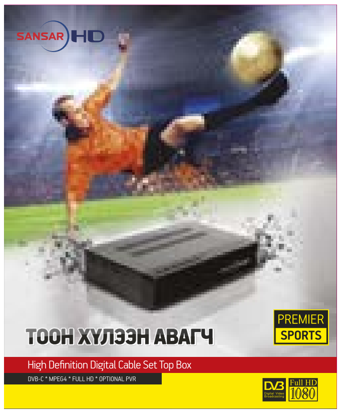
Croatian Telecom Inc., the leading provider of telecommunications services in Croatia, 51% owned by Deutsche Telekom AG, deployed SmarDTV's latest generation of conditional access modules (CAM) in its network.

SmarDTV continued to accompany Liberty Global, Inc., in the deployment of Conditional Access modules. In 2013, SmarCAM modules were rolled-out with UPC in Poland, following deployments with UPC in the Netherlands, Switzerland (Cablecom), Germany (Unity Media), Romania, Hungary and Austria.

PRE-INTEGRATED PAY-TV SOLUTIONS

Quick Start solutions

New NAGRA and SmarDTV turnkey platform designed for pay-TV service providers and enabling quick deployment of new services with an engaging user experience. Components include NAGRA MediaAccess content protection, OpenTV middleware and NAGRA Gravity nX2 user interface, all pre-integrated in a set-top box provided by SmarDTV.



SmarCAM

SmarDTV's SmarCAM is a module relying on the DVB Common Interface and CI Plus standards and plugs directly into the TV set to decrypt premium pay-TV content. It is a non-intrusive solution, very simple to install and operated directly from the TV set's remote control.

Conditional access modules enable consumers to access multiple encrypted services directly on their integrated digital TV set using the TV's remote control.

KUDELSKI SECURITY SOLUTIONS AND MARKETS

CYBERSECURITY SOLUTIONS AND SERVICES

The first full year of operations of the cybersecurity unit was marked by several impressive successes, establishing Kudelski Security's reputation as a trusted security services provider for businesses and public/government administrations in Switzerland and progressively in Europe.

Financial Services
Over the course of 2013, the Financial Services Practice, leveraging dozens of subject matter experts, delivered strategic engagements to two Top 5 global insurance companies, one Top 5 global bank, and a large family office in Switzerland.

As the regulatory and technology landscape is evolving, financial services companies are facing new challenges in the big data, mobility, cloud adoption and the ubiquitous data protection fields. Kudelski Security was contracted by new clients to provide advice on adopting ground-breaking cybersecurity technologies and to evaluate organizations cybersecurity stance in light of emerging security risks and possible challenges. Scalable and customized problem diagnostic, penetration testing and architecture services furnished by the cybersecurity unit helped clients to understand the current security threat landscape and proactively implement solutions that will protect their business.

As a Swiss-based security services provider, Kudelski Security is independent in its security assessment and consulting. The division's service proposal is unique in its simplicity of offering a wide variety of security advisory services and cybersecurity solutions under one umbrella. Kudelski Security's CSO-as-a-Service guarantees clients access to a diverse pool of security experts. This is made possible thanks to a significant investment of the Kudelski Group into innovation, cryptography research and knowledge development.

Public Sector
Switzerland began implementation of the national cyber security strategy in 2013. Thanks to the division's strong offering in hardware security evaluation and reverse engineering, Kudelski Security positioned itself as a provider of choice to several cantonal administrations.

2013 marked Kudelski Security's first win in a public call for tender in Switzerland. In November 2013, Kudelski Security launched the project to deploy an Information Security Management System (ISMS) within one state's administration; at the same time IT audit began for another state.

Thanks to availability of highly skilled specialists in mobile applications (iOS and Android) pentesting and audit, Kudelski Security team was also selected for mobile device security audit engagements. In addition, looking for a solution provider to identify and fix vulnerabilities (if any) of its IT infrastructure, a Swiss-based public transportation company awarded a project to the Kudelski Security team.

Global strategic partnerships established by Kudelski Security with the security market leaders enable the division to provide complete, end-to-end cybersecurity solutions to its customers. For example, Kudelski Security has been collaborating with law enforcement authorities globally for a long time. In 2013, the emphasis was placed on collaboration with both the local state and the federal level forces in Switzerland, which resulted in the first digital forensic analysis orders.

Kudelski Security invested in advance to be better positioned in 2014. The references acquired in 2013 will naturally bring expansion in all the above-mentioned areas.

KUDELSKI SECURITY

Kudelski Security is strongly positioned in the market to provide clients with the most relevant and up-to-date cybersecurity expertise.

Kudelski Security made strategic steps towards expansion in its three core sectors – financial services, media and entertainment, public administration as well as won new clients in the defense and telecommunications sectors

CYBERSECURITY SOLUTIONS AND SERVICES

Media Sector
While Kudelski Security continued to provide existing advanced security services to the media industry during 2013, the division also leveraged the skills of its cybersecurity experts to provide extended protection (new services) of content's value to the media and entertainment industry.

Latin America's Alianza, whose foundations were laid in late 2012, has seen the launch of its activities to support 20 members among pay-TV operators and content owners. Kudelski Security has successfully completed the first year of activities, providing Alianza's members with a large palette of services, ranging from advanced monitoring to forensic expert analysis of pirated material.

Apart from wins in South America, the successful fight against pay-TV piracy has been pursued, thanks to specific programs in Europe, North America and Africa, where multi-faceted skills of Kudelski Security's experts have been instrumental to achieving positive results.

The media and entertainment practice has also enhanced its offering on three different axes:

– Growing customer base outside pure pay-TV domain. New opportunities have been fostered at different levels in the content-value chain, from content production, to distribution to device manufacturing. Among those, one contract was won in North America that leverages Kudelski Security's profound expertise in hardware and security auditing, as well as understanding of the content security challenges.

– Extending Kudelski Security offer beyond content protection for pay-TV operators. A specific brand awareness campaign has put the focus on new cybersecurity activities, addressing different security needs of the traditional pay-TV customers.

– The creation and formalization of a 360 degree service line-up to cover content protection, integrated with and complementing the traditional CAS offering. It brought to market a unique consultancy offer which enables measuring the business impact of piracy.

New Frontiers – Telecommunications
During fiscal year 2013, Kudelski Security began exploring new cybersecurity business opportunities in the telecommunications industry, specifically focusing on the upcoming 4G LTE wireless technology. Based on market research and customer meetings, Kudelski Security's leadership made a decision to pursue two tracks of security services for the telco industry:

1) services for traditional wireless network operators who are planning to deploy or are already deploying 4G LTE wireless networks;

2) public-safety grade solutions for vertical LTE markets (e.g. public safety, critical infrastructure).

The first contract with a mobile operator has been won aiming at setting a long-term strategic partnership. Kudelski Security will continue to pro-actively invest in security technology and solution in the telecommunications field, including the setup of a state-of-the-art 4G security test lab, tests which are officially approved by the Swiss Federal Office of Communications.

"WHAT DOES THIS MEAN FOR OUR BUSINESS?"
"SHOULD WE FEAR NEW CYBER ATTACKS?"
"WILL OUR ASSETS BE SAFE?"
"CAN WE PROTECT OUR DIGITAL REPUTATION?"
"WHAT SHOULD WE DO IN CASE OF A CYBER INCIDENT?"
"CAN OUR DATA GET STOLEN?"

Financial Services

Public Sector

Media Sector

Telecommunications

SMARTCARD SOLUTIONS AND MARKETS

NAGRAID AND NAGRAID SECURITY

Initially a smartcard manufacturer, NagraID is today a trusted value-added technology solution provider for the Digital & ID Security industry, providing solutions and services for government, corporate, online and financial markets applications. NagraID's advanced and patented technologies enable the embedding of sophisticated electronic components into a wide variety of raw materials and form factors including ISO 7810 conforming smartcards, electronic passports, etc.

NagraID Security
Founded in 2008, NagraID Security, the sister company of NagraID, is the world-leader in the design and production of multi-component and other complex cards for the payment, security and identification industry. In particular, NagraID Security is considered a pioneer and technology leader in the development and manufacture of powered display payment cards which are revolutionizing the credit card industry as they make transactions both significantly more secure and convenient for end customers. In 2013, NagraID Security produced more than a million display cards for its customers around the globe.

The Nagra ID e-Service ID Display Card All-in-One platform is the last generation of Secure Identity Documents that provides governments, citizens, corporations and e-consumers with mobility, a higher visible security, greater user-friendliness and the best privacy protection using the existing devices and infrastructures. These new generation cards offer six levels of security and can be used anywhere, anytime with any device.

Markets
In 2013, NagraID was chosen to provide electronic passport covers in Spain. NagraID is also providing a social security multi-application biometric and financial smartcard system to the Republic of Trinidad and Tobago. The card will contain the citizen's data allowing the person to access social benefits provided by the government such as financial support, food, health services, medicine, old-age pension, etc.

In its home country, NagraID is the only supplier of the Swiss driving license card. It is also the unique provider of highly advanced electronic payment cards for all Swiss Cantonal Banks. NagraID's cards are manufactured in its Visa and MasterCard certified factory.

NAGRAID'S RANGE OF APPLICATIONS

Financial 

Government & healthcare 

Loyalty 

Access & transport 

Pay TV 

Gold certificate card 

Over 100 million cards NAGRAID ANNUAL PRODUCTION CAPACITY

12,000 sqm SIZE OF NAGRAID'S VISA AND MASTERCARD CERTIFIED MANUFACTURING PLANT

GROUP IP PROTECTION

PROTECTION OF GROUP'S INTELLECTUAL PROPERTY

The Kudelski Group's worldwide intellectual property portfolio continues to grow, fueled by constant innovation. The Group therefore decided to manage this porfolio more closely from a strategic, legal and financial standpoint in order to better protect and monetize its value worldwide. In 2013, the Group made substantial strides in executing on its strategic intellectual property plan.

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

Utilizing best-in-class practices and leveraging a strong team of experienced intellectual property professionals, the Group's patent portfolio grew to over 4,200 issued patents and pending patent applications worldwide covering fundamental technologies in the digital TV area such as content security (both CAS and DRM), content delivery (including OTT), interactive user experiences (across both the main and second screens) and advertising; as well as important aspects of physical access (such as management of access by people and vehicles) and information security (in both open and private networks). The Group has also expanded its efforts to obtain patent coverage in areas outside its traditional business areas and expects to continue to capture increased intellectual property value from its technology investments by having over a hundred new patents issue annually for the foreseeable future. The Group also acquired intellectual property and patents from third parties in 2013.

Patent cross license with Cisco and other transactions
The Intellectual Property organization is on track with its licensing plan and strategy with some key transactions already completed. For example, the Group recently announced a patent cross license with Cisco as further validation of the strength of the patent portfolio and is engaged with a number of other companies related to licensing and cross licensing. The Group is committed to growing and protecting its intellectual property portfolio and has built a team with deep expertise and experience and will continue to grow this team in 2014.

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

Utilizing best-in-class practices and leveraging a strong team of experienced intellectual property professionals, the Group's patent portfolio grew to over 4,200 issued patents and pending patent applications worldwide.

The Group is a world leader in the Public Access sector with almost 10,000 SKIDATA installations in 73 countries

SKIDATA's parking solutions are installed at car parks operated by NMBS Holding in many train stations in Belgium - here Antwerp Central station.

NAGRA PUBLIC ACCESS

SKIDATA: PRESENT, ESTABLISHED AND GROWING WORLDWIDE

Mountain destinations, parking facility managers, airports, public transport, stadiums, leisure parks or entire towns – access systems are required throughout the world. With now almost 10,000 installations, SKIDATA is already represented in 73 countries. And the number is on the rise. SKIDATA has 16 local subsidiaries, 3 joint-ventures and over 100 partners throughout the world. SKIDATA is present where its customers are and speaks their language and understands their way of thinking. In order to be as close as possible to the customer in the future, SKIDATA is planning the opening of subsidiaries in Turkey and Malaysia.

SOLUTIONS & SERVICES

Solutions from a single source
SKIDATA's success is no coincidence as SKIDATA constantly expands its portfolio in order to retain and strengthen its position as one of the world's leading providers in the access solutions and visitor management sector. With its origins in the mountain destinations sector in 1977, it quickly added the segments of car access and fairs, attractions & arenas to its portfolio. Over 35 years later, SKIDATA is far more than a product provider – holistic solutions are involved.

As a solution provider, SKIDATA offers the complete solution from a single source – from access management, administration via system management, cost control and services to monitoring/maintenance. Customers require more and more the merge of individual installations into centrally operated facilities. SKIDATA acts as a project manager who offers both its own hardware and software as well as that of its many partners. Customers can thus rely on SKIDATA in the implementation of their ideas and choose from a wide range of options and additional software services.

Expert Services
In the past year, SKIDATA focused a great deal of attention on offering the customers the best service with the SKIDATA Expert Services. These comprise all the services that SKIDATA offers for confident day-to-day operation of the facility as well as during critical decision and implementation phases. With SKIDATA Expert Services SKIDATA offers:

– Services that are customized to customers´ needs

– The best cost/benefit ratio

– Strategically designed support processes

– Coordinated and timely solution delivery

– Targeted know-how transfer in training sessions

– Local branches and service outposts

– On-call service outside of standard opening times

– A team of specialists

– The commitment to partnership

In 2013, SKIDATA passed 6,000 total parking installations worldwide.

PARKING SYSTEMS

MORE MOVEMENT FOR PARKING MANAGEMENT

In 2013, SKIDATA passed 6,000 total parking installations worldwide. SKIDATA's sophisticated parking system and its superior service organization make the difference. For example, the Eastgate Shopping Center in Johannesburg wanted to replace its existing parking system with a SKIDATA system without disturbing ongoing operations. SKIDATA made this possible. The local car park manager emphasised that he had never seen a system which was so simple to manage and operate, and where all aspects would work as well as envisaged at the outset. In Azerbaijan, even roads were relocated for a public park in Baku and SKIDATA installed the access system for the underground car park in only four days.

At Amsterdam Schiphol Airport, SKIDATA manages more than 38,000 parking spaces. The overall car park area with its enormous capacity is the largest in the Netherlands. It is divided into various different car parks, each with its individual requirements and configurations.

New software services and solutions in touch with mobile trends

By the end of 2012, global smartphone sales totalled more than 720 million units. People are reachable 24/7, write emails, perform bank transactions online – the possibilities are numerous. SKIDATA is seizing current trends and offering its customers services which are in touch with mobile trends.

In the parking management sector, there is especially demand for the centralised management of several parking facilities. Operators want to have state-of-the-art equipment and access to business-related information at a glance, always and everywhere. In contrast, customers require increased convenience – they want to consume different services with a single ticket. NMBS (see p.48) is an example of the successful implementation of these trends. In the stadiums and mountain sector, SKIDATA offers operators novel solutions to make customers happy and make them loyal with loyalty programs and apps.

Loyalty programs

SKIDATA was the first to implement a loyalty program in the stadium sector.

