KUDELSKI GROUP FINANCIAL STATEMENTS 2009

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CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008)

In CHF'000	Notes	2009	2008
Revenues	6	1 052 343	1 027 506
Other operating income	7	8 433	9 444
Total revenues and other operating income		**1 060 776**	**1 036 950**
Cost of material		-321 522	-340 477
Employee benefits expense		-373 760	-359 070
Other operating expenses	8	-227 650	-245 229
Operating income before depreciation, amortization and impairment		**137 844**	**92 174**
Depreciation, amortization and impairment	9	-64 498	-73 674
Operating income		**73 346**	**18 500**
Interest expense	10	-14 440	-16 104
Other finance income/(expense), net	11	342	-18 901
Share of results of associates	17	1 275	10 413
Income/(loss) before tax		**60 523**	**-6 092**
Income tax expense	12	-9 432	-903
Net income/(loss) for the year		**51 091**	**-6 995**
Attributable to:			
– Equity holders of the company		48 980	-14 645
– Minority interest		2 111	7 650
		51 091	**-6 995**

In CHF	Notes	2009	2008
Earnings/(loss) per bearer share			
– basic	14	0.9213	-0.2797
– diluted	14	0.9213	-0.2797
Earnings/(loss) per registered share (not listed)			
– basic	14	0.0921	-0.028
– diluted	14	0.0921	-0.028

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008)

In CHF'000	2009	2008
Net income/(loss)	51 091	-6 995
Currency translation differences	-16 154	-30 410
Net gain / (loss) on available-for-sale financial assets	-165	-275
Total comprehensive income / (loss) for the year	**34 772**	**-37 680**
Attributable to:		
– Equity holders of the company	37 152	-37 931
– Minority interest	-2 380	251
	34 772	**-37 680**

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

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2009 AND 2008)

Assets

In CHF'000	Notes	31.12.2009	31.12.2008
Non-current assets			
Tangible fixed assets	15	145 846	165 537
Intangible assets	16	236 525	239 146
Investments in associates	17	6 653	5 563
Deferred income tax assets	18	57 206	51 856
Financial assets and other non-current assets	19	97 009	63 195
Total non-current assets		**543 239**	**525 297**
Current assets			
Inventories	20	82 276	97 350
Trade accounts receivable	21	292 019	353 932
Other current assets	22	92 841	60 974
Financial assets (short term)	23	37 658	8 993
Cash and cash equivalents	24	210 139	247 819
Total current assets		**714 933**	**769 068**
Total assets		**1 258 172**	**1 294 365**

Equity and liabilities

In CHF'000	Notes	31.12.2009	31.12.2008
Capital and reserves			
Share capital	25	531 935	523 960
Reserves		-92 989	-61 077
Treasury shares	26	-380	-380
Equity attributable to equity holders of the parent		**438 566**	**462 503**
Minority interest		33 079	106 075
Total equity		**471 645**	**568 578**
Non-current liabilities			
Long-term financial debt	27	388 105	364 180
Deferred income tax liabilities	18	5 693	5 088
Employee benefits liabilities	29	25 069	21 706
Provisions for other liabilities and charges	30	7 321	8 009
Other long-term liabilities	31	3 314	5 429
Total non-current liabilities		**429 502**	**404 412**
Current liabilities			
Short-term financial debt	32	123 191	78 904
Trade accounts payable	33	78 830	113 701
Other current liabilities	34	123 705	104 022
Current income taxes		9 626	2 645
Advances received from clients	35	18 574	12 587
Derivative financial instruments	36	231	2 522
Provisions for other liabilities and charges	30	2 868	6 994
Total current liabilities		**357 025**	**321 375**
Total liabilities		**786 527**	**725 787**
Total equity and liabilities		**1 258 172**	**1 294 365**

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

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008)

In CHF'000	Notes	2009	2008
Net income/(loss) for the year		**51 091**	**-6 995**
Adjustments for:			
Current and deferred income tax		9 432	903
Interest expense and other finance income/(expense), net		3 216	4 175
Allocation of the equity conversion component and transaction costs of convertible bond		5 703	5 551
Depreciation, amortization and impairment	9	64 498	73 674
Change in fair value of financial assets at fair value through profit or loss		231	2 027
Share of result of associates	17	-1 275	-10 413
Dividends received from associated companies	17	780	8 750
Non-cash employee benefits expense		10 756	6 305
Other non cash income/expenses		-9 653	3 263
		134 779	**87 240**
Change in inventories		19 267	-6 994
Change in trade accounts receivable		60 844	-106 148
Change in trade accounts payable		-38 387	45 240
Change in deferred costs (short and long term portions)		-58 821	-18 337
Change in other net current working capital headings		26 816	15 443
Interest paid		-7 803	-9 642
Interest received		1 548	6 509
Income tax paid		-3 060	-20 679
Cash flow from operating activities		**135 183**	**-7 368**
Purchases of intangible fixed assets		-23 395	-28 832
Purchases of tangible fixed assets		-27 861	-60 714
Proceeds from sales of tangible and intangible fixed assets		1 438	1 961
Investment in financial assets		-58 710	-7 594
Divestment of financial fixed assets and loan reimbursement		17 198	22 970
Acquisition of subsidiaries, cash outflow	37	-132 150	-34 786
Disposal of associated companies		–	10 494
Acquisition of associated companies		-741	-4 062
Cash flow used in investing activities		**-224 221**	**-100 563**
Change in bank overdrafts, long term loans and other non-current liabilities		62 043	105 817
Proceeds from employee share purchase program	41	148	395
Increase of capital in a subsidiary by minority interest		–	1 168
Cash received from exercise of stock options		243	19
Dividends paid to minority interest		-86	-37
Dividends paid to shareholders	40	-7 921	-15 703
Cash flow from financing activities		**54 427**	**91 659**
Effect of foreign exchange rate changes on cash and cash equivalents		-3 069	-14 049
Net increase / (decrease) in cash and cash equivalents		**-37 680**	**-30 321**
Cash and cash equivalents at the beginning of the year	24	247 819	278 140
Cash and cash equivalents at the end of the year	24	210 139	247 819
Net increase / (decrease) in cash and cash equivalents		**-37 680**	**-30 321**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority interest	Total equity
January 1, 2008		**521 594**	**59 761**	**-86 975**	**33 478**	**-7 465**	**-380**	**105 542**	**625 555**
Total comprehensive loss for the year		**–**	**–**	**-14 645**	**-89**	**-23 197**	**–**	**251**	**-37 680**
Employee share purchase program	41	451	37	13					501
Employee stock option plan	41			48					48
Shares issued for employees	41	1 915	183						2 098
Dividend paid to shareholders	40			-15 703					-15 703
Minority interest arising on business combinations	4							1 168	1 168
Impact of transactions with minority interests	4			-4 541				-2 294	-6 835
Impact of subsidiaries share based payments	42			690				1 445	2 135
Put-option on acquisition of minority interest					-2 672				-2 672
Dividends paid to minority interests								-37	-37
December 31, 2008		**523 960**	**59 981**	**-121 113**	**30 717**	**-30 662**	**-380**	**106 075**	**568 578**
Total comprehensive income for the year		**–**	**–**	**48 980**	**-146**	**-11 682**	**–**	**-2 380**	**34 772**
Employee share purchase program	41	134	42	16					192
Exercise of stock options by employees		4	4						8
Shares issued for employees	41	7 837	-1 413						6 424
Dividend paid to shareholders	40			-7 921					-7 921
Impact of transactions with minority interests	4			-62 289				-70 854	-133 143
Impact of subsidiaries share based payments	42			2 497				324	2 821
Dividends paid to minority interests								-86	-86
December 31, 2009		**531 935**	**58 614**	**-139 830**	**30 571**	**-42 344**	**-380**	**33 079**	**471 645**

Fair value and other reserves as of December 31, 2009, include kCHF 33 470 (2008: kCHF 33 470) of equity component of the convertible bond, put-option on acquisition of minority interest for kCHF -2 672 (2008: kCHF -2 672) and kCHF -227 (2008: kCHF -81) of unrealized gain/(loss) on available-for-sale financial assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

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

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

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

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

(B) GROUP ACCOUNTING

(a) SUBSIDIARIES

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

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

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

(b) JOINT VENTURES

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

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

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

(c) ASSOCIATES

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

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

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

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

(C) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Identified assets acquired include fair value adjustment on tangible fixed assets and intangible fixed assets. When determining the purchase price allocation, the Group considers mainly development technologies, customer lists, trademarks and brands as intangibles. They are initially measured using valuation techniques based on the acquired company modified business plans.

