KUDELSKI GROUP
FINANCIAL STATEMENTS 2013

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

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 client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales

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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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

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 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**

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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

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EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 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 stopped.

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units which are defined, within the frame of the Group, as its operating segments.
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.

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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 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, 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	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**

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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 profits streams. The amount of unused tax losses carry forward which has not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	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 recognized 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 of inventories and has been reduced by kCHF 848 (2012: kCHF 1 781) in respect of the reversal of such write-down.
Changes in inventories of finished goods and work in progress included in cost of material are kCHF -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 new customers, the Group performs a credit scoring to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed are regularly reviewed. Furthermore, for low value added business deliveries, the Group usually works on a back to back basis.

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

In CHF'000	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 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 high 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 those entities either by financing them 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 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 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 the law, the Kudelski Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19 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.

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

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

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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 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 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 year 2013 (resp. 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 assumption 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%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2013

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 have been recognised in the 2012 accounts. In 2013, restructuring provisions have been recognized following the closing of several offices. Restructuring provisions also include lease termination considered as onerous contract.

Legal fee and litigations

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

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

	Shares 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 FOR EMPLOYEES

In 2013, 168 155 (2012: 198 591) bearer shares of Kudelski SA were given to employees for no consideration as part of their remumeration, 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 Kudelski Group, OpenTV Corp purchased 16 752 Kudelski SA bearer shares in 2010 in order to establish a retention plan for selected OpenTV employees. Such shares are subject to vesting condition lapsing with respect of one third on each anniversary date of June 30, 2011, June 30, 2012 and June 30, 2013 before such shares are transferred to the employees. The fair value of these shares amounted to kCHF 489 and was based on market price on the purchase date.

In 2011, following the departure of employees, 8 668 shares did and will not vest and were transferred to Kudelski SA while 5 584 shares vested and were transferred to the employees. In 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 on consolidation and are not disclosed in this note. During the year, Group entities entered into the following significant trading transactions with related parties, associates or joint ventures that are not member of the Group:

In CHF'000	Sale of goods and services 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 representatives 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 (executive and non-executives) and members of the Executive Committee. The compensation paid or payable to key management for employee is shown below:

In CHF'000	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 with information required by article 663 b bis of the Swiss Code of Obligations. In implementing the new Group strategy, Group Executive Management has been simplified to better focus on Integrated Digital Television activities. The 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

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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 as well as 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 the 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 the management had 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 price communicated and calculated by the bank that issued the over-the-counter derivative instrument. Level 3 equity instruments with no quoted market price is 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 maturity for its non-derivative financial liabilities.
The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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

54. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 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 Kudelski Group-wide enterprise risk management. The risk management approach is structured around a global risk assessment and management and the financial risk management. Both are governed by policies initiated by the Board of Directors. The internal control system is based on the COSO framework with a dedicated internal control team in place.

Global risk management

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

Financial Risk Management

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

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

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 4 to 54), 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 contribution 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 56 to 64), 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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