Seattle Sounders FC is a football club playing in the Major League Soccer. To reach more fans and to get more season ticket holders, Seattle Sounders FC together with SKIDATA implemented a MatchPass loyalty program. This program is able to extend the strong ties to the fan base by giving Sounders fans the opportunity to become even closer to the team. Using the MatchPass loyalty program not only allows the fans to collect points that can be exchanged for 'money can't buy' rewards (such as opportunities to meet the players, match day sideline passes and access to training sessions), but it is hugely valuable to the club, enabling them to increase data capture and influence the habits of their supporters.

Of the 32,000 Season Ticket Holders in 2012, an initial 11,000 had already the MatchPass. In 2013, more than 25,000 had the card and it will become mandatory for 2014.

The loyalty program can also be transferred to the world of skiing and is a win-win situation for operators and skiers. Skiers may enjoy special services or collect bonus points to gain access to a variety of exclusive services (parking in front of the ski-lift, etc.) and operators benefit from turning an anonymous crowd of ski guests into loyal guests and winning new customers.

Facebook application

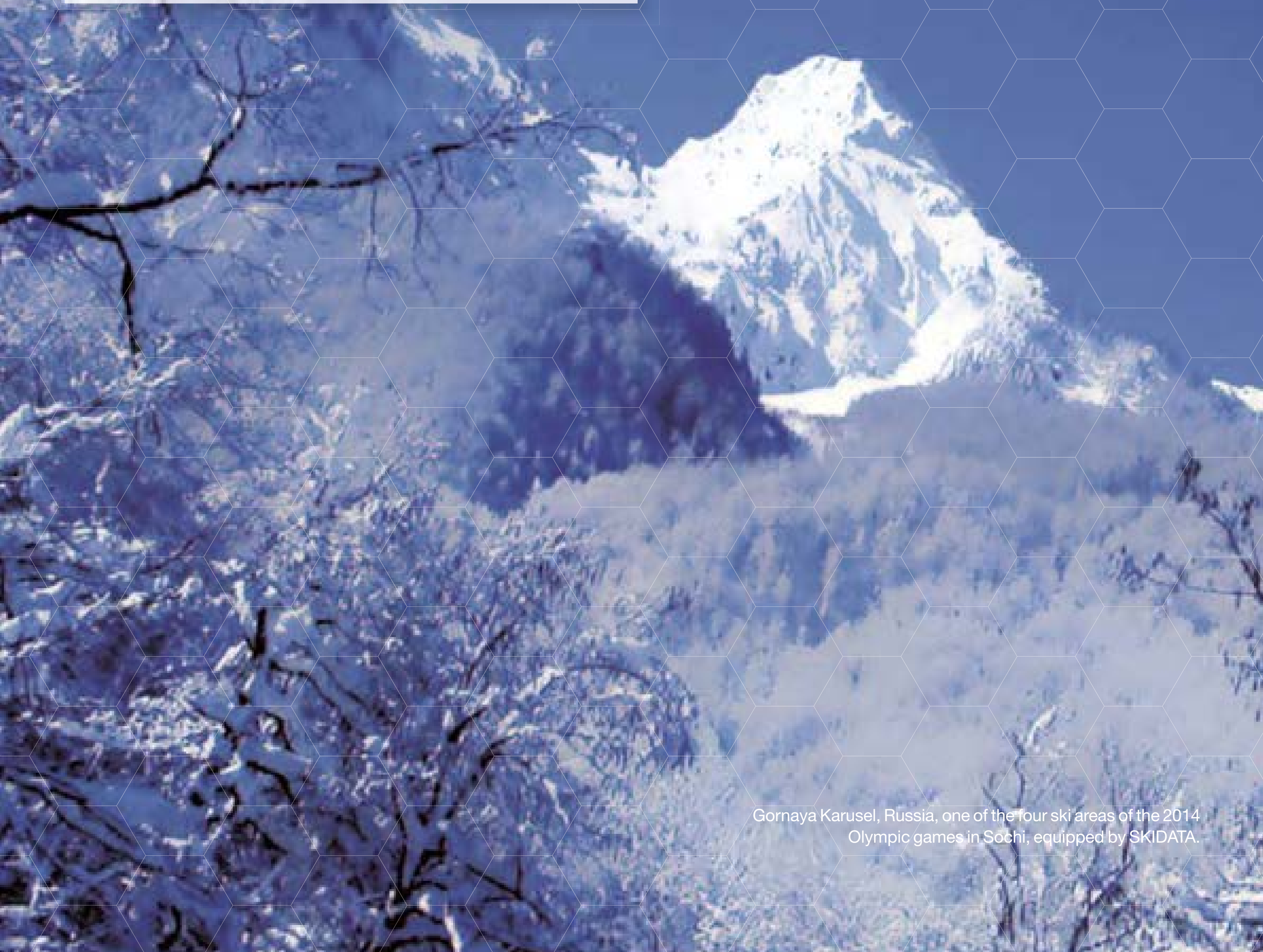
SKIDATA is seizing current trends for mountain destinations too and launching these onto the market, like the SKIDATA Facebook service. For some time now, checking into places such as bars or events on the social media platform has been very popular. Now it is also possible to let your friends know where you are while skiing. The guest registers for this service on the homepage of the skiing area. The check-in at the ski resort takes place upon entering for the first time and a corresponding Facebook post is automatically created on the personal Facebook profile (the page of the skier).

More than 2,500 SKIDATA systems are deployed worldwide in the ski sector.

MOUNTAIN DESTINATION

ALWAYS A SKI LENGTH AHEAD

SKIDATA won the first medal at the Winter Olympics 2014 in Sochi, Russia. With the Gornaya Karusel SKIDATA equipped one of the four ski areas of the games. In Japan SKIDATA demonstrated its expertise once more: Sugadaira Kogen is one of the largest skiing areas in Japan. Four of its ski resorts opted for SKIDATA access management in 2013: Hare Ski Resort, Oku-Davos (Ueda Resort Kanko), Sugadaira Ski House, Schneider Sakudo. The operators were seeking a reliable partner in Japan who they could trust and that ensured accurate invoicing of the different operators in the pool. With its 10 years of experience in Japan and its many Japanese and international references, such as Shiga Kogen and Niseko United, SKIDATA was selected for this project.



Gornaya Karusel, Russia, one of the four ski areas of the 2014 Olympic games in Sochi, equipped by SKIDATA.

THE SUCCESSFUL COOPERATION BETWEEN SKIDATA AND NMBS

The project with NMBS Holding in Belgium is one of SKIDATA's success stories.

NMBS Holding operates car parks at 37 of the most important Belgian train stations. In 2008, NMBS Holding founded its branch B-Parking and commissioned it to manage their car parks. Between 2008 and 2012, 33 car parks at 21 train stations were equipped with SKIDATA products, resulting in 16,600 parking spaces. As from 2013, NMBS Holding and SKIDATA continued their collaboration with a new frame agreement for another 5 years. By the end of 2013, SKIDATA had provided products for smooth access to a total number of more than 56,000 parking spaces.

SKIDATA has provided services for NMBS Holding and B-Parking that enable centralized management in three control rooms. Thanks to sweb.Control, monitoring teams can manage all car parks remotely and, if necessary, intervene 24/7 in case a customer needs support. Thanks to the ICTRA network, all locations were equipped with cameras and intercom systems which were integrated in the management platform sweb.Control. In the new general agreement, SKIDATA was also commissioned to integrate the reading of MOBIB cards. These mobility passes enable access to car parks, riding trains and public transport all around the country. Since April 2013, this development is used locally.

200 soccer stadiums in more than 20 countries are relying on the SKIDATA access system.

STADIUM ACCESS

MARKET LEADER IN STADIUM SECTOR

SKIDATA has established itself as the market leader in the stadium sector. 200 soccer stadiums in more than 20 countries are relying on the SKIDATA access system, among those the stadium for the FIFA world cup final 2014 (Maracaña in Rio), the Allianz Arena Munich, the home of Bayern Munich, the triple 2013 champion (European Champions League, DFB Cup, German Championships) and eight national champions: Celtic Park (Glasgow, Scotland), Parc des Princes (Paris, France), Juventus Stadium (Turin, Italy), Estádio do Dragão (Porto, Portugal), Donbass Arena (Donetsk, Ukraine), St. Jakob-Park (Basel, Switzerland), Pepsi Arena (Warsaw, Poland), as well as the arenas of PFK ZSKA Moskow (Russia).

Allianz Arena in Munich equipped with a SKIDATA access solution managing 240 entry points and enabling fast access of some 1000 people per hour.

CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2013.

Implementation of the Ordinance against Excessive Remuneration by Listed Companies at Kudelski SA is ongoing. Required modifications of the Articles of Association will be submitted for approval by the shareholders at the 2015 General Assembly in compliance with the Ordinance.

1. GROUP STRUCTURE AND SHAREHOLDING

1.1. Group structure

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

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

1.1.1. Operational structure of the Group

From an operational point of view, the Group's activities are divided into two divisions: iDTV (Integrated Digital Television) and Public Access. The Finance, Legal, Human Resources and Intellectual Property departments support the entire organization.

The iDTV division includes sales and operations, the Product Units (Content Access Management; Middleware; Multiscreen and Cybersecurity, which are responsible for the definition of research and development, marketing and production of the solutions, as well as companies dedicated to certain products (such as SmarDTV and NagraID)).

The Public Access division is divided into three units (Car Access; People Access (ski); People Access (events)).

Results by sector are presented in note 6 of the Kudelski Group's 2013 financial statements.

Main operating companies held directly or indirectly by Kudelski SA

The list of the Group's main operating companies is included in note 58 of the 2013 financial statements. Additional information is also included in the 2013 Annual Report's key figures.

1.1.2. Listed companies included in the scope of consolidation

Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ ISIN: CH0012268360) with a market capitalization as of 31 December 2013 of CHF 668 551 928. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange.

1.1.3. Unlisted companies included in the scope of consolidation

Information about the company name, registered office, share capital and -holdings owned by unlisted Group companies included in the scope of consolidation is shown on pages 126 and 131 of the Kudelski Group's 2013 financial statements.

INTERNATIONAL PRESENCE

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

1.2. Significant shareholders
As of 31 December 2013, the principal shareholders of Kudelski SA are forming a group of shareholders with a participation of 63.42% and including Mr André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants. The shares are directly owned or owned through an investment structure of which the above-mentioned persons are the beneficiaries. To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no shareholder agreements between the family pool and other shareholders. The shareholding structure, under which the Kudelski family pool has control over the company, guarantees the Group's long term stability. This stability is essential to ensure long-term continuity and independence, which are key elements for the Group's main customers.

For more information, please refer to the announcements made to SIX Swiss Exchange, which are available at the following address: http://www.nagra.com/cms/Investors-doc-center.html

All announcements made by Kudelski SA to SIX Swiss Exchange may also be found on the SIX Swiss Exchange website under the following link:
http://www.six-swiss-exchange.com/shares/security_info_fr.html?id=CH0012268360CHF4
Click on the link regarding management transactions.

AS OF 31 DECEMBER 2013	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	14 234 423	35.07%	63.41%

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

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital at 31.12.2013 and
2.2. Specific information concerning authorized and conditional capital

Ordinary capital
The share capital is CHF 537 882 300. It is divided into 49 158 230 bearer shares with a nominal value of CHF 10 per share and 46 300 000 registered shares with a nominal value of CHF 1 per share. Each share confers the right to one vote. All shares are fully paid up.

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

Conditional capital
The conditional capital amounts to CHF 103 555 260 and is structured as follows:

– a maximum amount of CHF 3 555 260 through the issue of a maximum of 355 526 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to employees of the company and of affiliated companies are exercised. There are no preferential subscription rights for shareholders. Share option or subscription conditions are determined by the Board of Directors. Issuance at a price below market conditions is authorized;

– a maximum amount of CHF 100 000 000 through the issuance of a maximum of 10 000 000 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the conversion rights related to the convertible bonds of the company or its subsidiaries are exercised.

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

2.3. Changes in capital of Kudelski SA

IN THOUSAND CHF	31.12.13	31.12.12	31.12.11
Registered share capital	46 300	46 300	46 300
Bearer share capital	491 582	489 822	487 498
Legal reserve	110 000	110 290	45 675
Capital contribution reserve	29 877	37 945	43 304
Net result	-33 872	-21 186	-25 930
Total available earnings	226 519	262 790	348 591
TOTAL SHAREHOLDERS' EQUITY	**904 278**	**947 147**	**971 368**

For information relating to changes in capital which have taken place in 2013, 2012 and 2011, please refer to the Group's corresponding financial statements. Information regarding the capital contribution reserve can be found under note 3.4 of the Kudelski SA financial statements in the Kudelski Group's 2013 financial statements.

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2013 consisted of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 49 158 230 bearer shares with a nominal value of CHF 10 per share. Each share confers the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the relevant type of share. Kudelski SA does not have participation certificates.

2.5. Profit sharing certificates

Kudelski SA does not have profit sharing certificates.

2.6. Restrictions on transferability and nominee registration

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

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

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

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

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

Kudelski SA has no regulations concerning the registration of nominees.

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

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

2.7. Convertible bond, straight bond and share purchase plan

Convertible bond
The company has no ongoing convertible bond.

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

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

The repayment price of the straight bonds is at par on 11 December 2016. The straight bond is quoted on the SIX Swiss Exchange, under security number ISIN CH0122488452. The offering circular for the straight bond is available on request from the Group's head office or by e-mail to info@nagra.com. More information about the straight bond can be found in note 31 of the consolidated financial statements.

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

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

A chart showing employee participation in this plan for the year 2013 can be found in note 44 of the consolidated financial statements.