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

(D) DIVESTMENTS

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

(E) FOREIGN CURRENCIES

The consolidated financial statements of the Group are expressed in Swiss francs ("CHF"), which is the company's presentation currency.
The local currency is generally used as the functional currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate prevailing at the balance sheet date. Transactions contracted in a currency other than the functional currency are recorded using the exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.
Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using average exchange rates. The balance sheets are translated using the year-end exchange rates. Translation differences arising from movements in the exchange rates used to translate equity, long-term internal financing deemed as net investment in a foreign operation and net income are allocated to reserves.

(F) REVENUE RECOGNITION

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

(a) SALE OF GOODS

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

(b) SERVICES RENDERED

Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training as well as revenues from complete security solutions generating recurring service revenues.
Revenue from system integration, specific developments and customization is recognized under the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract. For certain customers, the Group commits to provide replacement smartcards at low or no cost to the customer against the payment of a recurring security fee. Such revenues are recognized when earned, while estimated related cost in order to cover the risk is charged to the cost of material and disclosed under provision in the balance sheet.
Revenue from maintenance and training is recognized when earned (maintenance revenue is allocated over the contractual period).

(c) ROYALTIES AND LICENSES

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

(d) MULTIPLE ELEMENT ARRANGEMENTS – SERVICE MODE

The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements is recognized when contractually earned and is usually dependent on the client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms under this category. When the fair value of a particular element cannot be determined, the revenue is fully allocated to the undelivered element.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized in the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract and the useful lives of those assets. It is shown under depreciation in the income statement. When the title is transferred, the cost is deferred under deferred costs and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract and the useful lives of those assets. In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total

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

(e) PAYMENT TO CUSTOMERS

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

(f) GOVERNMENT GRANTS

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

(g) INTEREST INCOME

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

(G) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(a) DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

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

(b) FAIR VALUE HEDGE

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

(c) CASH FLOW HEDGE

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

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

(H) TAXES

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

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

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

(I) TANGIBLE FIXED ASSETS

(a) GENERAL

All property, plant and equipment is shown at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.
Building acquisitions or constructions and building improvements are allocated to components which are depreciated over their useful life. Such useful life may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.
Depreciation is calculated on a straight-line basis over the useful life, according to the following schedule:

Technical equipment and machinery

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

Other equipment

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

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

(b) LEASED TANGIBLE FIXED ASSETS

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

(c) FIXED ASSETS MADE AVAILABLE TO CLIENTS

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

(J) INTANGIBLE ASSETS

(a) GOODWILL

Arising after January 1, 2004

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

Arising before January 1, 2004

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

(b) INTERNAL RESEARCH AND DEVELOPMENT

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

(c) EXTERNAL RESEARCH AND DEVELOPMENT

Expenditures for research and development, application software and technology contracts with external parties are charged to the income statement as incurred if they do not qualify for capitalization. When capitalized, they are amortized over 5 to 10 years once development is achieved and saleable.

(d) COMPUTER SOFTWARE

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

(e) OTHER INTANGIBLES IN CONNECTION WITH BUSINESS COMBINATIONS

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

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

(K) FINANCIAL ASSETS

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

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

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

(b) LOANS AND RECEIVABLES

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

(c) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They also include investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.
Purchases and sales of investments are recognized on settlement date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Changes in the fair value of available-for-sale financial assets are recognized in equity while exchange differences on monetary items are recognized in the income statement. When financial assets available-for-sale are sold or impaired, the cumulative fair value adjustments recognized in equity are included in the income statement.

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

(L) INVENTORIES

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

(M) TRADE ACCOUNTS RECEIVABLE

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

(N) CASH AND CASH EQUIVALENTS

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

(O) MARKETABLE SECURITIES

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

(P) SHARE CAPITAL

Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital and the nominal value of the share capital increase as well as incremental costs directly attributable to the issue of new shares or options (including stamp duties) of Kudelski SA are considered as share premium and are part of equity.
Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(Q) CONVERTIBLE BONDS

Convertible bonds are initially recognized at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.
The fair value of the liability component of convertible bonds is determined using a market interest rate for an equivalent straight bond at inception. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. Issuance costs are allocated on a proportional basis to the liability component and are expensed over the convertible bond life.
As the convertible bonds issued do not entitle the issuer to deliver cash upon exercise of the conversion option, the equity component is measured at inception and is allocated to the reserves.

(R) PROVISIONS

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(S) CONTINGENT CONSIDERATION

The purchase consideration for selected Group acquisitions may include contingent components, which depend on the future financial performance of the company acquired ("earn out clause"). It is based on the management's best estimate of the final consideration payable and is subject to a yearly review.
Where a portion of the contingent consideration for an acquisition is deferred to a date more than one year after the end of the current financial year, that portion is discounted to its present value and disclosed within other long term liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

(T) EMPLOYEE BENEFITS

(a) PENSION OBLIGATIONS

The Group operates a number of defined benefits and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligation is in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, amendments to the pension plan and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the average working life of the related employees.

The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

(b) OTHER LONG-TERM EMPLOYEE BENEFITS

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

(c) EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

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

(d) EMPLOYEE STOCK OPTION PLAN (ESOP)

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

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

(e) PROFIT SHARING AND BONUS PLAN

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

(f) OPENTV CORP EMPLOYEE SHARE BASED PAYMENTS

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

(g) OTHER EMPLOYEE BENEFITS

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

(U) TRADE PAYABLES

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

(V) DEFERRED COSTS

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

(W) TREASURY SHARES

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

(X) DIVIDENDS

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

(Y) NEW AND AMENDED ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The Group has adopted new and amended or revised IFRS standards as of January 1, 2009. The adoption of following standards mainly impacted disclosures of the financial statements:

– IAS 1 (revised) – Presentation of financial statements (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is 'nonowner changes in equity') in the statement of changes in equity, requiring 'nonowner changes in equity' to be presented separately from owner changes in equity. All 'nonowner' changes in equity' are required to be shown in a performance statement. Entities can choose whether to pres-

ent one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income.
– IFRS 8, Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14, Segment reporting. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase of reportable segments presented but impacted the items reported and their respective measurement.
– IFRS 7 (amendment) – Disclosures (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk.

The adoption of the following standards had limited impact or were not relevant for the Group operations:
– IFRS 1 (amended) and IAS 27 (revised) (effective from 1 January 2009) – A dividend paid out from pre-acquisition reserves is not automatically considered a return of investment. Rather, based on the amendments to IAS 27R, it may be an indicator of impairment unless there are clear indications that it is part of a return of investment.
– IFRS 2 (amendment) – Share-based payments (effective from 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
– IAS 23 (amendment) – Borrowing Costs (effective from 1 January 2009). The revised standard eliminates the previously available option to expense all borrowing costs when incurred. This revised standard will have a limited impact for Group's operations and borrowing costs incurred will be capitalized in qualifying assets.
– IAS 32 and IAS 1 (amendment) (effective from 1 January 2009). The amendment requires certain puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation to be classified as equity rather than as a liability.
– IFRS 1 (amendment) – First time adoption of IFRS (effective from 1 January 2009).
– Annual improvements effective from 1 January 2009 had limited impact on Group's account.