3. BOARD OF DIRECTORS

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

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

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

3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
ANDRÉ KUDELSKI* Chairman of the Board and Chief Executive Officer	1960	Swiss	**DEGREE IN PHYSICAL ENGINEERING** Ecole Polytechnique Fédérale de Lausanne (EPFL)	1987	08.04.2014
CLAUDE SMADJA Deputy Chairman of the Board and Lead Director	1945	Swiss	**DEGREE IN POLITICAL SCIENCE** University of Lausanne	1999	08.04.2014
NORBERT BUCHER	1931	Swiss	**DOCTORATE IN ENGINEERING** Ecole Polytechnique Fédérale de Lausanne Various postgraduate studies at the New York University, Harvard Business School and IMD Lausanne	1992	08.04.2014
PATRICK FŒTISCH	1933	Swiss	**DOCTORATE IN LAW** University of Lausanne **BAR EXAM**	1992	08.04.2014
LAURENT DASSAULT	1953	French	**DEGREE IN CORPORATE LAW** **DEGREE FROM ESLSCA** Ecole Supérieure Libre des Sciences Commerciales Appliquées, Paris	1995	08.04.2014
PIERRE LESCURE	1945	French	**DEGREE IN LITERATURE AND JOURNALISM** Centre de formation des journalistes, Paris	2004	08.04.2014
MARGUERITE KUDELSKI	1965	Swiss	**ENGINEERING DEGREE IN MICROTECHNOLOGY** **DOCTORATE IN MICROTECHNOLOGY** Ecole Polytechnique Fédérale de Lausanne **EXECUTIVE MBA** IMD Lausanne	2006	08.04.2014
ALEXANDRE ZELLER	1961	Swiss	**DEGREE IN ECONOMICS** University of Lausanne	2007	08.04.2014
JOSEPH DEISS	1946	Swiss	**DOCTORATE IN ECONOMICS AND SOCIAL SCIENCES** University of Fribourg	2012	08.04.2014

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

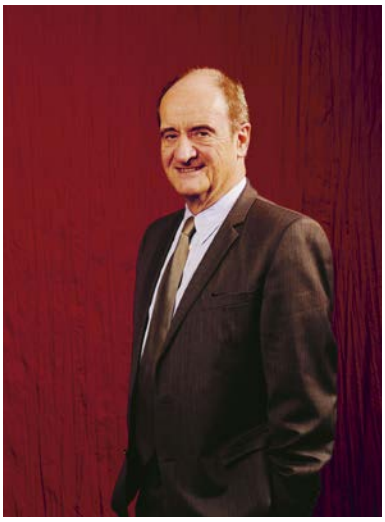

ANDRÉ KUDELSKI


CLAUDE SMADJA


NORBERT BUCHER


PATRICK FŒTISCH


LAURENT DASSAULT


PIERRE LESCURE


MARGUERITE KUDELSKI


ALEXANDRE ZELLER


JOSEPH DEISS

	CURRENT MANDATES KUDELSKI GROUP	OTHER:
ANDRÉ KUDELSKI André Kudelski began his career in 1984 as a Research & Development engineer with Kudelski SA. In 1986, after working for several months with a firm in Silicon Valley, he returned to work in the family business firstly as Pay TV Product Manager then as Director of Nagravision SA, a company in charge of the Pay TV sector. Mr Kudelski then took over from his father Stefan Kudelski and from 1991 became Chairman and Chief Executive Officer of the parent company Kudelski SA.	– Nagravision SA, Chief Executive Officer – NAGRA PLUS SA, Chairman and Chief Executive Officer – SkiData AG, Member of the Supervisory Board – NagraStar LLC., Co-Chairman	– Aéroport International de Genève (Switzerland), Vice-Chairman – Dassault Systèmes SA (France), Board member, member of the Audit Committee and member of the Remuneration and Selection Committee (until 30 May 2013) – Edipresse SA (Switzerland), Board member, Chairman of the Audit Committee (until 23 September 2013) – HSBC Private Banking Holdings (Suisse) SA (Switzerland), Board member – Nestlé SA (Switzerland), Board member, member of the Audit Committee (until 11 April 2013) – Comité d'economiesuisse (Switzerland), member – Swiss-American Chamber of Commerce (Switzerland), Vice-Chairman
CLAUDE SMADJA After 15 years with Télévision Suisse Romande (TSR) as Deputy Editor of the Information Department, Claude Smadja joined the management of the World Economic Forum in 1987, a position that he held until 1992. He then returned to TSR as Director of Information until 1996, in which year he was appointed Managing Director of the World Economic Forum. In June 2001, Claude Smadja set up his own strategy consultancy Smadja & Associates, Strategic Advisory, which collaborates on strategic issues with multinationals and government bodies and organizes international events.		– Edipresse SA (Switzerland), Board member, Chairman of the Remuneration Committee and member of the Audit Committee (until 23 September 2013) – International Board of Overseers of the Illinois Institute of Technology (United States), member
NORBERT BUCHER Norbert Bucher began his professional career as an engineer with Sulzer, in Winterthur and in New York, then moved to Syska & Hennessy Inc, Consulting Engineers in New York. He then joined Philip Morris Europe SA as Deputy Managing Director. After eleven years as Deputy Managing Director at Interfood SA in Lausanne, he occupied the position of Senior Vice President with Jacobs Suchard in Zurich for seven years.	– NAGRA PLUS SA, Board member	
PATRICK FŒTISCH Patrick Fœtisch is an independent lawyer specializing in contracts and finance at an international level. He acts as legal counsel to Group companies as and when required, bringing to bear his in-depth knowledge of their activities to provide assistance and legal advice.	– Nagravision SA, Chairman – Nagra France SAS, Chairman – NagraID SA, Chairman – NAGRA PLUS SA, Board member – SkiData AG, Member of the Supervisory Board	– AMRP Handels AG (Switzerland), Chairman

CURRENT MANDATES
OTHER:

LAURENT DASSAULT

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

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

PIERRE LESCURE

Save for a two year period (1972-1974) as a television news presenter for Antenne 2, Pierre Lescure spent the first fifteen years of his professional career with the RTL, RMC and Europe1 radio stations where he successively occupied a variety of positions, in particular Deputy Editor and Director of Programs. In 1981 he returned to television as Editor in Chief of Antenne 2. From 1984, he worked with André Rousselet on the launch project for the pay TV channel CANAL+ where he was appointed Director and then Chief Executive Officer. From 1993 to 2002, he was Chairman and Chief Executive Officer of the CANAL+ Group. From 2000 to 2002 Pierre Lescure was also co-Chief Executive Officer of Vivendi-Universal. Since 2002, he has been Chairman and Chief Executive Officer of Anna Rose Production SAS, a company active in audiovisual and cinematographic production as well as in communication consultancy services. Since July 2008 he has directed the Théâtre Marigny in Paris. Finally, Pierre Lescure will become President of the Cannes Festival as from 1st July 2014.

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

CURRENT MANDATES

MARGUERITE KUDELSKI

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

KUDELSKI GROUP:

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

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

OTHER:

– Audio Technology Switzerland SA (Switzerland), Chairman

ALEXANDRE ZELLER

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

OTHER:

– Banque Lombard Odier & Cie SA (Suisse), Board member and member of the Audit Committee
– Maus Frères SA (Switzerland), Board member
– SIX Group SA (Suisse), Chairman of the Board

JOSEPH DEISS

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

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

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

OTHER:

– Zurich Insurance Company South Africa (ZICSA) (South Africa), Board member
– SA Fire House Ltd. (South Africa), Board member
– Clinique Générale-Ste-Anne SA (Switzerland), Chairman
– Zurich Insurance Company Ireland (ZIP), Board member
– Interprox SA (Switzerland), Board member
– ALSTOM (Suisse) SA, Chairman
– ALSTOM Renewable SA (Switzerland), Board member
– Zurich Insurance Group, International Advisory Council, Vice Chairman
– Liberty Global, European Advisory Council, member
– Adolphe Merkle Foundation (Switzerland), Chairman

3.2. Other activities and vested interests

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

3.3. Election and term of office

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

3.4. Internal organization

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

3.4.1. Distribution of tasks within the Board of Directors

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

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

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

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

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

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

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

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

Audit Committee

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

President
Member

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

The Committee calls on experts outside the Board of Directors where this is deemed necessary for the successful completion of its tasks.

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

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

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

Strategy Committee

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

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

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

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is composed of at least three members of the Board of Directors, non-executive, and designated by the Board of Directors. It meets at least twice a year.

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

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

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

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business. In 2013, the Board of Directors and its Committees met as follows:

Board of Directors	9 times
Strategy Committee	3 times
Audit Committee	3 times
Remuneration and Nomination Committee	3 times

Average attendance at Board meetings exceeded 88%. Meetings of the Board of Directors lasted on average 3.5 hours. Most Committee meetings lasted on average two hours.

3.5. Competencies

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

The Board of Directors

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

Group management

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

3.6. Information and control instruments with respect to Group management

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

Supervision

- The Chief Executive Officer submits a report to the Board members prior to each meeting outlining key aspects of the current business situation (key contracts, sales trends, market trends, human capital) for each Group entity and activity.

- Board members receive weekly or quarterly press digests concerning the Group, depending on the amount of relevant newsflow; they may also receive other informative documents concerning the Group and its entities, as well as a message from the Chief Executive Officer whenever the CEO deems this is necessary.

- At least twice a year, members of Group Management are invited to present their activities to members of the Board of Directors. Members of the Board of Directors may also ask questions directly to company executives as and when they see fit.

- At each Board meeting, if justified by the business situation and depending on the agenda, members of Group Management, Group executives or outside experts are invited to present specific subjects to members of the Board of Directors.

Operations and strategy

- In the Group's key sectors, ad hoc committees comprising a cross-disciplinary panel of internal experts evaluate market, strategic, operational, legal and financial risks. These ad hoc committees analyze risks, manage processes relating to the evaluation of such risks, propose measures and monitor their implementation. There are several committees such as the security committee and an innovation committee.

Decisions, information and comments arising from these committees are conveyed to the Group Management during the Executive Board Commitees, which frequency and duration are tailored to the needs of the Group.

- Management of the iDTV division is supported by an "Executive Board Group Operations" committee comprised of the CEO, the COO, the CFO, as well as senior members of the iDTV division. This committee meets twice a month for 2.5 hours and reviews in particular selected relevant topics for the iDTV division. In addition, the members of the Group Executive Management and the General Counsel, Head of Legal Affairs, the Senior Vice President, Head of Human Resources, the Senior Vice President "Advanced Advertising and Innovation", the Senior Vice President "Intellectual Property" and the Corporate Secretary meet twice a month for thirty minutes as part of the "Executive Board Group Functions" committee to discuss relevant topics relating to these functions and not directly related to operations. Finally, the synchronisation between Group Executive Management and the "Executive Board Group Operations" and "Executive Board Group Functions" committees is achieved within the "Executive Board Group Management" committee which meets every month for one hour.

- Top management of the Public Access division is supported by the Supervisory Board which includes a Kudelski Group Board member, the Chairman and CEO of the Group, the CFO of the Group and a non-executive member (Mr Charles Egli, a former Group management member) who is Chairman of this Board. This Board supervises the whole division. The Supervisory Board meets at least four times a year for an average of three hours and reviews the specific and pertinent topics for the Public Access division. Senior Managers of the Public Access division establish regular reports for the Supervisory Board and, depending on the topics, are invited to take part in Board meetings.

Finance

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

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

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

Legal

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

Intellectual Property

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

Human Resources

- The HR Department uses a performance development tool ("Performance Development System" – PDS) designed to align the teams' management programs with the needs of the company. PDS features performance- and skills-evaluation functions and establishes a career development baseline for employees in line with the company's needs.

Since January 2013, a PDS tool embedded in the Group integrated HR information system is available on-line. It gives speedier access to progress against objectives and enhanced management reporting capability. In addition to the PDS, the HR information system now includes an employee database, time and absence management, training and development modules and compensation management.

Information management

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

4. GROUP MANAGEMENT

4.1. Group executive management members

MAURO SALADINI, ANDRÉ KUDELSKI AND PIERRE ROY
LEFT TO RIGHT

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

CURRENT MANDATES

ANDRÉ KUDELSKI

Please see section 3.1

MAURO SALADINI

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

MAIN OPERATIONAL COMPANIES HELD BY KUDELSKI SA:

- Nagravision SA, Officer
- SkiData AG, Vice Chairman of the Supervisory Board
- NagraID SA, Executive Director
- NagraID Security SA, Board member

OTHER:

- Myriad Group AG (Suisse), Board member

PIERRE ROY

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

MAIN OPERATIONAL COMPANIES HELD BY KUDELSKI SA:

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

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

4.2. Other activities and vested interests

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

4.3. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2013.

5. REMUNERATION, SHAREHOLDINGS AND LOANS

5.1. Principles of remuneration

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

– coherence in remuneration against the tasks, workload and level of responsibility assumed;

– adequacy of remuneration depending on the course of business, on changes and evolution of the market on which the Group operates and depending on the middle and long term Group strategy;

– global assessment (not individually-based) of remuneration to enhance a long-term vision of the company interest;

– as for Group Management, assessment of the individual performance in connection with short and long term objectives.

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

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

– high technology companies listed on the Nasdaq or on the NYSE;

– and high technology companies listed on the Euronext;

– high technology companies listed on the Swiss Stock Exchange and belonging to the Swiss Performance Index (SPI), sector Technology; and

– high technology companies that are privately owned

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

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

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

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

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

5.2. Components of remuneration

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

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

5.2.1 Members of the Board of Directors

The overall remuneration of non-executive members of the Board of Directors is composed of fixed annual fees and an allowance for costs and other expenses incurred while performing their duties. This remuneration is paid in cash. The company's founder and Honorary Chairman also received fixed annual fees for the year 2013 as shown in note 46 of the financial statements. This remuneration was also paid in cash.

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

5.2.2 Members of Group Management

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

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

A maximum of 50% of the variable part of remuneration is in principle paid in the form of Kudelski SA bearer shares. These shares are blocked for a period of 3 or 7 years in accordance with the individual's wishes. Members of Group Management may also take part in the share purchase plan introduced in 2004, in accordance with the terms of said plan (see section 2.7: Share purchase plan).

The total remuneration depends on the individual performance of the Group Management member and the strategic, economic and operational performance of the Group. The key factors determining variable remuneration levels are namely the performance of the Group and its divisions, the budget, the strategic initiatives, the achievement of objectives and the quality of management delivered by such Group Management member. The Group objectives are discussed and agreed upon between the Board of Directors, the Strategy Committee, the Remuneration and Nomination Committee and the Chief Executive Officer and reflect the Group's strategy and orientations. They are set on an "ad hoc" basis every year. In agreement with the Remuneration and Nomination Committee, the CEO determines the individual objectives of each member of Group Management, which reflect both the Group's objectives and those related to their respective function.

The Remuneration and Nomination Committee assesses the achievement of the Group's objectives and of those related to individual performance. The Remuneration Committee has discretionary authority to determine how the components of individual performance and those relating to the Group are to be weighted, in order to set the remuneration of each member of Group Management. The Remuneration Committee also applies to each individual objective a merit factor to recognize the fact of reaching or even surpassing several objectives while also penalizing failure to reach an objective. Therefore, the method determining variable compensation encourages each member of management to optimize his/her performance and not to neglect any of his/her key objectives.

Special information regarding year 2013

The remuneration of each member of Group Management is fixed globally and the variable remuneration of the Group Management members is not determined according to the fixed component of remuneration as specified in section 5.1. For information, the variable component of the remuneration of Group Management represented in 2013 between 40% and 50% of the global remuneration, except for the remuneration of the Chief Executive officer (see note 46 of the Financial Statements). This ratio is not fixed and can therefore change every year. The differences in the ratio between fixed and variable remuneration between the Group Management members is based on the function and the status within the company and the practices used in the market at the time of the person's nomination.

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

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

5.4 Changes to the remuneration policy during the year under review
No major change was made to Kudelski Group's remuneration policy relative to the 2013 financial year. It should be noted that the blocked shares of the Group Management were blocked for periods of 3 or 7 years (see section 5.2.2.).

6. SHAREHOLDER PARTICIPATION

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

The Articles of Incorporation of Kudelski SA may be consulted on the Kudelski Group website via the following link:
http://www.nagra.com/cms/Investors-doc-center.html

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

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

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

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

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

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

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1. Duty to make an offer
Kudelski SA has no provision on opting-out or opting-up in its Articles of Incorporation. This means that if a shareholder reaches the limit laid down by the law on stock markets (art. 32 LBVM: 33⅓% of the voting rights), he must by virtue of this law submit a take-over bid.

7.2. Clauses on changes of control
No such clauses exist.

8. AUDITORS

8.1. Duration of the mandate and term of office of the lead auditor
The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated to the Group are audited by other auditors. The auditors were reappointed by the General Meeting of Shareholders of Kudelski SA of 30 April 2013 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Mrs Corinne Pointet Chambettaz since 1 January 2010.The auditor in charge is replaced at the latest seven years after the year in which he/she first occupied this position, as specified in Article 730a paragraph 2 of the Swiss Code of Obligations.

8.2. Auditing fees
The Kudelski Group paid PricewaterhouseCoopers for auditing services for the year 2013 the sum of CHF 1 017 000. Auditing services are understood to mean the work required each year to examine the consolidated accounts of the Group and its subsidiaries and to prepare the reports required under the laws of each country, performed by PricewaterhouseCoopers.

8.3. Additional fees
The Kudelski Group paid PricewaterhouseCoopers for additional services for the year 2013 the sum of CHF 465 252 representing CHF 424 282 for tax advisory services and CHF 40 970 for other additional services. Additional services mean in particular services such as the auditing of occasional transactions and other services such as new or modified accounting methods.

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

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

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

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

9. INFORMATION POLICY

The Kudelski Group keeps investors regularly informed of the following developments:

– progress of business and major new contracts;
– changes occurring in the management of the Group;
– acquisitions or sales of companies;
– half-yearly and annual financial results.

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

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

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

The Group's main website links and e-mail addresses are on page 138 of this report.

Important dates

– 8 April 2014
  Annual General Meeting, Cheseaux-sur-Lausanne;

– 21 August 2014
  Publication of the Interim Financial Report and Press Conference;

– 19 February 2015
  Publication of the 2014 Financial Results and Press Conference.

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012)

In CHF'000	Notes	2013	restated 2012[1]
Revenues	6	842 322	844 051
Other operating income	7	15 503	16 286
Total revenues and other operating income		**857 825**	**860 337**
Cost of material		-227 474	-244 450
Employee benefits expense		-369 354	-368 746
Other operating expenses	8	-149 273	-147 720
Operating income before depreciation, amortization and impairment		**111 724**	**99 421**
Depreciation, amortization and impairment	9	-51 511	-63 797
Operating income		**60 213**	**35 624**
Interest expense	10	-8 438	-16 998
Other finance income/(expense), net	11	144	2 079
Share of results of associates	18	1 681	1 208
Income before tax		**53 600**	**21 913**
Income tax expense	12	-10 242	-6 831
Net income for the year		**43 358**	**15 082**
Attributable to:			
- Equity holders of the company		42 150	15 234
- Non controlling interests		1 208	-152
		43 358	**15 082**
Earnings per share (in CHF)			
- bearer share: basic and diluted (in CHF)	14	0.7821	0.2828
- registered share (not listed): basic and diluted (in CHF)	14	0.0782	0.0283

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012)

In CHF'000	2013	restated 2012[1]
Net income	**43 358**	**15 082**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-3 855	-7 096
Cash flow hedges, net of income tax	358	-66
Net (loss)/gain on available-for-sale financial assets, net of income tax	-1 137	98
	-4 634	**-7 064**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	3 762	-4 408
Total other comprehensive income, net of tax	**3 762**	**-4 408**
Total comprehensive income	**42 486**	**3 610**
Attributable to:		
- Equity holders of the company	41 558	4 281
- Non controlling interests	928	-671
	42 486	**3 610**

1) Restated to reflect the adoption of IAS 19 Revised on Employee benefits (see note 40).
The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2013 AND 2012)

In CHF'000	Notes	31.12.2013	restated 31.12.2012[1]	restated 01.01.2012[1]
ASSETS				
Non-current assets				
Tangible fixed assets	15	147 487	154 758	166 355
Intangible assets	16	169 250	188 167	214 713
Investment property	17	1 459	1 571	–
Investments in associates	18	4 768	4 398	3 996
Deferred income tax assets	19	56 118	61 859	60 646
Financial assets and other non-current assets	20	60 198	74 145	88 549
Total non-current assets		**439 280**	**484 898**	**534 259**
Current assets				
Inventories	21	64 383	68 647	63 102
Trade accounts receivable	22	197 233	196 397	228 219
Other current assets	23	49 959	56 958	68 465
Financial assets (short term)	24	–	7	–
Cash and cash equivalents	25	100 273	110 086	289 591
Total current assets		**411 848**	**432 095**	**649 377**
Total assets		**851 128**	**916 993**	**1 183 636**
EQUITY AND LIABILITIES				
Equity				
Share capital	26	537 882	536 122	533 798
Reserves		-96 999	-126 842	-127 119
Treasury shares	27	–	-290	-326
Equity attributable to equity holders of the parent		**440 883**	**408 990**	**406 353**
Non controlling interests	28	5 618	9 425	16 905
Total equity		**446 501**	**418 415**	**423 258**
Non-current liabilities				
Long-term financial debt	29	123 444	194 679	129 953
Deferred income tax liabilities	19	491	4 348	5 508
Employee benefits liabilities	32	61 281	60 233	50 498
Provisions for other liabilities and charges	33	288	504	2 298
Other long-term liabilities and derivative financial instruments	34	2 288	1 852	2 280
Total non-current liabilities		**187 792**	**261 616**	**190 537**
Current liabilities				
Short-term financial debt	35	59 257	74 083	383 376
Trade accounts payable	36	37 729	40 073	54 196
Other current liabilities	37	98 034	94 663	93 820
Current income taxes		2 137	1 904	2 067
Advances received from clients	38	13 620	14 362	16 497
Derivative financial instruments	39	–	–	2 540
Provisions for other liabilities and charges	33	6 058	11 877	17 345
Total current liabilities		**216 835**	**236 962**	**569 841**
Total liabilities		**404 627**	**498 578**	**760 378**
Total equity and liabilities		**851 128**	**916 993**	**1 183 636**

1) Restated to reflect the adoption of IAS 19 Revised on Employee benefits (see note 40).
The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012)

In CHF'000	Notes	2013	restated 2012[1]
Net income for the year		**43 358**	**15 082**
Adjustments for net income non-cash items:			
- Current and deferred income tax		10 242	6 831
- Interest expense and other finance income/(expense), net		8 194	11 122
- Allocation of the equity conversion component and transaction costs of convertible bond and borrowings		262	5 028
- Depreciation, amortization and impairment	9	51 511	63 797
- Share of result of associates	18	-1 681	-1 208
- Non-cash employee benefits expense		5 401	3 657
- Deferred cost allocated to income statement		10 406	21 142
- Additional provisions net of unused amounts reversed		-979	7 277
- Non-cash government grant income		-6 479	-4 098
- Other non cash income/expenses		2 647	-99
Adjustments for items for which cash effects are investing or financing cash flows:			
- Gain on sales of subsidiaries	7	–	-860
- Other non operating cash items		622	112
Adjustements for change in working capital:			
- Change in inventories		2 313	-7 544
- Change in trade accounts receivable		-3 271	28 920
- Change in trade accounts payable		-2 364	-11 567
- Change in deferred costs and other net current working capital headings		6 724	-9 140
Dividends received from associated companies	18	1 230	832
Interest paid		-6 409	-13 272
Interest received		1 247	2 143
Income tax paid		-2 054	-7 660
Cash flow from operating activities		**120 920**	**110 495**
Purchases of intangible fixed assets		-9 854	-11 654
Purchases of tangible fixed assets		-20 342	-26 581
Proceeds from sales of tangible and intangible fixed assets		510	703
Investment in financial assets and loans granted		-730	-47
Divestment of financial fixed assets and loan reimbursement		2 768	2 564
Disposal of subsidiaries, cash inflow		–	7 356
Cash flow used in investing activities		**-27 648**	**-27 659**
Reimbursement of convertible bond		–	-350 000
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-86 659	-11 680
Increase in bank overdrafts, long term loans and other non-current liabilities		1	112 449
Proceeds from employee share purchase program	44	57	143
Proceeds from non controlling interest		–	244
Acquisition of non controlling interests		-246	–
Sale of treasury shares		119	–
Dividends paid to non controlling interests		-4 655	-7 054
Dividends paid to shareholders	43	-10 757	-5 359
Cash flow from/(used in) financing activities		**-102 140**	**-261 257**
Effect of foreign exchange rate changes on cash and cash equivalents		-945	-1 084
Net increase / (decrease) in cash and cash equivalents		**-9 813**	**-179 505**
Cash and cash equivalents at the beginning of the year	25	110 086	289 591
Cash and cash equivalents at the end of the year	25	100 273	110 086
Net increase / (decrease) in cash and cash equivalents		**-9 813**	**-179 505**

1) Restated to reflect the adoption of IAS 19 Revised on Employee benefits (see note 40).
The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2012 published		**533 798**	**59 036**	**-134 661**	**30 115**	**-67 715**	**-326**	**16 905**	**437 152**
Restatement due to revised IAS 19 on employee benefits[1]				-13 893					-13 893
January 1, 2012 (restated)[1]		**533 798**	**59 036**	**-148 554**	**30 115**	**-67 715**	**-326**	**16 905**	**423 259**
Net income				15 234				-152	15 082
Other comprehensive income				-4 408	64	-6 610		-518	-11 472
Total comprehensive income		**–**	**–**	**10 826**	**64**	**-6 610**	**–**	**-670**	**3 610**
Employee share purchase program	44	338	-137						201
Shares issued for employees		1 986	-1 160						826
Dividends	43		-5 359						-5 359
Dividends to non controlling interests								-7 054	-7 054
Transfer equity component of convertible bond				33 470	-33 470				–
Reversal of put option on acquisition of non controlling interests					2 672				2 672
Transactions with non controlling interests								244	244
Shares granted to employees	27			-36			36		
Shares allocated over the vesting period	44			17					17
December 31, 2012 (restated)[1]		**536 122**	**52 380**	**-104 277**	**-619**	**-74 325**	**-290**	**9 425**	**418 415**
Net income				42 150				1 208	43 358
Other comprehensive income				3 762	-958	-3 395		-281	-872
Total comprehensive income		**–**	**–**	**45 912**	**-958**	**-3 395**	**–**	**927**	**42 486**
Employee share purchase program	44	79	-17						62
Shares issued for employees		1 681	-537						1 144
Dividends	43		-8 068	-2 689					-10 757
Dividends to non controlling interests								-4 655	-4 655
Sale of treasury shares				-134			253		119
Transactions with non controlling interests				-240				-79	-319
Shares granted to employees	27			-37			37		–
Shares allocated over the vesting period	44			5					5
December 31, 2013		**537 882**	**43 758**	**-61 460**	**-1 577**	**-77 720**	**–**	**5 618**	**446 501**

1) Restated to reflect the adoption of IAS 19 Revised on Employee benefits (see note 40).
The accompanying notes form an integral part of these consolidated financial statements.

Following the redemption of the convertible bond in 2012, kCHF 33 470 have been transferred from fair value reserves to retained earnings. After the expiration of the put option on non-controlling interests in 2012, kCHF 2 672 have been released to Fair value and other reserves. Fair value and other reserves as of December 31, 2013 include kCHF -1 209 (2012: kCHF -72) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF -368 (2012: kCHF -547) relating to cash flow hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

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

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

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

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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

(b) Business combinations

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

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

(c) Disposal of subsidiaries

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

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not to control those policies. It is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

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

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

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

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

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

(c) Royalties and licenses
Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled. Revenue on licenses with a fixed term is recognized over 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; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

ent's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms under this category. When the fair value of a particular element cannot be determined, the revenue is fully allocated to the undelivered element.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized on 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 or the useful lives of those assets.

In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will exceed total contract revenue, the estimated 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 they are deducted from the amount of the fixed asset.

(g) Interest income

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

(E) Derivative financial instruments

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

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

(a) Derivatives that do not qualify for hedge accounting

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

(b) Fair value hedge

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

(c) Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognized in comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other finance income/(expense), net'. Where the forecasted transaction results in the recognition of an asset or liability, the gains and losses previously included in comprehensive income are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in comprehensive income are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement. The currency instruments that may be used include forward foreign exchange contracts, currency swaps as well as zero cost option strategies with terms generally not exceeding six months, while interest rates instruments that may be used include interest rate swap and collars strategies with maturities not exceeding the underlying contract maturity. The derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(F) Taxes

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

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

Temporary differences and tax losses carried forward that could be offset against future profits, generating deferred tax assets and liabilities, are combined 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 that tax losses carried forward can be utilized.

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

(G) Tangible fixed assets

(a) General

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

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

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

Technical equipment and machinery

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

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(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.

(d) Borrowing costs

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

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

(H) Intangible assets
(a) Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. It is denominated in the local currency of the related acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets, while goodwill on acquisition of associates is included in investments in associates. All Goodwill is considered to have an indefinite life, and is tested at least annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

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

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

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

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

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

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

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

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

(J) Financial assets
The Group classifies its financial instruments in the following categories: financial assets or financial liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired or granted. Management determines the classification of its financial instruments at initial

recognition and re-assesses this designation at each 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.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss also incorporates any dividend or interest earned on the financial asset.

(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, which are classified as long-term assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified in another category.
Listed redeemable notes held by the Group that are traded in an active market are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period. The Group also has investment in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value at the end of each reporting period because management consider that fair value can be reliably measured. Fair value is determined in the manner described in note 49. Interest income, dividends and exchange differences arising on monetary available-for-sale is recognized in the income statement while all other changes in the carrying amount of available-for-sale financial assets are recognized in comprehensive income and accumulated under the heading of 'Fair value and other reserves'. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in 'Fair value and other reserves' is reclassified to the income statement.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting date.

(K) Inventories

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

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

(L) Deferred costs

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

(M) Trade accounts receivable

Trade accounts receivable are initially measured at fair value and subsequently valued using the amortized cost method. A provision for impairment is made for doubtful receivables based on a review of all material outstanding amounts at each 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

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capital less directly attributable incremental costs and the nominal value of the share capital increase are considered as share premium and are included in equity.

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

(Q) Borrowings

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

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

(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 can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

(S) 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 obligations are 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 and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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 employee benefits expense.

(c) Employee Share Purchase Program (ESPP)

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

(d) Profit sharing and bonus plan

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

(e) Other employee benefits

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

(T) Trade accounts payable

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

(U) Dividends

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

(V) New and amended accounting standards and IFRIC interpretations

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations as of January 1, 2013 described below. In the current financial year, the Group has retrospectively adopted IAS 19 (revised 2011). The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. Note 40 describes the financial effects of the adoption of the revised standard and change in accounting policy.