Following IFRICs were not relevant on Group's account:
– IFRIC 13 (effective as of 1 July 2008) – Customer loyalty programmes.
– IFRIC 15 (effective as of 1 January 2009) – Agreements for the construction of real estate.
– IFRIC 16 (effective as of 1 October 2008) – Hedge of a net investment in a foreign operation.

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 2010 or later periods, but which the Group has not early adopted:
– IAS 27 (amendment) – (effective from 1 July 2009), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. It will also specify the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These changes will impact the accounting for future transactions with non-controlling interest.
– IAS 39 (amendment) – (effective from 1 July 2009). Financial instruments recognition and measurement, eligible hedged items, with expected limited impact on the Group accounts.
– IFRS 3 (revised) – Business combinations (effective from 1 July 2009) requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include Goodwill related to the minority interest. All transaction costs will be expensed. The change may have a significant impact on the accounting for future business combinations.
– IAS 32 (amendment) – (effective from 1 February 2010) implies that rights issues are required to be classified as equity in certain conditions.
– IFRS 9 – Financial instruments (effective from 1 January 2013) comprise two measurement categories for financial assets: amortized cost and fair value.
– IFRS improvement projects with limited impact on Group's accounts not yet entered in force.

Following IFRICs are not relevant or are expected to have no impact on the Group's accounts:
– IFRIC 14 – IAS 19, limits on a Defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2011);
– IFRIC 17 – Distributions of non-cash assets to owners (effective from periods beginning on or after 1 July 2009);
– IFRIC 18 – Transfer of assets from customer's (effective from periods beginning on or after 1 July 2009);
– IFRIC 19 – Extinguishing financial liabilities (effective from periods beginning on or after 1 July 2010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

COMPLETE SECURITY SOLUTIONS GENERATING RECURRING SERVICE REVENUES

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

PROVISION FOR SMART CARD REPLACEMENT

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

DEFERRED TAX ASSETS

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

RETIREMENT BENEFIT PLANS

The Kudelski Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates. The actuarial assumptions used (note 29) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. The Group has recorded in compliance with IFRS 1 the initial differences as of January 1, 2004 between assumed and actual income and expense as a liability in its balance sheet and uses the corridor approach in order to recognize its unrecorded gains and losses.

IMPAIRMENT OF GOODWILL

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

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

3. FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

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

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

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

(a) FOREIGN EXCHANGE RISK

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

It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion defined in the treasury policy of the exposure generated.

Net investments in Kudelski affiliates with a functional currency other than the Swiss Franc are of long-term nature: the Group does not hedge such foreign currency translation exposures.

(b) INTEREST RATES

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. However, at the end of 2009 and 2008, the Group had no such hedging position open.

OTHER PRICE RISKS

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

CREDIT RISK MANAGEMENT

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed

10% of gross monetary assets at the end of the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

LIQUIDITY RISK MANAGEMENT

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

4. BUSINESS COMBINATIONS

DIGITAL TELEVISION SOLUTIONS

On July 1, 2009, the Group closed an asset deal to acquire the assets of the Medioh! activity of Clickcaster Inc for a cash consideration of USD 0.1 million (CHF 0.1 million). Medioh! is a media technology company aggregating mid-tail content, and providing a widget and content publishing platform for multimedia devices. The contract also stipulates an earn-out clause which has not been considered for the acquisition. No goodwill arose from this business combination.

On September 18, 2009, the Group purchased 100% of Medialive SA for a cash consideration of EUR 1.2 million (CHF 1.8 million). Medialive SA develops and licenses innovative and patented content protection and marking technologies for distribution over broadcast, internet, and mobile networks and devices. The final purchase price allocation may fluctuate depending on aknowledgement by French tax authorities of the possibility to recover the tax losses carried forward. Should the Group obtain such acceptance, it will modify its purchase price allocation. No goodwill arose from this business combination.

The aggregated assets and liabilities arising from the above 2009 business combinations are as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	21	21
Intangible fixed assets (goodwill excl.)	1 075	1 484
Financial assets and other non-current assets	34	34
Trade accounts receivable	24	24
Other current assets	691	691
Cash and cash equivalents	33	33
Trade accounts payable	-104	-104
Other current liabilities	-146	-146
Long term liabilities	-114	-114
Net assets	**1 514**	**1 923**
Minority interest purchased		–
Fair value of net assets acquired		**1 923**
Purchase consideration:		
– cash paid		1 885
– acquisition costs		38
Fair value of net assets acquired		-1 923
Goodwill		**–**
Purchase consideration:		
– cash paid		1 885
– acquisition costs		38
Cash and cash equivalents acquired		-33
Net cash outflow from acquisitions		**1 890**

CORRECTION OF PREVIOUS PURCHASE PRICE

On September 17, 2008, OpenTV acquired 100% ownership of RuzzTV, Australia. During the year 2009, the Group paid a cash consideration of AUD 0.2 million (CHF 0.2 million) and the contingent consideration has been adapted within one year of the acquisition to reflect new best management estimates of the amounts to be paid. Hence, an additional goodwill of CHF 0.4 million and a contingent consideration amounting to CHF 0.2 million have been considered while establishing the 2009 financial statements.

TRANSACTIONS WITH MINORITY INTERESTS

Late 2009, the Kudelski Group launched a tender process to acquire the remaining floating portion of listed OpenTV Corp shares. As of December 31, 2009, the Group had acquired an additional 77 668 849 class A shares for a cash consideration of kUSD 120 387 (kCHF 123 999) bringing its stake to a 88.51% interest and 96.13% voting rights. Acquisition costs amounting to kUSD 8 878 (kCHF 9 144) were considered as part of the purchase price. The acquisition of the above shares and their acquisition costs are treated as a transaction with minority interests and have resulted in a total consideration of kCHF 133 143 which was allocated to retained earnings for kCHF 62 743 and minority interests for kCHF 70 400.

Share based payments, exercise of options and conversion rights at OpenTV Corp led to a dilution effect amounting to kCHF 454.

BUSINESS COMBINATIONS IN 2008

DIGITAL TELEVISION SOLUTIONS

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

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

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

PUBLIC ACCESS

On June 2, 2008, the Group purchased 100% of Skibadge International, France for a cash consideration of EUR 1.1 million (CHF 1.7 million) and a contigent consideration of up to EUR 0.8 million depending upon 2008/2009 and 2009/2010 revenue and gross margin targets. Skibadge International is a provider of automated ski ticket vending equipment. The Goodwill amounting to EUR 1.2 million (CHF 1.9 million) is allocated to the Public Access cash generating unit. It is attributable to the workforce and potential synergies.

As of December 22, 2008, the Group acquired 100 % of Orcus BVBA, Belgium for a cash consideration of EUR 0.2 million (CHF 0.2 million). Orcus BVBA offers access control solutions for the parking industry. The Goodwill amounting to CHF 0.7 million is allocated to the Public Access cash generating unit and is mainly based on the existing workforce of Orcus' employees.

MIDDLEWARE & ADVERTISING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

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

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

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

CORRECTION OF PREVIOUS PURCHASE PRICE

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

TRANSACTIONS WITH MINORITY INTERESTS

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

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

CONTRIBUTION AND PRO FORMA DATA INCLUDING BUSINESS COMBINATIONS FOR ALL OF 2009

The acquired businesses contributed net income of kCHF -1 173 (2008: kCHF -821) to the Group for the period from acquisition dates to December 31, 2009.

If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 1 052 519 (2008: kCHF 1 030 940) and kCHF 50 337 (2008: kCHF -8 228) respectively.

5. DIVESTMENTS

No divestment arose in 2009.