The following amendments to IFRS standards had only limited impact on the accounting policies, financial position or performance of the Group:

- IAS 1 (amendment) - 'Presentation of Items of Other Comprehensive Income' requires items of other comprehensive income to be grouped by those items that will be reclassified subsequently to income statement and those that will never be reclassified, together with their associated income tax. It has been applied retrospectively and only impacted the disclosure of other comprehensive income;
- IFRS 7 and IAS 32 (amendment) – Offsetting financial assets and liabilities and disclosures;
- IFRS 10 - 'Consolidated financial statements' defines subsidiaries as all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.
- IFRS 11 - 'Joint arrangements' implies that investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint ventures are required to be accounted for using the equity method of accounting only.
- IFRS 12 - Disclosure of interests in other entities;
- IFRS 13 - 'Fair value measurement' defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement. The related amendment to IAS 36 - 'Impairment of Assets' on the disclosure of the recoverable amount for non-financial assets has been early adopted, in accordance with the transitional provisions.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standard and Interpretations in issue not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but which the Group has not early adopted:

- IAS 19 – 'Defined Benefit Plans: Employee Contributions' (amendment) – (effective from 1 July 2014). This amendment to IAS 19R (2011) issued in November 2013 clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The implementation of such amendment will have a material impact by reducing empoyee benefit liabilities and increasing total equity net of income tax of approximately CHF 20 million and CHF 16 million respectively.

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

- IFRS 9 - 'Financial instruments' comprises two measurement categories for financial assets and liabilities: amortized cost and fair value.
- IFRIC 21 - 'Levies' - (effective from 1 January 2014).
- Annual IFRS improvement projects

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2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

Retirement benefit plans
The 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 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. Assumptions used (note 32) 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, among other factors. Depending on events, such differences could have a material effect on our total equity.

Impairment of Goodwill
Determining whether 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 and interest rate swaps to mitigate the risk of rising interest rates.

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

(a) Foreign exchange risk

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

It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to the 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 of the exposure generated, as defined in the treasury policy.

Net investments in Kudelski affiliates with a functional currency other than the Swiss Franc are of a 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 and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

Other price risks

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

Credit risk management

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

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

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

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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

No business combination arose in 2013 and 2012.

Transaction with non controlling interests
On July 1, 2013, the Group purchased an additional 28% of Skidata South Afrika (pty) Ltd, for a total consideration of KCHF 246 bringing its total stake to 72%.
This transaction was treated as transaction with non controlling interest and was allocated to retained earnings for kCHF 240 and non controlling interests for kCHF 79.

5. DIVESTMENTS

No divestment arose in 2013. On December 13, 2012 the Group disposed of its 100% stake of the company Abilis Systems Sàrl. The gain on sale on this operation is kCHF 860.

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6. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker.
Group operating segments represent strategic business units that offer different products and services for which internal reporting is provided to the chief operating decision maker. The chief operating decision maker reviews internal reports in order to allocate resources to the segment and to assess its performance.
The Group is organized operationally on a worldwide basis in 2 operating segments:
- Integrated Digital Television
- Public Access

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

	Integrated Digital Television		Public Access		Total	
In CHF'000	**2013**	**2012**	**2013**	**2012**	**2013**	**restated 2012**
Total segment Revenues	**615 324**	**645 248**	**230 578**	**202 721**	**845 902**	**847 969**
Inter-segment revenues	-3 545	-3 909	-35	-9	-3 580	-3 918
Revenues from external customers	**611 779**	**641 339**	**230 543**	**202 712**	**842 322**	**844 051**
Depreciation and amortisation	-38 817	-49 900	-7 414	-8 107	-46 231	-58 007
Impairment	-4 978	-3 297	-302	-2 493	-5 280	-5 790
Operating income - excluding corporate common functions	**62 760**	**43 298**	**13 674**	**9 526**	**76 434**	**52 824**
Corporate common functions					-16 221	-17 200
Interest expense and other Finance income/(expense), net					-8 294	-14 919
Share of result of associates					1 681	1 208
Income before tax					**53 600**	**21 913**
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Total segment Assets	**698 042**	**745 550**	**141 198**	**139 873**	**839 240**	**885 423**

In CHF'000	**31.12.2013**	**31.12.2012**
Total Segment Assets	839 240	885 423
Cash & Cash equivalents	7 590	25 190
Other current assets	1 034	1 857
Financial assets and other non-current assets	3 264	4 523
Total Assets as per Balance Sheet	**851 128**	**916 993**

GEOGRAPHICAL INFORMATION

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

	Revenues from external customers		Non-current assets	
In CHF'000	**2013**	**2012**	**31.12.2013**	**31.12.2012**
Switzerland	36 297	36 665	155 168	163 832
United States of America	142 218	125 294	112 862	142 459
France	84 318	82 809	23 896	22 751
Brazil	68 005	96 309	280	216
Germany	55 296	66 468	4 556	4 549
Netherlands	47 456	43 582	334	252
Italy	36 865	46 446	459	682
Rest of the world	371 867	346 479	53 678	51 525
	842 322	**844 051**	**351 233**	**386 266**

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

REVENUE CATEGORIES

In CHF'000	**2013**	**2012**
Sale of goods	433 594	417 026
Services rendered	284 080	285 334
Royalties and licenses	124 648	141 691
	842 322	**844 051**

7. OTHER OPERATING INCOME

In CHF'000	**2013**	**2012**
Government grants (research, development and training)	10 670	11 037
Indemnity received on surrender of lease and reversal of dilapidation costs	1 452	1 766
Income from rental of property	1 315	1 066
Gain/(Loss) on fixed assets sales proceeds	-19	-112
Gain on sale of subsidiares	–	860
Others	2 085	1 669
	15 503	**16 286**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

8. OTHER OPERATING EXPENSES

In CHF'000	2013	2012
Development and engineering expenses	26 519	26 021
Travel, entertainment and lodging expenses	27 711	25 968
Legal, experts and consultancy expenses	22 585	19 824
Administration expenses	22 949	25 690
Building and infrastructure expenses	25 891	27 356
Marketing and sales expenses	9 031	11 071
Taxes other than income tax	4 452	5 318
Insurance, vehicles and others	10 135	6 472
	149 273	**147 720**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2013	2012
Land and buildings	15	5 133	6 374
Equipment and machines	15	21 216	26 250
Investment property	17	137	152
Total depreciation and impairment of tangible fixed assets		**26 486**	**32 776**
Intangible assets	16	25 025	31 021
Total amortization and impairment on intangible fixed assets		**25 025**	**31 021**
Depreciation, amortization and impairment		**51 511**	**63 797**

10. INTEREST EXPENSE

In CHF'000	Note	2013	restated 2012
Interest expense:			
- Convertible bond 2005-2012		–	9 119
- Bond 2011-2016		3 561	3 553
- Other and bank charges		4 877	4 326
		8 438	**16 998**

The convertible bond was repaid in 2012. In 2012, its interest comprised base interest of 1.625% amounting to kCHF 4 345 and allocations of the equity component and transaction costs for kCHF 4 150 and kCHF 624 respectively.

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2013	2012
Interest income		1 409	2 145
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-7	392
Loss on sale of marketable securities (available for sale)		-405	–
Net foreign exchange transaction gains/(losses)	13	-347	343
Others		-506	-801
		144	**2 079**

Loss on available-for-sale financial assets amounting to kCHF -405 (2012: kCHF 0) include kCHF 291 recycled from fair value reserves. Change in fair value of available for sale financial assets were recognized directly in comprehensive income for kCHF -1 209 (2012: kCHF 98). Change in fair value of held for trading financial assets amounting to kCHF -7 (2012: kCHF 392) are disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2013	restated 2012
Current income tax		-7 692	-6 542
Deferred income tax	19	-905	1 191
Other taxes		-1 645	-1 480
		-10 242	**-6 831**

Other taxes include non reimbursable withholding taxes.

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

In CHF'000	2013	restated 2012
Income before taxes	**53 600**	**21 913**
Expected tax calculated at domestic tax rates in the respective countries	-10 735	-7 978
Effect of income not subject to income tax or taxed at reduced rates	9 781	1 556
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	2 180	4 036
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-12 119	-4 045
Efffect of associates' result reported net of tax	357	116
Effect of disallowed expenditures	-247	-698
Effect of prior year income taxes	316	274
Effect of non-refundable withholding tax	-1 644	-1 480
Other	1 869	1 388
Tax expense	**-10 242**	**-6 831**

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 2 274 (2012: kCHF 1 386) and is disclosed under Other in the above table.

The weighted average applicable tax rate is decresing from 36.40% in 2012 to 20.02% in 2013. The decrease can be explained by a decrease of tax rate in our main tax juridication and a more advantageous revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

13. NET FOREIGN EXCHANGE RESULT

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

In CHF'000	2013	2012
Sales	-1 646	-4 427
Cost of material	-150	1 559
Other finance income/(expense) net	-347	343
Total exchange differences	**-2 143**	**-2 525**

14. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

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

In CHF'000	2013	restated 2012
Net income attributable to bearer shareholders	38 529	13 925
Net income attributable to registered shareholders	3 621	1 309
Total net income attributable to equity holders	**42 150**	**15 234**
Weighted average number of bearer shares outstanding *	49 263 601	49 237 290
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (in CHF)		
Bearer shares	0.7821	0.2828
Registered shares	0.0782	0.0283

* In early 2014 and 2013, the company performed a share capital increase which changed the average number of shares without any corresponding change in the level of resources. For the purposes of the earnings per share calculation, the weighted average number of bearer shares has been retrospectively adjusted to reflect this increase as if the capital increase had occurred at the beginning of the earliest comparative period presented.

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 2013 and 2012, options were anti-dilutive, therefore diluted earnings per share equals basic earnings per share. Shares equivalent of 145 (2012: 1 566) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

15. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2013	31.12.2012
Land and buildings	103 830	107 832
Equipment and machines	43 657	46 926
	147 487	**154 758**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2012	**23 018**	**112 977**	**13 487**	**149 482**
Additions	52	10 357	1 532	11 941
Disposals and retirements	–	–	-1 952	-1 952
Change in scope	-295	-2 403	–	-2 698
Currency translation effects	-186	-838	-119	-1 143
Reclassification & others	–	-317	288	-29
As of January 1, 2013	**22 589**	**119 776**	**13 236**	**155 601**
Additions	–	1 404	253	1 657
Disposals and retirements	-1	-1 817	-1 568	-3 386
Currency translation effects	-144	-473	-210	-827
Reclassification & others	–	–	411	411
As of December 31, 2013	**22 444**	**118 890**	**12 122**	**153 456**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2012	**–**	**-34 090**	**-10 311**	**-44 401**
Systematic depreciation	–	-3 992	-1 454	-5 446
Impairment	–	–	-927	-927
Disposals and retirements	–	1	1 867	1 868
Change in scope	–	977	–	977
Currency translation effects	–	67	93	160
Reclassification & others	–	210	-210	–
As of January 1, 2013	**–**	**-36 827**	**-10 942**	**-47 769**
Systematic depreciation	–	-4 163	-920	-5 083
Impairment	–	-50	–	-50
Disposals and retirements	–	1 812	1 568	3 380
Currency translation effects	–	-100	122	22
Reclassification & others	–	–	-126	-126
As of December 31, 2013	**–**	**-39 328**	**-10 298**	**-49 626**
Net book values as of December 31, 2012	**22 589**	**82 949**	**2 294**	**107 832**
Net book values as of December 31, 2013	**22 444**	**79 562**	**1 824**	**103 830**
Useful life in years	Indefinite	10 – 50	4 – 8	

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

2013 impairment for building equipment corresponds to the destruction of building equipment due to a natural disaster; the related insurance claim is not resolved.

In CHF'000	31.12.2013	31.12.2012
Fire insurance value of buildings	129 872	130 211
Corporate buildings on land whose owner has granted a permanent and specific right of use	7 360	7 674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2012	**193 671**	**15 304**	**208 974**
Additions	13 319	1 321	14 640
Change in scope	-3 974	-827	-4 801
Disposals and retirements	-11 836	-1 328	-13 164
Currency translation effects	-814	-102	-916
Reclassification & others	1 434	-1 453	-19
As of January 1, 2013	**191 800**	**12 915**	**204 714**
Additions	17 158	1 527	18 685
Disposals and retirements	-15 413	-575	-15 988
Currency translation effects	-266	-182	-448
Reclassification & others	149	-563	-414
As of December 31, 2013	**193 428**	**13 122**	**206 549**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2012	**-137 170**	**-10 531**	**-147 701**
Systematic depreciation	-23 493	-1 560	-25 053
Impairment	-1 181	-16	-1 197
Change in scope	2 270	450	2 720
Disposals and retirements	11 632	1 087	12 719
Currency translation effects	678	46	724
Reclassification & others	-1 167	1 167	–
As of January 1, 2013	**-148 431**	**-9 357**	**-157 788**
Systematic depreciation	-19 755	-1 361	-21 116
Impairment	-100	–	-100
Disposals and retirements	15 193	575	15 768
Currency translation effects	125	91	216
Reclassification & others	-12	139	127
As of December 31, 2013	**-152 980**	**-9 913**	**-162 893**
Net book values as of December 31, 2012	**43 369**	**3 558**	**46 926**
Net book values as of December 31, 2013	**40 448**	**3 209**	**43 657**
Useful life in years	4 – 10	4 – 7	

Technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. 2012 equipment impairments consist of equipment in location that has been retired following the restructuring program or equipment that is no longer used. 2013 impairment represents technical equipment that is no longer used.

In CHF'000	31.12.2013	31.12.2012
Fire insurance value of technical equipment and machinery	137 013	137 780

16. INTANGIBLE ASSETS

In CHF'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2012	**114 063**	**3 467**	**64 326**	**135 765**	**404**	**318 025**
Additions	8 578	–	3 038	–	38	11 654
Disposals and retirements	-12 512	–	-2 861	–	-2	-15 375
Change in scope	-5 834	-27	-37	–	-38	-5 936
Currency translation effects	-648	-44	-271	-3 282	-2	-4 247
Reclassification & others	-3 145	–	3 193	–	–	48
As of January 1, 2013	**100 502**	**3 396**	**67 388**	**132 483**	**400**	**304 169**
Additions	6 106	–	3 748		–	9 854
Disposals and retirements	-3 864	–	-4 985		–	-8 849
Currency translation effects	-128	-15	-56	-3 064	-5	-3 268
Reclassification & others	–	–	3		–	3
As of December 31, 2013	**102 616**	**3 381**	**66 098**	**129 419**	**395**	**301 909**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2012	**-54 579**	**-2 396**	**-45 936**	**–**	**-401**	**-103 312**
Systematic amortization	-15 326	-211	-11 817	–	–	-27 354
Impairment	-3 097	–	-570	–	–	-3 667
Change in scope	2 568	27	29	–	–	2 624
Recovery of amortization on disposal and retirements	12 512	–	2 575	–	–	15 087
Currency translation effects	399	40	180	–	1	620
As of January 1, 2013	**-57 523**	**-2 540**	**-55 539**	**–**	**-400**	**-116 002**
Systematic amortization	-13 515	-214	-6 166	–	–	-19 895
Impairment	-2 951	–	-2 178	–	–	-5 129
Recovery of amortization on disposal and retirements	3 261	–	4 681	–	–	7 942
Reclassification & others			–	–	–	–
Currency translation effects	325	23	72	–	5	425
As of December 31, 2013	**-70 403**	**-2 731**	**-59 130**	**–**	**-395**	**-132 659**
Net book values as of December 31, 2012	**42 979**	**856**	**11 849**	**132 483**	**–**	**188 167**
Net book values as of December 31, 2013	**32 213**	**650**	**6 968**	**129 419**	**–**	**169 250**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2013 and 2012 technology impairments relate to developments which were either stopped or for which future cash flows became uncertain. 2013 software impairment relates to projects for which future cash flows became uncertain while 2012 figures relates to software for which usage has been terminated.

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units which are defined, within the frame of the Group, as its operating segments.
Concerning Goodwill, kCHF 124 941 have been allocated to Integrated Digital Television (2012: kCHF 128 071) and kCHF 4 478 (2012: kCHF 4 412) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

Integrated Digital Television

Integrated Digital Television goodwill has been tested for impairment with a value in use calculation based on cash flow projections approved by the Group management covering a five-year period and a discount rate of 9.5 % (2012: 9.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.0% (2012: 2.0%) for core digital TV activities and 2.5% for initiatives (2012: 2.0%) per annum. Revenue assumptions for the five-year plan were generated from existing products and existing customers and newly launched activities. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2013 and for 2012, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity and loss of key customers representing approximately 10% of recurring revenue. Based on such analyses and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. INVESTMENT PROPERTY

In late 2012, a building was transferred to investment property following a change in use. 2013 rental income and direct operating expenses for the investment property were kCHF 258 (2012: kCHF 21) and kCHF 13 (2012: kCHF 37) respectively. 2013 and 2012 fair value of the investement property is estimated at CHF 2.9 million and 2.8 million respectively corresponding to planned rental income capitalized at 9%.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2012	**–**
Transfer from tangible fixed assets	2 698
Currency translation effects	4
As of December 31, 2012	**2 702**
Currency translation effects	40
As of December 31, 2013	**2 742**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2012	**–**
Systematic depreciation	-152
Transfer from tangible fixed assets	-977
Currency translation effects	-2
As of December 31, 2012	**-1 131**
Systematic depreciation	-137
Currency translation effects	-15
As of December 31, 2013	**-1 283**
Net book values as of December 31, 2012	**1 571**
Net book values as of December 31, 2013	**1 459**
Useful life in years	5 – 50 *

* Investment property includes land which is not subject to depreciation.

18. INVESTMENTS IN ASSOCIATES

In CHF'000	2013	2012
At January 1	**4 398**	**3 996**
Share of profit	1 681	1 208
Dividends received	-1 230	-832
Currency translation effects	-81	26
At December 31	**4 768**	**4 398**

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

Name of associate	Principal activity	Interest held 2 013	Interest held 2 012
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
Hantory Co., Ltd, South Korea	Digital Television sales and service	49%	49%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2013	31.12.2012
Total assets	28 296	27 761
Total liabilities	15 204	15 836
Net assets	13 092	11 925
Group's share of associates' net assets	4 768	4 398

	2013	2012
Revenue	51 479	44 744
Result of the period	6 083	5 195
Group's share of associates' result for the period	1 681	1 208

19. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2013	restated 31.12.2012
Deferred tax assets	56 118	61 859
Deferred tax liabilities	-491	-4 348
	55 627	**57 511**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

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

In CHF'000	Note	2013	restated 2012
At January 1		**57 511**	**55 138**
Exchange differences		-152	-176
Recognized against other comprehensive income		-827	1 358
Income statement (expense)/income	12	-905	1 191
At December 31		**55 627**	**57 511**

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	restated At January 1, 2013	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2013
Deferred tax assets associated with					
- intangibles	26 866	4 979	–	-7	31 838
- employee benefits	13 433	516	-827	16	13 138
- tax losses	15 586	-8 243	–	-74	7 269
- provisions and other elements tax deductible when paid	4 039	-1 852	–	-12	2 175
- inter-company profit elimination	2 304	-599	–	-78	1 627
- others	-83	223	–	5	145
Total deferred tax assets (gross)	**62 145**	**-4 976**	**-827**	**-150**	**56 192**
Deferred tax liabilities associated with					
- affiliates and allowances for Group companies	-4 137	4 123	–	–	-14
- provisions & accelerated tax depreciation	-490	-7	–	-3	-500
- others	-7	-45	–	1	-51
Total deferred tax liabilities (gross)	**-4 634**	**4 071**	**–**	**-2**	**-565**
Net deferred tax asset/(liability)	**57 511**	**-905**	**-827**	**-152**	**55 627**

And for the past year (restated):

In CHF'000	restated At January 1, 2012	Income statement effect	Other Comprehensive income	Currency translation effects	restated At December 31, 2012
Deferred tax assets associated with					
- intangibles	24 247	2 618		1	26 866
- employee benefits	11 271	812	1 358	-8	13 433
- tax losses	21 730	-6 126		-18	15 586
- provisions and other elements tax deductible when paid	1 117	2 985		-63	4 039
- inter-company profit elimination	2 846	-443		-99	2 304
- others	-54	-28		-1	-83
Total deferred tax assets (gross)	**61 157**	**-182**	**1 358**	**-188**	**62 145**
Deferred tax liabilities associated with					
- affiliates and allowances for Group companies	-4 159	21		1	-4 137
- provisions & accelerated tax depreciation	-1 655	1 157		8	-490
- others	-205	195		3	-7
Total deferred tax liabilities (gross)	**-6 019**	**1 373**	**–**	**12**	**-4 634**
Net deferred tax asset/(liability)	**55 138**	**1 191**	**1 358**	**-176**	**57 511**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 860.1 million (2012: CHF 847.5 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 256.4 million (2012: CHF 247.7 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 603.7 million (2012: CHF 599.8 million) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2013	2012
Expiration within:		
One year	2.9	4.6
Two years	33.0	9.6
Three years	9.2	90.2
Four years	5.5	15.9
Five years	92.1	5.7
More than five years	461.0	473.8
Total	**603.7**	**599.8**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

20. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2013	31.12.2012
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	834	4 523
- equity instruments with no quoted market price (level 3)	1 400	–
- marketable securities (level 1)	1 030	295
Loan – third party	4 992	6 253
Loan – related party	833	1 323
State and government institutions	19 765	21 805
Deferred contract cost (long term portion)	28 270	37 371
Others	3 074	2 575
	60 198	**74 145**

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 reliably measured. Such assets are measured at cost net of impairment for kCHF 834 (2012: kCHF 4 523). Following the initial public offering in late 2013 of one equity instrument, this has been reclassified from available-for-sale financial assets valued at cost less impairment to marketable securities in 2013 for kCHF 1 030. We further transferred an equity instrument from that category to level 3 due to the better predictabilities of cash flows and further booked a temporary value adjustment of kCHF -1 209 against other comprehensive income. 2012 marketable securities were sold in 2013 and a loss amounting to kCHF 291 has been recycled from other comprehensive income to the income statement.

Third party and related party loans are measured at amortized cost. The 2013 and 2012 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity in 2011 that has been discounted using a 9.3% rate. The effective interest rate on third party loans is 2.83% (2012:3.11%). Others mainly consist of guarantee deposits.

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

21. INVENTORIES

In CHF'000	31.12.2013	31.12.2012
Raw materials	24 843	29 263
Work in progress	5 553	6 041
Finished goods	33 987	33 343
	64 383	**68 647**

The cost of inventories recognised as an expense includes kCHF 2 394 (2012: kCHF 622) in respect of write-downs, and has been reduced by kCHF 848 (2012: kCHF 1 781) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kCHF -2 597 (2012: kCHF -12 555).

22. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2013	31.12.2012
Trade accounts receivable	203 025	202 881
Less: provision for impairment	-19 312	-17 635
Trade accounts receivable related parties	4 280	4 694
Trade receivables – net	**187 993**	**189 940**
Amounts due from customers for contract work	9 240	6 457
Total	**197 233**	**196 397**

Before accepting a new customer, the Group performs a credit scoring to assess the potential customer's credit quality and defines specific credit limits. 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	2013	2012
January 1	**-17 635**	**-27 885**
Provision for impairment charged to income statement	-4 685	-3 558
Utilization	652	4 302
Reversal	2 369	10 011
Translation effects	-13	-505
December 31	**-19 312**	**-17 635**

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -4 685 (2012: kCHF -3 558). 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	31.12.2013	31.12.2012
Not overdue	125 382	121 617
Past due and not impaired:		
- not more than one month	24 178	29 201
- more than one month and not more than three months	19 587	16 053
- more than three months and not more than six months	8 248	10 465
- more than six months and not more than one year	8 493	7 482
- more than one year	2 105	5 122
Total trade accounts receivable, net	**187 993**	**189 940**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

23. OTHER CURRENT ASSETS

In CHF'000	**31.12.2013**	**31.12.2012**
Loans third parties – short term portion	948	1 220
Prepaid expenses	7 432	8 057
Accrued income	5 567	3 077
State and government institutions	19 972	19 322
Advances to suppliers and employees	1 658	9 592
Deferred contract cost (short term portion)	10 370	11 621
Other receivables - third parties	2 715	3 086
Other receivables - related parties	1 297	983
	49 959	**56 958**

Loans are measured at amortized cost. The effective interest rate on short term loans was 5.0% (2012: 5.0%).

24. FINANCIAL ASSETS

In CHF'000		**31.12.2013**	**31.12.2012**
Financial assets used for non hedging:			
- Financial instruments (level 2)	49	–	7
		–	**–**

25. CASH AND CASH EQUIVALENTS

In CHF'000	**31.12.2013**	**31.12.2012**
Cash at bank and in hand	95 571	107 412
Short term deposits	4 702	2 674
	100 273	**110 086**

The effective interest rate on short term deposits was 0.68% (2012: 0.55%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

26. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	**31.12.2013**	**31.12.2012**
49'158'230 / 48'982'155 bearer shares, at CHF 10 each	491 582	489 822
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	537 882	**536 122**

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

AUTHORIZED SHARE CAPITAL

In CHF'000	2013	2012
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

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

CONDITIONAL SHARE CAPITAL

In CHF'000	2013	2012
Conditional share capital as of January 1	105 316	107 639
Employee share purchase plan	-79	-337
Shares allotted to employees	-1 682	-1 986
Conditional share capital as of December 31	**103 555**	**105 316**
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:		
355'526 / 531'601 bearer shares, at CHF 10 each	3 555	5 316
	103 555	**105 316**

27. TREASURY SHARES

	Note	Number of bearer shares	Book value in CHF'000
As of January 1, 2012		**11 168**	**326**
Treasury shares granted to employees	44	-1 250	-36
As of December 31, 2012		**9 918**	**290**
Treasury shares granted to employees	44	-1 250	-37
Sale of Treasury shares	44	-8 668	-253
As of December 31, 2013		**–**	**–**

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28. NON CONTROLLING INTERESTS

The following table summarizes the information relating to each of the Group's subsidiaries that has material non controlling interests, before any intercompany elimination:

As at December 31, 2013 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non controlling interests percentage	**50.0%**	**50.1%**	**50.0%**
Non-current assets	4 800	32 863	2 415
Current Assets	30 617	1 243	7 456
Non-current liabilities	–	14 637	39 373
Current liabilities	19 755	1 283	1 789
Total Equity	**15 662**	**18 186**	**-31 140**
Non controlling interests percentage	50%	50.1%	50%
Theoritical amount of non controlling interests	7 831	9 111	-15 570
Losses not attributed to non controlling interests*	–	–	2 846
Carrying amount of non controlling interests	**7 831**	**9 111**	**-12 724**
Revenue	22 457	3 363	10 788
Net result	8 495	1 214	-7 515
Other comprehensive income	-430	-173	–
Total comprehensive income	8 065	1 041	-7 515
Total comprehensive income allocated to non controlling interests	4 032	521	-3 758
Dividend paid to non controlling interests	-4 634	–	–
Net increase /(decrease) in cash and cash equivalents	-7 761	208	-27

As at December 31, 2012 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non controlling interests percentage	**50.0%**	**50.1%**	**50.0%**
Non-current assets	6 587	33 952	2 950
Current Assets	33 444	921	9 269
Non-current liabilities	–	16 499	19 764
Current liabilities	23 166	1 227	16 230
Total Equity	**16 865**	**17 145**	**-23 625**
Non controlling interests percentage	50%	50.1%	50%
Theoritical amount of non controlling interests	8 432	8 590	-11 813
Losses not attributed to non controlling interests*	–	–	2 846
Carrying amount of non controlling interests	**8 432**	**8 590**	**-8 967**
Revenue	20 361	3 437	10 945
Net result	5 658	1 429	-6 986
Other comprehensive income	-241	-266	–
Total comprehensive income	5 417	1 163	-6 986
Total comprehensive income allocated to non controlling interests	2 709	582	-3 493
Dividend paid to non controlling interests	-7 033	–	–
Net increase /(decrease) in cash and cash equivalents	-8 771	21	-41

* Under the prior version of IAS 27, the Group had stopped attributing losses to non-controlling interest because the losses exceeded the carrying amount of the non-controlling interest. Upon adoption of the current version of IAS 27, we did not revise the prior consolidated net income and at that date the non-controlling interest carrying amount was considered as being zero.

These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility over the main risks.

29. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2013	31.12.2012
Bank loans - long term	30	14 262	85 744
CHF 110 million 3% bond 2011/2016	31	109 174	108 912
Other long term financial liabilities		8	23
		123 444	**194 679**

30. LONG TERM BANK LOANS

In CHF'000	31.12.2013	31.12.2012
Credit facility agreement	–	70 000
Mortgage - long term portion	13 884	15 372
Other long term bank loans	378	372
Total long term bank loans	**14 262**	**85 744**

The average effective interest rate on total long term bank loans was 2.48% (2012: 2.80%).

In 2012, the Group obtained a committed long term syndicated credit facility through March 2015 of CHF 145 million. As of December 31, 2013, the Group has drawn CHF 30 million (2012: CHF 100 million) of which CHF 0 (2012: CHF 70 millions) have been classified as long term and CHF 30 millions (2012: CHF 30 million) as short term in the balance sheet.

31. BOND 2011/2016

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

In CHF'000	2013	2012
Initial balance / Net proceed of bond issuance	**108 912**	**108 659**
Amortization of transaction costs less premium	262	253
Liability component as of December 31	**109 174**	**108 912**

32. EMPLOYEE BENEFITS LIABILITIES

Apart from the social security plans fixed by law, the Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19 (revised). 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.

All employees in Switzerland are covered by this plan and IAS 19 revised requires that the plan is treated as defined benefit, with the primary risks around liability measurement being:
a) Mortality: the Group makes allowance for future anticipated improvements in life expectancy, however if life expectancy improves at a faster rate than assumed, pensions would be paid for longer and consequently the plan's IFRS liability would increase.
b) Investments: liabilities measured under IFRS increase with the interest cost each year and would also increase if bond yields (used to determine IFRS discount rates) fell, to the extent that the returns achieved on plan assets are insufficient to offset these increases in liabilities.