ARISING IN 2008

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

6. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. 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 3 operating segments:
- Digital Television Solutions
- Public Access
- Middleware & Advertising

These operating segments, which are reflected in internal management reporting, can be described as follows:
The Digital TV division provides 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.
The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and important events as well as multifunctional cards for universities and corporations.
The Middleware & Advertising division provides middleware software, applications, including advanced advertising and interactive services as well as professional services for digital and interactive television.
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 segment information for 2009 and 2008 is as follows:

	Operating divisions	
	Digital Television Solutions	
In CHF'000	2009	2008
Total segment Revenues	**689 906**	**665 902**
Inter-segment revenues	-4 871	-4 955
Revenues from external customers	**685 035**	**660 947**
Depreciation and amortisation	-39 512	-43 668
Impairment	-8 200	-14 986
Operating income/(loss) - excluding corporate common functions	**67 503**	**7 266**
Corporate common functions		
Interest expense and other Finance income/(expense), net		
Share of result of associates		
Income/(loss) before tax		
	31.12.2009	31.12.2008
Total segment Assets	**756 948**	**804 204**

Interests expenses, other finance income/(expense), net and share of result of associates are not allocated to the reportable segments as they are centrally managed. See note number 15 and 16 for details of the impairment of kCHF 8 200 in Digital Television Solutions.

The measure of income statement presented to manage Segment performance is the segment operating income/(loss). Segment operating income/(loss) is based on the same accounting policies as consolidated operating income/loss except that inter-segment sales are eliminated only at the consolidation level.
Inter-segment transactions are contracted on arm's length basis.

Reportable segment assets include total assets allocated by segment with the exclusion of Intersegment balances which are eliminated. Investments in associates, and non-current assets are not provided to the chief operating decision maker and are therefore not disclosed by segment. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to balance sheet assets.
The adoption of IFRS 8 does not materially impact the Group's Segment information.

Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8.

Public Access		Middleware & Advertising		Total	
2009	2008	2009	2008	2009	2008
236 674	**240 628**	**139 235**	**134 838**	**1 065 815**	**1 041 368**
-82	-65	-8 519	-8 842	-13 472	-13 862
236 592	**240 563**	**130 716**	**125 996**	**1 052 343**	**1 027 506**
-9 415	-7 927	-7 371	-7 093	-56 298	-58 688
–	–	–	–	-8 200	-14 986
16 777	**21 587**	**10 535**	**10 186**	**94 815**	**39 039**
				-21 469	-20 539
				-14 098	-35 005
				1 275	10 413
				60 523	**-6 092**
31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
205 562	**200 588**	**286 056**	**278 161**	**1 248 566**	**1 282 953**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

Total Segment assets are reconciled to total Balance Sheet assets as follows:

In CHF'000	31.12.2009	31.12.2008
Total Segment Assets	1 248 566	1 282 953
Cash & Cash equivalents	6 866	7 018
Other current assets	81	1 764
Financial assets and other non-current assets	2 659	2 630
Total Assets as per Balance Sheet	**1 258 172**	**1 294 365**

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	2009	2008	31.12.2009	31.12.2008
Switzerland	41 998	46 171	245 821	190 568
United States of America	162 262	164 614	133 607	139 831
Italy	96 886	74 353	1 108	726
France	92 345	93 241	18 665	41 252
United Kingdom	66 516	79 570	632	640
Germany	66 087	63 410	6 568	6 798
Rest of the world	526 249	506 147	59 146	56 618
	1 052 343	**1 027 506**	**465 547**	**436 433**

Non-current assets excludes 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	2009	2008
Sale of goods	590 821	635 266
Services rendered	288 093	235 024
Royalties and licenses	173 429	157 216
	1 052 343	**1 027 506**

7. OTHER OPERATING INCOME

In CHF'000	2009	2008
Government grants (research, development and training)	7 414	6 725
Settlement of litigations	–	122
Loss on fixed assets sales proceeds	-1 707	-779
Others	2 726	3 376
	8 433	**9 444**

8. OTHER OPERATING EXPENSES

In CHF'000	2009	2008
Development and engineering expenses	50 128	53 832
Travel, entertainment and lodging expenses	34 132	32 068
Legal, experts and consultancy expenses	36 138	42 404
Administration expenses	29 473	25 219
Building and infrastructure expenses	31 381	30 010
Marketing and sales expenses	14 356	34 717
Taxes other than income tax	7 682	6 342
Insurance, vehicles and others	24 360	20 637
	227 650	**245 229**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2009	2008
Land and buildings	15	8 655	5 215
Equipment and machines	15	31 538	55 067
Total depreciation and impairment of tangible fixed assets		**40 193**	**60 282**
Intangible assets	16	24 305	13 392
Total amortization and impairment on intangible fixed assets		**24 305**	**13 392**
Depreciation, amortization and impairment		**64 498**	**73 674**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

10. INTEREST EXPENSE

In CHF'000	Note	2009	2008
Interest expense:			
– Convertible bond 2005–2012	28	11 391	11 238
– Other and bank charges		3 049	4 866
		14 440	**16 104**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2009	2008
Interest income		4 768	10 174
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-3 055	-16 000
Net foreign exchange transaction gains/(losses)	13	-1 121	-13 643
Others		-250	568
		342	**-18 901**

Change in fair value of kCHF -165 (2008: kCHF -275) for available-for-sale financial assets were recognized directly in equity while kCHF 0 (2008: kCHF -63) were removed from equity and recognized in the income statement.
Foreign exchange derivative financial instruments are classified as held for trading financial instruments. Change in fair value of held for trading financial assets amounting to kCHF -3 055 (2008: -16 000) are disclosed under Net gains on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2009	2008
Current income tax		-13 487	-12 202
Deferred income tax	18	4 899	11 998
Other taxes		-844	-699
		-9 432	**-903**

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	2009	2008
Income/(loss) before taxes	**60 523**	**-6 092**
Expected tax calculated at domestic tax rates in the respective countries	-16 721	2 225
Effect of income not subject to income tax or taxed at reduced rates	3 355	3 266
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	8 942	16 651
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-2 926	-18 889
Effect of disallowed expenditures	-1 363	-340
Effect of prior year income taxes	-17	-673
Effect of non-refundable withholding tax	-844	-699
Other	142	-2 444
Tax expense	**-9 432**	**-903**

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 127 (2008: kCHF -2 376) and is disclosed under other in the above table.

The weighted average applicable tax rate was 27.63% (2008: 36.52%). The decrease in tax rate is mainly attributable to change in the profitability mix of the subsidiaries (different countries and tax regimes).

13. NET FOREIGN EXCHANGE RESULT

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

In CHF'000	2009	2008
Sales	3 274	-14 071
Cost of material	-1 512	6 429
Other finance income/(expense) net	-1 121	-13 643
Total exchange differences	**641**	**-21 285**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

14. EARNINGS PER SHARE (EPS)

BASIC EARNINGS PER SHARE

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

In CHF'000	2009	2008
Net income attributable to bearer shareholders	44 715	-13 350
Net income attributable to registered shareholders	4 265	-1 295
Total net income / (loss) attributable to equity holders	**48 980**	**-14 645**
Weighted average number of bearer shares outstanding	48 535 674	47 730 808
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share		
Bearer shares	0.9213	-0.2797
Registered shares	0.0921	-0.0280

DILUTED EARNINGS PER SHARE

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

In CHF'000	2009	2008
Net income / (loss) attributed to equity holders of the company	48 980	-14 645
Elimination of interest expense on convertible debt *	–	–
Tax impact on above adjustments	–	–
Net income / (loss) used to determine earnings per share	**48 980**	**-14 645**
Of which:		
– attributable to bearer shareholders	44 715	-13 350
– attributable to registered shareholders	4 265	-1 295
	48 980	**-14 645**
Weighted average number of bearer shares outstanding	48 535 674	47 730 808
Effect of dilutive potential bearer share:		
– employee stock option plan (ESOP) *	763	–
– convertible bond*	–	–
Weighted average number of bearer shares for the purpose of diluted earnings per share	**48 536 437**	**47 730 808**
Weighted average number of registered shares for the purpose of diluted earnings per share	46 300 000	46 300 000
Diluted earnings per share		
Bearer shares	0.9213	-0.2797
Registered shares	0.0921	-0.0280

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

15. TANGIBLE FIXED ASSETS

Tangible fixed assets comprise the following:

In CHF'000	31.12.2009	31.12.2008
Land and buildings	74 672	79 694
Equipment and machines	71 174	85 843
	145 846	165 537

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Construction in progress	Total
Gross values at cost					
As of January 1, 2008	15 794	81 900	12 677	163	110 534
Additions		1 630	4 439	1 531	7 600
Disposals and retirements		-2 787	-456	–	-3 243
Change in scope of consolidation		105	58	–	163
Currency translation adjustment	-139	-1 905	-287	-2	-2 333
Reclassification & others		–	–	107	107
As of January 1, 2009	15 655	78 943	16 431	1 799	112 828
Additions	–	2 070	1 946	536	4 552
Disposals and retirements	-10	-342	-205	–	-557
Currency translation adjustment	-4	-50	-157	3	-208
Reclassification & others	–	–	–	-559	-559
As of December 31, 2009	15 641	80 621	18 015	1 779	116 056
Accumulated depreciation and impairment					
As of January 1, 2008	–	-20 359	-9 596	–	-29 955
Systematic depreciation	–	-3 488	-1 727	–	-5 215
Recovery of depreciation on disposals and retirements	–	472	456	–	928
Change in scope of consolidation	–	-90	–	–	-90
Currency translation adjustment	–	1 084	114	–	1 198
As of January 1, 2009	–	-22 381	-10 753	–	-33 134
Systematic depreciation	–	-3 509	-2 411		-5 920
Impairment	–	-955	–	-1 779	-2 734
Recovery of depreciation on disposals and retirements	–	94	205	–	299
Currency translation adjustment	–	39	66	–	105
As of December 31, 2009	–	-26 712	-12 893	-1 779	-41 384
Net book values as of December 31, 2008	15 655	56 562	5 678	1 799	79 694
Net book values as of December 31, 2009	15 641	53 909	5 122	0	74 672
Useful life in years	Indefinite	10–50	4–8		

In CHF'000	31.12.2009	31.12.2008
Fire insurance value of buildings	94 581	90 079
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 473	4 160

Impairments in 2009 relating to construction in progress mainly consisted in a building project which was not pursued.

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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, 2008	**226 620**	**15 590**	**242 210**
Additions	51 417	1 696	53 113
Disposals and retirements	-71 785	-661	-72 446
Change in scope of consolidation	1 006	291	1 297
Currency translation adjustment	-9 756	-237	-9 994
Reclassification & others	–	-816	-816
As of January 1, 2009	**197 502**	**15 862**	**213 363**
Additions	21 701	1 628	23 329
Disposals and retirements	-21 190	-1 078	-22 268
Change in scope of consolidation	–	22	22
Currency translation adjustment	-967	-135	-1 102
Reclassification & others	12 743	-304	12 439
As of December 31, 2009	**209 789**	**15 995**	**225 783**
Accumulated depreciation and impairment			
As of January 1, 2008	**-135 086**	**-10 107**	**-145 193**
Systematic depreciation	-38 293	-1 789	-40 082
Impairment	-14 931	-55	-14 986
Recovery of depreciation on disposals and retirements	67 452	354	67 805
Change in scope of consolidation	-758	-136	-894
Currency translation adjustment	5 328	499	5 828
As of January 1, 2009	**-116 287**	**-11 234**	**-127 521**
Systematic depreciation	-30 108	-1 315	-31 423
Impairment	-116	–	-116
Recovery of depreciation on disposals and retirements	19 169	1 051	20 220
Currency translation adjustment	766	75	841
Reclassification & others	-16 663	52	-16 611
As of December 31, 2009	**-143 239**	**-11 371**	**-154 610**
Net book values as of December 31, 2008	**81 215**	**4 628**	**85 843**
Net book values as of December 31, 2009	**66 550**	**4 624**	**71 174**
Useful life in years	2–10	4–7	

The technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. 2009 and 2008 impairment losses mainly consisted in assets made available to clients that were written off due to swaps out of those assets. Included in reclassification & others is a net amount of kCHF 4 040 comprising assets made available to clients which were sold to those customers. This impact is treated as operating activity in the cash flow statement.

In CHF'000	31.12.2009	31.12.2008
Fire insurance value of technical equipment and machinery	132 765	128 350

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, 2008	**73 117**	**3 921**	**25 446**	**132 302**	**86**	**234 872**
Additions	18 314	–	7 321	–	202	25 837
Disposals and retirements	-51	–	-4 038	–	–	-4 089
Change in scope of consolidation	789	271	–	30 337	174	31 571
Currency translation adjustment	-2 416	-237	-973	-7 529	-57	-11 211
Reclassification & others	–	–	710	–	–	710
As of January 1, 2009	**89 753**	**3 955**	**28 465**	**155 111**	**405**	**277 689**
Additions	10 671	–	14 327	399	456	25 853
Disposals and retirements	-1	-1	-1 754	–	-627	-2 383
Change in scope of consolidation	1 485	–	–	–	–	1 485
Currency translation adjustment	-744	-62	-206	-5 160	13	-6 159
Reclassification & others	–	–	788	–	–	788
As of December 31, 2009	**101 164**	**3 892**	**41 620**	**150 350**	**247**	**297 273**
Accumulated depreciation and impairment						
As of January 1, 2008	**-12 385**	**-629**	**-17 655**	**–**	**-86**	**-30 755**
Systematic amortization	-8 473	-528	-4 339	–	-52	-13 392
Recovery of amortization on disposal and retirements	51	–	4 033	–	–	4 084
Currency translation adjustments	531	44	940	–	6	1 520
As of January 1, 2009	**-20 276**	**-1 113**	**-17 021**	**–**	**-133**	**-38 543**
Systematic amortization	-10 017	-531	-8 348	–	-59	-18 955
Impairment	-5 350	–	–	–	–	-5 350
Recovery of amortization on disposal and retirements	7	–	1 702	–	–	1 709
Currency translation adjustments	335	42	129	–	1	507
Reclassification & others	–	–	-116	–	–	-116
As of December 31, 2009	**-35 301**	**-1 602**	**-23 654**	**–**	**-191**	**-60 748**
Net book values as of December 31, 2008	**69 477**	**2 842**	**11 444**	**155 111**	**272**	**239 146**
Net book values as of December 31, 2009	**65 863**	**2 290**	**17 966**	**150 350**	**56**	**236 525**
Useful life in years	5–10	5–10	3–4	Indefinite	4	

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units. Cash generating units are defined within the frame of the Group to their reporting segment. kCHF 112 051 (2008: kCHF 115 988) have been allocated to Middleware & Advertising, kCHF 32 980 (2008: kCHF 33 786) to Digital Television Solutions and kCHF 5 319 (2008: kCHF 5 337) to Public Access Solutions. The Middleware & Advertising Goodwill value in use has been determined based on a value in use calculation which uses cash flow projections approved by the Group management covering a five-year period (2008: a four-year period), and a weighted average cost of capital used as discount rate of 12.0% (2008: 12.0%). The cash flows beyond that five-year period (2008: four-year period) have been extrapolated using a steady 3.0% (2008: 3.0%) per annum growth. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. As 2010 Digital Television Solutions and Public Access Solutions budgeted operating profits and cash flows are greater than carrying value of Goodwill allocated to these cash generating units, these values do not need to be impaired.

Impairment in 2009 consisted in technologies, the future cash flows of which became unsure.