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

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

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

In CHF'000	31.12.2013	restated 31.12.2012	restated 01.01.2012
Fair value of plan assets	134 401	115 075	98 732
Defined benefit obligation	-195 682	-175 308	-149 230
Funded status	**-61 281**	**-60 233**	**-50 498**

The liability that is recognized in the balance sheet at December 31, 2013 amounts to kCHF 61 281 (kCHF 60 233 at December 31, 2012).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2013 (respectively 2012):

In CHF'000	2013	restated 2012
Service cost	-17 671	-16 359
Interest cost	-3 870	-3 838
Interest income	2 607	2 576
Employees contributions	5 839	5 931
Amortization of gains/(losses)	54	-150
Amortization of plan amendment	–	47
Curtailment gain / (loss)	295	493
Net pension (cost)/income	**-12 746**	**-11 300**
Exchange rate difference	**111**	**46**
Employer contribution	**7 236**	**7 132**

The net pension cost for the financial year 2013 amounts to kCHF 12 746 (kCHF 11 300 for the financial year 2012). The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2013 and 2012 are as follows:

	31.12.2013	31.12.2012
Switzerland		
Discount rate	2.15%	2.15%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	1.00%	0% 1 year, then 1%
Interest rate credited on savings accounts	2.15%	2.50%
Turnover	10.0% on average	4.2% on average
Retirement age	64.81 on average	64.81 on average
Abroad		
Discount rate	3.25%	3.25%
Rate of future increase in compensations	2.84%	2.84%
Turnover	8.3% on average	8.2% on average
Retirement age	62.97 on average	63.06 on average

The changes in Defined benefit obligation and Fair value of plan assets during the years 2013 and 2012 are as follows:

A. Change in defined benefit obligation

In CHF'000	2013	restated 2012
Defined benefit obligation as of 1.1.	**-175 308**	**-149 230**
Service cost	-17 671	-16 359
Interest cost	-3 870	-3 838
Change in demographic assumptions	-13 444	–
Change in financial assumptions	11 958	-15 366
Impact of plan amendment	–	47
Actuarial gains/(losses)	1 740	4 477
Curtailment	295	493
Benefits payments	729	4 422
Exchange rate difference	-111	46
Defined benefit obligation as of December 31	**-195 682**	**-175 308**

B. Change in fair value of plan assets

In CHF'000	2 013	restated 2012
Fair value of plan assets as of 1.1.	**115 075**	**98 732**
Interest income	2 607	2 576
Employees' contributions	5 839	5 931
Employer's contribution	7 236	7 132
Plan assets gains/(losses)	4 373	5 125
Benefits (paid)/received	-729	-4 421
Fair value of plan assets as of December 31	**134 401**	**115 075**

The change in demographic assumptions in 2013 relates to the current best practice of transitioning from a periodic demographic basis to a generational demographic basis taking into consideration an increase in the expected lifetime. The change in financial assumptions in 2013 relates to the change in the interest rate credited on savings accounts and to the change in turnover. The actual return on plan assets amounts to kCHF 6 980 in 2013 (kCHF 7 701 for the year 2012). The estimated employer's contribution to the pension plans for the financial year 2014 amount kCHF 6 978.

The categories of plan assets and their corresponding expected return at December 31, 2013 (respectively December 31, 2012) are as follows:

In CHF'000	31.12.2013	Proportion in % 31.12.2013	31.12.2012	Proportion in % 31.12.2012
Cash	24 204	18.1%	8 009	7.0%
Swiss bonds	32 997	24.6%	31 450	27.3%
Foreign bonds	10 409	7.7%	9 830	8.5%
Swiss shares	23 313	17.3%	20 992	18.2%
Foreign shares	22 431	16.7%	22 533	19.6%
Real estates	17 377	12.9%	15 383	13.4%
Structured products	3 670	2.7%	6 878	6.0%
Total	**134 401**	**100.0%**	**115 075**	**100.0%**

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The expected benefit payments for the next ten years are as follows:

In CHF'000	Switzerland	Abroad
2014	7 167	8
2015	6 816	92
2016	6 370	28
2017	6 080	14
2018	5 797	70
2019-2023	25 409	1 140

The following table shows the sensitivity of the defined benefit pension obligations to the principal actuarial assumptions based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period:

	Change in 2013 year-end defined obligation	
	Switzerland	Abroad
	In CHF'000	In CHF'000
50 basis point increase in discount rate	18 986	687
50 basis point decrease in discount rate	-21 857	-753
50 basis point increase in rate of salary increase	-3 253	n/a
50 basis point decrease in rate of salary increase	3 060	n/a
50 basis point increase of interest in saving accounts	-10 011	n/a
50 basis point decrease of interest in saving accounts	9 156	n/a
50 basis point increase in rate of pension increase	-7 008	n/a
50 basis point decrease in rate of pension increase	6 552	n/a

33. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2013	Total 2012
As of January 1	**8 433**	**1 999**	**1 949**	**12 381**	**19 643**
Additional provisions	666	96	301	1 063	8 532
Unused amounts reversed	–	-1 573	-465	-2 038	-1 255
Used during the year	-5 072	-14	-123	-5 209	-14 533
Exchange differences	127	-8	30	149	-6
As of December 31	**4 154**	**500**	**1 692**	**6 346**	**12 381**
Thereof:					
- Short term	3 866	500	1 692	6 058	11 877
- Long term	288	–	–	288	504
	4 154	**500**	**1 692**	**6 346**	**12 381**

Restructuring provisions

Following the Group restructuring plan announced late 2011, provisions for restructuring were recognised in the 2012 accounts. In 2013, restructuring provisions have been recognized following the closing of several offices. Restructuring provisions also include leases termination considered as onerous contract.

Legal fees and litigation

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 fees and lawsuit are valued according to the management's best estimate principle.
In 2013, a legal provision has been reversed following the cancellation of the underlying risk.

Provision for warranty

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

34. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2013	31.12.2012
Other long-term liabilities		1 535	725
Derivative financial instruments	39	753	1 127
		2 288	**1 852**

35. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2013	31.12.2012
Short term bank borrowings		59 244	74 075
Other short term financial liabilities		13	8
		59 257	**74 083**

The average effective interest paid in 2013 for short term bank borrowings was 1.33% (2012: 1.58%). Short term bank borrowings include the short-term portion of a credit facility agreement (see note 30) for kCHF 30 000 (2012: kCHF 30 000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

36. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2013	31.12.2012
Trade accounts payable – third parties	37 727	40 071
Trade accounts payable – related parties	2	2
	37 729	**40 073**

37. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2013	31.12.2012
Accrued expenses	70 269	70 010
Deferred income	15 611	13 434
Payable to pension fund	551	564
Other payables	11 603	10 655
	98 034	**94 663**

38. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2013	31.12.2012
Amounts due to customers for contract work	4 272	2 099
Advances from clients	9 348	12 263
	13 620	**14 362**

39. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Interests related instruments (level 2)						
- Interest rate swap	12 460	12 810	–	–	753	1 127
Total of derivatives financial instruments	**12 460**	**12 810**	**–**	**–**	**753**	**1 127**
Of which:						
- Short-term	–	–	–	–	–	–
- Long-term	12 460	12 810	–	–	753	1 127

Interest related instrument qualify as cash flow hedge and has concomitant maturities with underlying loan agreements.

40. IMPACT OF INTRODUCING REVISED ACCOUNTING STANDARD

A third balance sheet is required when an entity applies an accounting policy retrospectively that has a material effect on the information in the third balance sheet. The amendments of related notes are not required to accompany the third balance sheet. In the current year, the Group has retrospectively adopted IAS 19 (revised 2011) on Employee Benefits. IAS 19R eliminates the previously applied 'corridor method', under which the recognition of actuarial gain and losses was deferred. Instead, the full defined benefit obligation, net of plan assets is now recorded in the balance sheet, with changes resulting from re-measurements recognized immediately in other comprehensive income. The revised standard also requires net interest expense to be calculated as the product of the net defined benefit liability and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognizing an expected return on plan assets. As a result, the Group decided to modify its accounting policy in order to treat this net interest expense as 'interest expense' in the income statement instead of 'employee benefit expenses'. The Group believes that this treatment better reflects the nature of the expense following the revised standard. In addition, past service costs are now recognized in the income statement at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized.

The impact of the adjustments, for the current and each prior period presented, on each financial statement line item affected is as follows for the balance sheet:

In CHF'000	31.12.2013	31.12.2012	01.01.2012
Increase in the employee benefits liabilities (non-current)	-22 739	-25 218	-18 111
Increase in deferred tax assets (non-current)	5 466	5 841	4 181
Decrease in deferred tax liabilities (non-current)	37	37	37
Net impact on equity	**-17 236**	**-19 340**	**-13 893**
Equity attributable to equity holders of the parent	-17 236	-19 340	-13 893
Non controlling interests	–	–	–

And for the income statement:

In CHF'000	2013	2012
Increase in employees benefits expense	-833	-80
Increase in interest expense	-1 263	-1 262
Decrease in current tax expense	452	301
Impact on net profit for the year (continuing operations)	**-1 644**	**-1 041**
Attributable to equity holders of the parent	-1 644	-1 041
Non controlling interests	–	–
Increase / decrease in actuarial movements in OCI	4 597	-5 768
Decrease / increase in tax effect on actuarial movements in OCI	-827	1 358
Effect of currency translation adjustments	-8	2
Net increase / decrease in other comprehensive income, net of tax	**3 762**	**-4 408**
Attributable to equity holders of the parent	3 762	-4 408
Non controlling interests	–	–

There was no material impact on the Group's consolidated statement of cash flows. Basic and diluted EPS would have been at CHF 0.8126 and CHF 0.3021 for 2013 and 2012 respectively should we not adopt IAS 19R, resulting in a decrease of 0.0305 and 0.0187 for the respective years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

41. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Kudelski family pool	63%	57%	35%	24%

As at December 31, 2012, the Kudelski family pool included Mr. Stefan and Mr. André Kudelski. Following the death of Mr. Stefan Kudelski on January 16, 2013, the Kudelski family pool includes Mr. André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants.

42. RESEARCH AND DEVELOPMENT

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

In CHF'000	2013	2012
Research and development	192 258	196 505

43. DIVIDEND

The ordinary dividend paid in 2013 was kCHF 10 757 (2012: kCHF 5 359) which corresponds to a dividend of CHF 0.20 (2012: CHF 0.10) per bearer share and CHF 0.02 (2012: CHF 0.01) per registered share.
For the current year, the Board of Directors proposes a distribution of CHF 0.30 per bearer share and CHF 0.03 per registered share. The distribution to be paid is kCHF 16 137 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital. The proposal of the Board of Directors is to pay CHF 0.20 distribution out of Capital contribution reserve and CHF 0.10 distribution out of retained earnings per bearer share (CHF 0.02 and CHF 0.01 per registred share respectively) and is subject to the approval of shareholders at the Annual General Meeting. It has not been included as a liability in these financial statements.

44. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

	Shares 2013	Shares 2012
Shares underwritten by employees	6 600	28 110
Bonus shares and options from ESPP	1 320	5 622
Total employee share program	**7 920**	**33 732**
Amount paid by employee In CHF'000	57	143
Booked corporate charges (excluding social charges) In CHF'000	5	58
	62	**201**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2013	Options 2012
In circulation on January 1	15	1 923	6 691
Total in circulation on January 1		**1 923**	**6 691**
Rights forfeited	15	-1 339	-4 768
In circulation on December 31		**584**	**1 923**
- of which exercisable as of January 1	15	1 339	4 768
- of which exercisable as of December 31	15	584	1 339

SHARES ISSUED TO EMPLOYEES

In 2013, 168 155 (2012: 198 591) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 123 023 (2012: 120 890) include a seven-year blocking period and 45 132 (2012: 77 701) include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 1 144 (2012: kCHF 826).

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION OF OPENTV CORP

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

In 2011, following the departure of employees, 8 668 shares did not vest and were transferred to Kudelski SA while 5 584 shares vested and were transferred to the employees. In 2013 and 2012, 1 250 shares vested and were transferred to the employees. The expense of kCHF 5 (2012: kCHF 17) is charged to the income statement according to the vesting conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

45. RELATED PARTIES

Trading transactions

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

In CHF'000	Sale of goods and services 2013	Sale of goods and services 2012	Purchase of goods and services 2013	Purchase of goods and services 2012	Amounts owed to related parties 31.12.2013	Amounts owed to related parties 31.12.2012	Amounts owed by related parties 31.12.2013	Amounts owed by related parties 31.12.2012
Hantory Co., Ltd	6 586	4 320		–		–	451	472
APT-Skidata Ltd	8 082	6 349		–	2	2	2 559	1 412
Skidata Parking System	8 931	6 989		–		–	1 055	1 351
SKIDATA India Private Limited	659	865		–		–	78	478
iWedia SA	144	275	195	154		–	46	149
Total associated companies	**24 402**	**18 798**	**195**	**154**	**2**	**2**	**4 189**	**3 862**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 998	2 516
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 998**	**2 516**

APT SkiData and SkiData Parking Ltd are sales representative companies for SkiData Group. Audio Technology Switzerland is considered as a related party as Kudelski Board members and Executives invested in the company.

Key management compensation

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

In CHF'000	2013	2012
Salaries and other short-term employees benefits	7 425 814	7 764 993
Post-employments benefits	100 751	77 189
Share-based payments	830 630	871 403
	8 357 195	**8 713 585**

46. COMPENSATION, SHAREHOLDINGS AND LOANS

This note provides information required by article 663 b[bis] of the Swiss Code of Obligations. In implementing the new Group strategy, Group Executive Management has been simplified to better focus on Integrated Digital Television activities. Group Executive Management consists of André Kudelski, Mauro Saladini, Pierre Roy and Alex Osadzinski (left in 2012).
Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2013 and 2012 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Other CHF	Total 2013 CHF
Board of Directors					
Kudelski André, chairman	551 000	–	–	–	551 000
Smadja Claude, vice chairman	130 000	–	–	–	130 000
Bucher Norbert, member	50 000	–	–	–	50 000
Dassault Laurent, member	40 000	–	–	–	40 000
Deiss Joseph, member	50 000	–	–	–	50 000
Foetisch Patrick, member	62 000	–	–	77 127	139 127
Kudelski Marguerite, member	50 000	–	–	–	50 000
Lescure Pierre, member	120 000	–	–	–	120 000
Zeller Alexandre, member	60 000	–	–	–	60 000
Total board members	**1 113 000**	**–**	**–**	**77 127**	**1 190 127**
Management					
Kudelski André, CEO	572 750	3 466 210	60 000	31 210	4 612 870
Other management members	1 264 500	863 789	25 215	37 228	2 453 446
Total Management	**1 837 250**	**4 329 999**	**85 215**	**68 438**	**7 066 316**
Former board members					
Kudelski Stefan, founder and honorary Chairman	17 085	–	–	–	17 085

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

Share allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 60 000 (2012: 112 309) bearer shares granted to certain management members are subject to a 7 year blocking period and 25 215 (2012: 18 193) bearer shares are subject to a 3 year blocking period. 2013 and 2012 shares allotments were only granted early in the following year.

Compensation does not include reimbursement for business expenses incurred in the performance of their service nor representation allowances, as these are not considered compensation.

At December 31, 2013 and 2012, no guarantees, loans, advances or borrowings in favor of members of the Board of Directors and members of Group management or parties closely related to such persons were granted.

As of December 31, 2013, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2013 variable compensation - issued in 2014):

	31 december 2013		
	Registered shares	Bearer shares	Options
Board of Directors			
Kudelski André, chairman (member of family pool) *	46 300 000	14 234 423	–
Smadja Claude, vice chairman	–	1 300	–
Bucher Norbert, member	–	1 700	–
Dassault Laurent, member	–	2 340	–
Deiss Joseph, member	–	1 000	–
Foetisch Patrick, member	–	1 000	–
Kudelski Marguerite, (member of family pool) *	–	*	–
Lescure Pierre, member	–	2 000	–
Zeller Alexandre, member	–	–	–
Total board members	**46 300 000**	**14 243 763**	**–**
Management			
Kudelski André, CEO	see above	see above	see above
Saladini Mauro, CFO		187 092	–
Roy Pierre, COO	–	51 413	–
Total Management (excluding CEO)	**–**	**238 505**	**–**

* Following the death of Mr. Stefan Kudelski on January 16, 2013, the Kudelski family pool includes Mr. André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants. As at December 31, 2012, the Kudelski family pool included Mr. Stefan and André Kudelski.

And for 2012:

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

At December 31, 2012, 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.

47. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 013	2 012
Within one year	7 376	1 601
In the second to fifth year inclusive	22 891	11 342
	30 267	**12 943**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

48. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2013:

Assets as per balance sheet date December 31, 2013 (in CHF'000)	**Note**	**Financial assets at fair value through profit or loss**	**Available-for-sale**	**Loans and receivables**	**Total 31.12.2013**
Financial assets and non current assets:					
- equity instruments with no quoted market price	20	–	2 234	–	2 234
- marketable securities	20	–	1 030	–	1 030
- long term loans	20	–	–	4 992	4 992
- receivables long term	20	–	–	833	833
- guarantee deposits	20	–	–	3 074	3 074
Trade accounts receivable	22	–	–	187 993	187 993
Other current assets:		–	–	–	–
- Loans	23	–	–	948	948
Cash and cash equivalents	25	–	–	100 273	100 273
		–	**3 264**	**298 113**	**301 377**

Liabilities as per balance sheet date December 31, 2013 (in CHF'000)	**Note**	**Derivatives used for hedging**	**Financial liabilities at fair value through profit or loss**	**Other financial liabilities**	**Total 31.12.2013**
Long term financial debt	29	–	–	123 444	123 444
Short term financial debt	35	–	–	59 257	59 257
Trade accounts payable	36	–	–	37 729	37 729
Other payables	37	–	–	11 603	11 603
Derivative financial instruments (short and long term)	39	753	–	–	753
		753	**–**	**232 033**	**232 786**

And for 2012:

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

Liabilities as per balance sheet date December 31, 2012 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2012
Long term financial debt	29	–	–	194 679	194 679
Short term financial debt	35	–	–	74 083	74 083
Trade accounts payable	36	–	–	40 073	40 073
Other payables	37	–	–	10 655	10 655
Derivative financial instruments (short and long term)	39	1 127	–	–	1 127
		1 127	–	319 490	320 617

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2013:

In CHF'000		Note	31.12.2013	31.12.2012
Financial assets:				
- marketable securities	Level 1	20	1 030	295
- derivative financial instruments	Level 2	24	–	7
- equity instuments with no quoted market price	Level 3	20	1 400	–
Total financial assets			**2 430**	**302**
Financial liabilities:				
- derivative financial instruments	Level 2	39	753	1 127
Total financial liabilities			**3 183**	**1 429**

Derivative financial instruments valuations (level 2) are based on dirty mark-to-market prices communicated and calculated by the bank that issued the over-the-counter derivative instrument. Level 3 equity instruments with no quoted market price are based on discounted cash flow calculation provided by the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

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 2013	Fair value 2013	Carrying amount 2012	Fair value 2012
Financial liabilities				
- CHF 110 million bond (fair value determined using market value)	109 174	115 353	108 912	113 025

50. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

In CHF'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2 013	2 012	2 013	2 012	2 013	2 012	2 013	2 012	2 013	2 012
Bond	3 300	3 300	116 600	119 900	–	–	-10 726	-14 288	109 174	108 912
Long term bank loans	705	1 621	15 157	88 111	–	–	-1 600	-3 988	14 262	85 744
Long term loans – third parties	–	–	–	–	–	–	–	–	–	–
Short term financial debt	59 257	74 083	–	–	–	–	–	–	59 257	74 083
Trade accounts payable	37 729	40 073	–	–	–	–	–	–	37 729	40 073
Other payables	11 603	10 655	–	–	–	–	–	–	11 603	10 655
Total	**112 594**	**129 732**	**131 757**	**208 011**	**–**	**–**	**-12 326**	**-18 276**	**232 025**	**319 467**

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

51. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% (2012: 10%) increase and decrease to the USD and a 5% (2012: 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	
In CHF'000	**2 013**	**2 012**	**2 013**	**2 012**
Post-tax net income				
- Increase	6 901	4 638	3 767	3 385
- Decrease	-6 901	-4 638	-3 767	-3 385
Comprehensive income (post-tax effect)				
- Increase	9 390	9 676	1 063	1 044
- Decrease	-9 390	-9 676	-1 063	-1 044

Interest rates

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

- USD: increase of 150 basis points and decrease of 50 basis points (2012: 150 basis points increase or 40 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2012: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 20 basis points (2012: 100 basis points increase or 25 decrease)

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

- post-tax profit for the year ended December 31, 2013 would increase by kCHF 366 and decrease by kCHF 121 (2012: decrease by kCHF 346 /increase by kCHF 100). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 426 and decrease by kCHF 140 (2012: increase by kCHF 388 / decrease by 101) . The other comprehensive income impact is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting.

Equity prices

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

52. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2013	31.12.2012
Guarantee in favor of third parties	23 355	27 391

53. RISK CONCENTRATION

At December 31, 2013 and 2012, no financial asset exposure was more than 10% of the financial assets, with the exception of cash balances deposited within a highly rated bank.

54. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2013 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

55. CAPITAL RISK MANAGEMENT

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

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

The operating cash flow-to-net financial debt ratio as at 31 December 2013 was 146.7% (2012: 69.6%).

56. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 013	2 012	2 013	2 012
1 USD	0.8900	0.9150	0.9268	0.9377
1 EUR	1.2250	1.2070	1.2308	1.2052
1 GBP	1.4730	1.4800	1.4495	1.4861
1 SGD	0.7040	0.7490	0.7408	0.7506
1 AUD	0.7940	0.9500	0.8970	0.9711
100 BRL	37.7000	44.7000	43.1100	48.1400
100 INR	1.4400	1.6700	1.5892	1.7567
100 SEK	13.8800	14.0600	14.2295	13.8518
100 CNY	14.7100	14.6850	15.0751	14.8619
100 JPY	0.8480	1.0630	0.9508	1.1756

57. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on February 19, 2014.

58. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2013	2012
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes and advertising solutions	100	100
Public Access				
SkiData Group	AT – Gartenau	People and car access systems	100	100
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100

These principal companies are all subsidiaries.

59. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 76 to 126), for the year ended 31 December 2013.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers SA

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

Lausanne, February 19, 2014

BALANCE SHEETS AT DECEMBER 31, 2013 AND 2012

ASSETS

In CHF'000	Notes	31.12.2013	31.12.2012
Fixed assets			
Financial fixed assets:			
Investments	3.1	287 224	402 760
Loans to Group companies		757 700	779 057
Total fixed assets		**1 044 924**	**1 181 817**
Current assets			
Accounts receivable from Group companies		25 881	147 453
Other accounts receivable and accruals	3.2	1 859	2 943
Treasury shares	3.4	–	74
Cash and cash equivalents	3.3	9 987	25 189
Total current assets		**37 727**	**175 659**
Total assets		**1 082 651**	**1 357 476**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2013	31.12.2012
Shareholders' equity			
Share capital		537 882	536 122
Legal reserves:			
- General reserve		110 000	110 000
- Capital contribution reserve		29 877	37 945
- Reserve for treasury shares		–	290
Retained earnings		260 391	283 976
Net income		-33 872	-21 186
Total shareholders' equity	**3.4**	**904 278**	**947 147**
Long-term liabilities			
Loans from Group companies		–	27 276
Bonds	3.5	110 000	110 000
Bank, long term borrowings	3.6	–	70 000
Total long-term liabilities		**110 000**	**207 276**
Current liabilities			
Short-term loans from Group companies		34 325	170 596
Bank, short term borrowings	3.6	30 000	30 000
Other liabilities and accruals		1 651	2 457
Bank overdraft		2 397	–
Total current liabilities		**68 373**	**203 053**
Total liabilities		**178 373**	**410 329**
Total shareholders' equity and liabilities		**1 082 651**	**1 357 476**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2013

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

In CHF'000	Notes	2013	2012
Royalty income and other		–	2
Financial income	4.1	96 892	46 272
Loss on sale of investments	4.2	–	-27 883
Administrative and other expenses	4.3	-4 588	-4 996
Financial expenses and exchange result	4.4	-7 809	-7 936
Impairment of financial fixed assets	4.5	-118 367	-26 613
(loss)/Income before tax		**-33 872**	**-21 154**
Income tax		–	-32
Net (loss)/income		**-33 872**	**-21 186**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2013

In CHF'000	Capital contribu-tion reserve	Retained earnings
Balance brought forward from previous year	29 877	260 101
Decrease of treasury shares reserve	–	290
Net result	–	-33 872
Total available earnings	**29 877**	**226 519**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.30 on 49'158'230* bearer shares (of which CHF 0.20 out of capital contribution reserve and CHF 0.10 out of retained earnings)	-9 832	-4 916
- CHF 0.03 on 46'300'000 registered shares (of which CHF 0.02 out of capital contribution reserve and CHF 0.01 out of retained earnings)	-926	-463
Balance to be carried forward	**19 119**	**221 140**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2013 and may fluctuate upon exercise of options, conversion rights, issuance of additional share capital for the employees and for the Employee Share Program by utilization of the conditional share capital.

NOTES TO THE FINANCIAL STATEMENTS 2013

1. GENERAL COMMENTS

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The statutory financial statements of Kudelski SA are prepared in accordance with the requirements of the Swiss Code of Obligations applicable prior to the changes introduced on January 1, 2013, in accordance with the transitional provisions of the new accounting law. These financial statements were prepared under the historical cost convention and on an accrual basis.

FINANCIAL FIXED ASSETS

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

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

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

TREASURY SHARES

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

NOTES TO THE FINANCIAL STATEMENTS 2013

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2013	2012
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	12 000	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	M	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	UK – St. Albans	No activity	kGBP	1	L	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	10	100	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	100	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Software integration	kEUR	25	M	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	50	50
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Holding	kUSD	5 270	100	100
OpenTV UK Ltd	UK – London	No activity	kGBP	100	L	100
OpenTV Netherlands B.V.	NL - Amsterdam	Sales and support	kEUR	18	100	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100

M = merged company
L= liquidated company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2013	31.12.2012
Prepaid expenses	1 852	2 788
Withholding tax	6	150
Other accounts receivable	1	5
	1 859	**2 943**

Prepaid expenses mainly include the difference between nominal value and net proceeds less issuance cost of the bond (note 3.5) for kCHF 826 (2012: kCHF 1 088) and transaction costs relating to the CHF 145 million credit facility agreement (note 3.6) for kCHF 945 (2012: kCHF 1 701). These amounts are allocated against income statement over the periods of the borrowings.

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2013	31.12.2012
Cash at bank and in hand	9 987	25 189
	9 987	**25 189**

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contribution reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2011	**533 798**	**45 349**	**43 304**	**326**	**348 591**	**971 368**
General reserve allocation		64 651			-64 651	–
Dividend			-5 359			-5 359
Share capital increase	2 324					2 324
Release of reserve for treasury shares				-36	36	–
Net Income					-21 186	-21 186
As of December 31, 2012	**536 122**	**110 000**	**37 945**	**290**	**262 790**	**947 147**
Dividend			-8 068		-2 689	-10 757
Share capital increase	1 760					1 760
Release of reserve for treasury shares				-290	290	–
Net Income					-33 872	-33 872
As of December 31, 2013	**537 882**	**110 000**	**29 877**	**–**	**226 519**	**904 278**

NOTES TO THE FINANCIAL STATEMENTS 2013

TREASURY SHARES

	Number of bearer shares	Reserve for treasury shares
		CHF '000
As of December 31, 2011	**11 168**	**-326**
Treasury shares granted to employees	-1 250	36
As of December 31, 2012	**9 918**	**-290**
Treasury shares granted to employees	-1 250	37
Sale of Treasury shares	-8 668	253
As of December 31, 2013	**–**	**–**

Reserve for treasury shares corresponds to the purchase consideration for the treasury shares purchased by Kudelski SA and its affiliates.
During 2013, 8 668 treasury shares were sold with an average sale price of CHF 13.80. As of December 31, 2012, 8 668 treasury shares were owned by Kudelski SA and 1 250 by affiliated companies for a purchase cost of kCHF 253 and kCHF 37 respectively. The value for treasury shares presented under current assets as of December 31, 2013 equals to CHF 0 and as of December 31, 2012 correspond to the purchase consideration of kCHF 253 less impairment of kCHF 179.

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2013	31.12.2012
49'158'230 / 48'982'155 bearer shares, at CHF 10 each	491 582	489 822
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	537 882	**536 122**

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	2013	2012
Conditional share capital as of January 1	105 316	107 639
Employee share purchase plan	-79	-337
Shares allotted to employees	-1 682	-1 986
Conditional share capital at December 31	**103 555**	**105 316**
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:		
355'526 / 531'601 bearer shares, at CHF 10 each	3 555	5 316
	103 555	**105 316**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2013	31.12.2012
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

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

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Kudelski family pool	63%	57%	35%	24%

3.5 BOND

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

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

3.6 BANK , LONG TERM BORROWINGS

In 2012, the Group obtained a committed long term syndicated credit facility until March 2015 of CHF 145 million. As of December 31, 2013 the Group has drawn CHF 30 million (2012: CHF 100 million) of which CHF 0 (2012: CHF 70 million) are classified as long term while CHF 30 million (2012: CHF 30 million) are classified as short term in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS 2013

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2013	2012
Dividends received from Group subsidiaries	91 054	40 149
Interest income third parties	120	346
Interest on loans to Group subsidiaries	5 663	5 777
Other financial income	55	–
	96 892	**46 272**

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

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

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

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2013	2012
Administrative expenses	-3 076	-3 309
Taxes other than income tax	-1 512	-1 687
	-4 588	**-4 996**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2013	2012
Net currency exchange result	-1 771	-1 919
Interest on loans from Group subsidiaries	-51	-1 182
Interest expenses and bank charges	-5 987	-4 835
	-7 809	**-7 936**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2013	2012
Change in provision on Group investments and loans	-118 367	-26 613
	-118 367	**-26 613**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2013	31.12.2012
Guarantee commitments		
Commitment in favor of third parties	1 171	1 489
	1 171	**1 489**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 128 to 136), for the year ended 31 December 2013.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

pwc

PricewaterhouseCoopers SA

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

Lausanne, February 19, 2014

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SUPPORT
Desrochers communication

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