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17. INVESTMENTS IN ASSOCIATES

In CHF'000	2009	2008
At January 1	**5 563**	**10 700**
Acquisition of associates	741	4 206
Share of profit/(loss)	1 275	1 645
Dividends received	-780	-8 750
Carrying value of an associate at disposal date	–	-1 727
Exchange differences	-146	-511
At December 31	**6 653**	**5 563**

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

Name of associate	Principal activity	Interest held 2009	2008
Digital Elektronik GmbH, Austria	Manufacture of Electronics products	0%	0%
APT-SkiData Ltd, United Kingdom	Sales of Physical Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Physical Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Physical Access products	49%	26%
Resort Technology Partners LLC, USA	Sales of Physical Access products	25%	25%
Ticketcorner Holding AG	Event distribution and ticketing	28%	28%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2009	31.12.2008
Total assets	134 402	143 925
Total liabilities	140 132	147 991
Net assets	-5 729	-4 066
Group's share of associates' net assets	6 653	5 563

	2009	2008
Revenue	81 126	140 499
Result of the period	685	976
Group's share of associates' result for the period	1 275	10 413

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

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

18. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2009	31.12.2008
Deferred tax assets	57 206	51 856
Deferred tax liabilities	-5 693	-5 088
	51 513	**46 768**

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

In CHF'000	Note	2009	2008
At January 1		**46 768**	**35 280**
Exchange differences		-154	-234
Impact of business combinations		–	-276
Income statement (expense)/income	12	4 899	11 998
At December 31		**51 513**	**46 768**

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

In CHF'000	At January 1, 2009	Income statement effect	Business combinations	Exchange differences	At December 31, 2009
Deferred tax assets associated with					
– intangibles	18 399	8 234	–	71	26 704
– employee benefits	4 396	819	–	-5	5 210
– tax losses	19 992	-3 423	–	-16	16 553
– provisions and other elements tax deductible when paid	4 976	1 387	–	-222	6 141
– inter-company profit elimination	3 756	-303	–	-48	3 405
– others	565	-148	–	-3	414
Total deferred tax assets (gross)	**52 084**	**6 566**	**–**	**-223**	**58 427**
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-3 638	446	–	-12	-3 204
– provisions & accelerated tax depreciation	-835	-1 524	–	66	-2 293
– others	-843	-589	–	15	-1 417
Total deferred tax liabilities (gross)	**-5 316**	**-1 667**	**–**	**69**	**-6 914**
Net deferred tax asset/(liability)	**46 768**	**4 899**	**–**	**-154**	**51 513**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

And for the past year:

In CHF'000	At January 1, 2008	Income statement effect	Business combinations	Exchange differences	At December 31, 2008
Deferred tax assets associated with					
– intangibles	16 748	1 681	–	-30	18 399
– employee benefits	3 926	496	41	-67	4 396
– tax losses	15 049	4 944	–	-1	19 992
– provisions and other elements tax deductible when paid	1 086	4 032	–	-142	4 976
– inter-company profit elimination	3 623	471	–	-338	3 756
– others	29	558	–	-22	565
Total deferred tax assets (gross)	**40 461**	**12 182**	**41**	**-600**	**52 084**
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-4 567	695	–	234	-3 638
– provisions & accelerated tax depreciation	-594	–	-317	76	-835
– others	-20	-879	–	56	-843
Total deferred tax liabilities (gross)	**-5 181**	**-184**	**-317**	**366**	**-5 316**
Net deferred tax asset/(liability)	**35 280**	**11 998**	**-276**	**-234**	**46 768**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 789.1 million (2008: 775.0 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 242.2 million (2008: CHF 205.2 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 546.9 million (2008: CHF 569.8 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	2009	2008
Expiration within:		
One year	0.2	0.2
Two years	1.3	0.2
Three years	0.8	–
Four years	1.7	–
Five years	5.6	5.2
More than five years	537.3	564.2
Total	**546.9**	**569.8**

19. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

In CHF'000	Note	31.12.2009	31.12.2008
Available-for-sale financial assets:			
– equity instruments with no quoted market price (level 3)		2 705	2 672
– marketable securities (level 1)	23	10 199	1 260
Loans – third parties		2 576	5 158
Loans – related parties		150	24 114
Deferred contract cost (long term portion)		76 523	26 188
Others		4 856	3 803
		97 009	**63 195**

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be measured reliably that are measured at cost net of impairment for kCHF 2 705 (2008: kCHF 2 672) and marketable securities for kCHF 10 199 (2008: kCHF 1 260) which have a maturity exceeding twelve months. Third party and related parties loans are measured at amortized cost. In 2008, the loans to related parties included a kCHF 19 715 loan to Ticketcorner AG which bore a 8% interest rate and included accrued interests for kCHF 4 149 and was reclassified as current asset in 2009 (note 22). The remaining portion of the loans to related parties amounting to kCHF 150 (2008: kCHF 250) include the uneliminated portion of a loan granted to a joint-venture company bearing interest at 4% (2008: 4%). The effective interest rate on third party loans was 2.25% (2008: 4.83%). Others mainly consist of guarantee deposits.

20. INVENTORIES

In CHF'000	31.12.2009	31.12.2008
Raw materials	22 680	13 614
Work in progress	9 952	7 090
Finished goods	49 644	76 646
	82 276	**97 350**

The cost of inventories recognised as an expense includes kCHF 12 765 (2008: kCHF 3 984) in respect of write-downs of inventories and has been reduced by kCHF 1 040 (2008: kCHF 2 924) 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 13 567 (2008: kCHF 403).

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2009	31.12.2008
Trade accounts receivable	302 361	355 978
Less: provision for impairment	-26 754	-21 839
Trade accounts receivable related parties	6 286	11 705
Trade receivables – net	**281 893**	**345 844**
Amounts due from customers for contract work, of which kCHF -1'860 provision (2008: kCHF -1'252)	10 126	8 088
Total	**292 019**	**353 932**

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	2009	2008
January 1	**-21 839**	**-7 851**
Change in scope	–	-60
Provision for impairment charged to income statement	-13 084	-16 743
Utilization	1 883	762
Reversal	6 217	1 720
Translation effects	69	333
December 31	**-26 754**	**-21 839**

The creation and release of provision for impairment are included in other operating expenses (sales expenses) in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -13 084 (2008: kCHF -16 743). 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	31.12.2009	31.12.2008
Not overdue	168 605	133 958
Past due and not impaired:		
– not more than one month	55 410	75 655
– more than one month and not more than three months	34 050	79 931
– more than three months and not more than six months	12 212	44 814
– more than six months and not more than one year	6 451	7 971
– more than one year	5 165	3 515
Total trade accounts receivable, net	**281 893**	**345 844**

22. OTHER CURRENT ASSETS

In CHF'000	31.12.2009	31.12.2008
Loans third parties – short term portion	3 430	6 055
Loans related parties - short term portion	26 525	–
Prepaid expenses	5 907	8 284
Accrued income	4 361	3 933
State and government institutions	20 379	22 562
Advances to suppliers and employees	8 915	7 690
Deferred contract cost (short term portion)	18 529	10 042
Other receivables	4 795	2 408
	92 841	**60 974**

Loans are measured at amortized cost. The effective interest rate on short term loans was 10.1% (2008: 5.6%). Loans to related parties comprise a loan to Ticketcorner with a maturity not exceeding 12 months which principal amount is kCHF 19 715 and includes accrued interest for kCHF 6 810. In 2008, this loan was classified as long term loan.

23. FINANCIAL ASSETS

In CHF'000	Note	31.12.2009	31.12.2008
Financial assets held for trading:			
– derivative financial instruments	36	–	681
Financial assets available-for-sale:			
– marketable securities (level 1)		37 658	8 312
		37 658	**8 993**

Available-for-sale marketable securities include the following:

In CHF'000	31.12.2009	31.12.2008
Corporate debt securities	17 923	4 719
Asset-backed securities	403	915
Money market securities	8 144	961
US agency debt securities	–	1 071
Certificates of deposits	8 739	1 355
US government debt securities	12 648	551
	47 857	**9 572**
of which:		
– short term	37 658	8 312
– long term	10 199	1 260
	47 857	**9 572**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2009	31.12.2008
Cash at bank and in hand	179 099	224 065
Short term deposits	31 040	23 754
	210 139	**247 819**

The effective interest rate on short term deposits was 0.6% (2008: 2.7%). These deposits have an average maturity of 30 days. The Group only enters into transactions with high rated banks.

25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2009	31.12.2008
48'563'478 / 47'765'974 bearer shares, at CHF 10 each	485 635	477 660
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	531 935	**523 960**

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	2009	2008
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 22, 2010, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2009	2008
Conditional share capital as of January 1	**107 478**	**109 844**
Increase of conditional share capital	10 000	–
Employee share purchase plan	-134	-450
Exercise of options	-4	–
Shares allotted to employees	-7 837	-1 916
Conditional share capital as of December 31	**109 503**	**107 478**
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:		
950'278 / 747'782 bearer shares, at CHF 10 each	9 503	7 478
	109 503	**107 478**

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 000 000, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2008 General Assembly approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 17 477 820 consisting of 1 747 782 bearer shares of a nominal value of CHF 10.

26. TREASURY SHARES

	Number of bearer shares	Book value in CHF'000
As of January 1, 2008, December 31, 2008 and 2009	**20 155**	**380**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

27. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2009	31.12.2008
Bank loans		54 759	36 537
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	28	333 346	327 643
		388 105	**364 180**

The effective interest rate on long term bank loans was 3.1% (2008: 4.8%).

28. CONVERTIBLE BOND 2005/2012

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

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

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

In CHF'000	2009	2008
Face value of convertible bond issued on October 5, 2005	**350 000**	**350 000**
Transactions costs	-5 719	-5 719
Equity conversion component	-34 087	-34 087
Liability component on initial recognition on October 5, 2005	**310 194**	**310 194**
Cumulative Interest expense as of January 1	18 792	13 242
Interest expense for the year	11 391	11 238
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	-1 343	-1 343
Liability component as of December 31	**333 346**	**327 643**

Transaction costs amounted to kCHF 6337 of which kCHF 618 were allocated to the equity component of the convertible bond.

The above interest expense includes the following:

In CHF'000	2009	2008
Base interest (1.625%)	5 688	5 688
Allocation of the equity conversion component	4 886	4 733
Effective interest expense (effective yield rate of 3.2%)	**10 574**	**10 421**
Allocation of transaction costs	817	817
Interest expense	**11 391**	**11 238**

29. EMPLOYEE BENEFITS LIABILITIES

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

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

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

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

In CHF'000	31.12.2009	31.12.2008	31.12.2007	01.01.2007
Fair value of plan assets	95 089	75 443	87 081	69 994
Defined benefit obligation	-129 496	-111 687	-107 717	-99 328
Funded status	**-34 407**	**-36 244**	**-20 636**	**-29 334**
Unrecognized gains/(losses)	-9 338	-14 537	-586	-11 721
Prepaid/(accrued) pension cost	**-25 069**	**-21 707**	**-20 050**	**-17 613**

The liability that is recognized in the balance sheet at December 31, 2009 amounts to kCHF 25 069 (kCHF 21 707 at December 31, 2008).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2009 (respectively 2008):

In CHF'000	2009	2008
Service cost	-14 075	-13 858
Interest cost	-4 015	-3 848
Expected return on plan assets	3 395	4 354
Employees contributions	5 333	4 979
Amortization of gains/(losses)	-387	394
Net pension (cost)/income	**-9 749**	**-7 979**
Exchange rate difference	**32**	**611**
Employer contribution	**6 355**	**6 042**

The net pension cost for the financial year 2009 amounts to kCHF 9 749 (kCHF 7 979 for the financial year 2008).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2009 and 2008 are as follows:

	31.12.2009	31.12.2008
Switzerland		
Discount rate	3.25%	3.50%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	1.00%	1.00%
Expected long-term rate of return on plan assets	4.50%	4.50%
Turnover	5.0% on average	4.8% on average
Retirement age	according to the rules	according to the rules
Abroad		
Discount rate	5.00%	5.50%
Rate of future increase in compensations	3.32%	3.33%
Turnover	9.3% on average	11.9% on average
Retirement age	according to the law	according to the law

The changes in defined benefit obligation, fair value of plan assets and unrecognized gains/(losses) during the year 2009 and 2008 are as follows:

A. Change in defined benefit obligation

In CHF'000	2009	2008
Defined benefit obligation as of 1.1.	**-111 687**	**-107 717**
Service cost	-14 075	-13 858
Interest cost	-4 015	-3 848
Change in assumptions	-4 876	5 112
Actuarial gains/(losses)	1 817	3 993
Acquisition	–	-331
Benefits payments	3 308	4 351
Exchange rate difference	32	611
Defined benefit obligation as of December 31,	**-129 496**	**-111 687**

B. Change in fair value of plan assets

In CHF'000	2009	2008
Fair value of plan assets as of 1.1.	**75 443**	**87 081**
Expected return on plan assets	3 395	4 354
Employees' contributions	5 333	4 979
Employer's contribution	6 355	6 042
Plan assets gains/(losses)	7 870	-22 662
Benefits (paid)/received	-3 307	-4 351
Fair value of plan assets as of December 31,	**95 089**	**75 443**

C. Change in unrecognized gains/(losses)

In CHF'000	2009	2008
Unrecognized gains/(losses) as of 1.1.	**-14 537**	**-586**
Amortization	387	-394
Change in assumptions	-4 876	5 112
Actuarial gains / (losses)	1 817	3 993
Plan assets gains / (losses)	7 870	-22 662
Unrecognized gains/(losses) as of December 31,	**-9 339**	**-14 537**

The actual return on plan assets amounts to kCHF 11 265 for the year 2009 (kCHF -18 308 for the year 2008). The estimated employer's contribution to the pension plans for the financial year 2010 amounts to kCHF 6 533.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

The categories of plan assets and their corresponding expected return at December 31, 2009 (respectively December 31, 2008) are as follows:

In CHF'000	Proportion in % 31.12.2009	Expected return 31.12.2009	Proportion in % 31.12.2008	Expected return 31.12.2008
Cash	11.3%	2.0%	13.2%	1.5%
Swiss bonds	25.6%	3.3%	31.9%	2.5%
Foreign bonds	8.5%	3.3%	9.6%	3.9%
Swiss shares	19.7%	7.0%	16.2%	8.3%
Foreign shares	22.9%	6.5%	18.5%	8.9%
Real estates	9.4%	4.5%	8.4%	4.4%
Structured products	2.6%	4.5%	2.2%	4.0%
Total	**100.0%**	**4.7%**	**100.0%**	**4.8%**

30. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2009	Total 2008
As of January 1	**1 464**	**2 111**	**11 428**	**15 003**	**16 920**
Additional provisions	–	–	845	845	4 637
Unused amounts reversed	–	-16	-1 277	-1 293	-2 122
Used during the year	-93	–	-4 197	-4 290	-4 109
Business combinations impact	–	–	–	–	106
Exchange differences	-52	-20	-4	-76	-429
As of December 31	**1 319**	**2 075**	**6 795**	**10 189**	**15 003**
Thereof:					
– Short term	228	515	2 125	2 868	6 994
– Long term	1 091	1 560	4 670	7 321	8 009
	1 319	**2 075**	**6 795**	**10 189**	**15 003**

RESTRUCTURING PROVISIONS
Restructuring provisions mainly include lease terminations considered as onerous contracts.

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

PROVISION FOR WARRANTY
Provision for warranty includes kCHF 4 570 (2008: kCHF 5 120) to cover the risk of smart card replacement for certain customers paying a recurring security fee.

31. OTHER LONG TERM LIABILITIES

In CHF'000	31.12.2009	31.12.2008
Contingent consideration - long term portion	3 000	5 179
Loans granted by third parties	265	250
Other long-term liabilities	49	–
	3 314	**5 429**

Loan granted by third parties bears a 4% interest rate (2008: 4%).

32. SHORT TERM FINANCIAL DEBT

In CHF'000	31.12.2009	31.12.2008
Short term bank borrowings	123 175	78 768
Other short term financial liabilities	16	136
	123 191	**78 904**

The average effective interest paid in 2009 for short term bank borrowings was 2.45% (2008: 3.83%).

33. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2009	31.12.2008
Trade accounts payable – third parties	78 185	113 681
Trade accounts payable – related parties	645	20
	78 830	**113 701**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

34. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2009	31.12.2008
Accrued expenses	81 599	68 465
Deferred income	8 938	10 821
Payable to pension fund	2 906	1 886
Contingent consideration - short term portion	2 217	2 344
Other payables	28 045	20 506
	123 705	**104 022**

35. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2009	31.12.2008
Amounts due to customers for contract work	11 200	2 175
Advances from clients	7 374	10 412
	18 574	**12 587**

36. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Currency related instruments (level 2)						
– Over the counter currency options	21 630	16 050	–	681	231	66
– Cross currency swaps	10 000	–	–	–	–	–
– Currency Target redemption notes ("TaRN")	–	5 350	–	–	–	2 456
Total of currency related instruments	**31 630**	**21 400**	**–**	**681**	**231**	**2 522**

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. In 2009 and 2008, they are classified as held-for-trading. The contractual maturity date of all these derivative instruments is less than one year and the undiscounted planned cash inflow and outflow are kCHF 31 630 and kCHF 31 175 respectively (2008: kCHF 36 555 and kCHF 37 450).

37. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

In CHF'000	Notes	2009 Acquisitions	2008 Acquisitions
Tangible fixed assets		21	476
Intangible fixed assets (excluding goodwill)		1 484	1 235
Deferred income taxes		–	137
Financial assets and other non-current assets		34	37
Net working capital		465	-236
Financial assets - short term portion		–	–
Deferred tax liabilities		–	-413
Long term liabilities		-114	-569
Cash and cash equivalents		33	4 188
Fair value of net assets acquired for the Group	4	**1 923**	**4 855**
Goodwill		–	29 505
Impact of transaction with minority interests	4	133 143	6 834
Total acquisition costs		**135 066**	**41 194**
Of which:			
– cash consideration paid		125 884	37 879
– contingent consideration not paid		–	2 945
– acquisition costs		9 182	370
		135 066	**41 194**
To adjust for:			
– contingent consideration not paid		–	-2 945
– prior years contingent considerations paid		2 434	725
– cash and cash equivalents acquired	4	-33	-4 188
– unpaid acquisition costs		-3 624	–
– non cash items transferred to acquisition costs		-1 693	–
Net cash outflow from acquisitions		**132 150**	**34 786**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

38. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Kudelski family pool	57%	57%	24%	23%

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

39. RESEARCH AND DEVELOPMENT

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

In CHF'000	2009	2008
Research and development	236 698	221 539

40. DIVIDEND

The ordinary dividend paid in 2009 was kCHF 7 921 (2008: kCHF 15 703) which corresponds to a dividend of CHF 0.15 (2008: CHF 0.30) per bearer share and CHF 0.015 (2008: CHF 0.03) per registered share.
For the current year, the Board of Directors proposes a dividend of CHF 0.30 per bearer share and CHF 0.030 per registered share. The dividend to be paid is kCHF 15 958 and may fluctuate upon exercise of option and conversion rights. The dividend is subject to the approval of shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

41. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE STOCK OPTION PLAN

In April 2003 the Kudelski Group set up a stock option plan for the members of the Board of Directors, the management and certain expert employees. The Board of Directors and executive management determined the modalities and the conditions governing the grant of options. The following options were granted:

Year of grant	Number of options	Vesting	Maturity	Ratio	Exercise price
2 003	125 000	01.04.2006	01.04.2007	1:1	20
2 003	125 000	01.04.2007	01.04.2008	1:1	20
2 003	125 000	01.04.2008	01.04.2009	1:1	20
2005	1 000	01.04.2007	01.04.2008	1:1	20
2005	1 000	01.04.2008	01.04.2009	1:1	20

CHANGES IN OPTIONS HELD

The following table summarizes the changes in options held:

Changes in options held	Options 2009	Strike price in CHF 2009	Options 2008	Strike price in CHF 2008
In circulation on January 1	**108 937**	**20**	**145 072**	**20**
– of which exercisable	108 937	20	32 980	20
New rights issued	–	–	–	–
Rights exercised	–	20	–	20
Rights forfeited	-108 937	20	-36 135	20
In circulation on December 31	**–**		**108 937**	**20**
– of which exercisable	–		108 937	

The expense charged against the income statement for the financial year 2009 amounts to kCHF 0 (2008: kCHF 48). The expense assumes a departure rate based on the fact that some beneficiaries will not be able to exercise.

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

As of financial year 2004, the Group set up a plan to allow employees of certain Group companies to buy shares, giving them preferential conditions to buy Kudelski SA bearer shares. All such shares purchased and the additional shares and options obtained through this plan are subject to a three-year blocking period.

	Shares 2009	Options 2009	Shares 2008	Options 2008
Shares underwritten by employees	12 235	–	41 511	–
Bonus shares and options from ESPP	1 108	1 339	3 534	4 768
Total employee share program	**13 343**	**1 339**	**45 045**	**4 768**

In CHF'000	Shares 2009	Options 2009	Shares 2008	Options 2008
Amount paid by employee	148		395	–
Booked corporate charges (excluding social charges)	28	16	93	13
	176	**16**	**488**	**13**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF 2009	Options 2009	Options 2008
In circulation on January 1	20	1 712	2 033
In circulation on January 1	15	4 768	–
Total in circulation on January 1		**6 480**	**2 033**
New rights issued	15	1 339	4 768
Rights exercised	20	-420	–
Rights forfeited	20	–	-321
In circulation on December 31		**7 399**	**6 480**
– of which exercisable as of January 1		420	321
– of which exercisable as of December 31		–	–

SHARES ISSUED FOR EMPLOYEES

In 2009, 783 741 bearer shares of Kudelski SA (2008: 191 512) were given to employees for no consideration as part of their remuneration, of which 631 666 (2008: 130 562) include a seven-year blocking period, 125 801 include a three year blocking period (2008: 39 720) and 14 471 include a one year blocking period (2008: 0). The fair value recognized for this equity based compensation is kCHF 6 425 (2008: kCHF 2 099) of which kCHF 2 452 was accrued in the prior year (2008: kCHF 2 099).

42. OPENTV CORP - SHARE BASED PAYMENTS

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

STOCK OPTION PLAN

In 2009, employees and board members of OpenTV Corp were granted 453 400 (2008: 688 800) options with an average strike price of USD 1.40 (2008: 1.34). Employees and board members of OpenTV Corp exercised 191 853 (2008: 39 464) options with an average strike price of USD 1.14 (2008: 0.44). The table below summarizes movements in options:

	Options outstanding	Exercice price	Weighted average exercice price
		in USD	in USD
Balance, December 31, 2007	**5 858 675**		**4.89**
Options granted	688 800	1.04 – 1.97	1.34
Options exercised	-39 464	0.33 – 1.05	0.44
Options forfeited	-341 164	1.03 – 4.00	2.61
Options expired	-981 772	0.33 – 54.25	3.67
Balance, December 31, 2008	**5 185 075**	**–**	**4.84**
Options granted	453 400	1.09 – 1.55	1.40
Options exercised	-191 853	1.03 – 1.35	1.14
Options forfeited	-234 833	1.03 – 3.67	1.19
Options expired	-514 061	0.33 – 88.00	6.16
Balance, December 31, 2009	**4 697 728**		**4.65**

The following table summarizes information with respect to the options outstanding as of December 31, 2009:

	Options outstanding			Options currently exercisable	
Exercice price in USD	Number outsdand-ing	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		in years	in USD		in USD
1.03 – 1.51	759 625	8.64	1.34	725 225	1.34
1.53 – 2.35	480 836	6.46	1.85	480 836	1.85
2.41 – 2.69	177 950	6.53	2.53	177 950	2.53
2.70 – 2.70	844 200	5.10	2.70	844 200	2.70
2.73 – 2.82	251 400	4.21	2.78	251 400	2.78
2.84 – 2.84	991 937	5.98	2.84	991 937	2.84
2.85 – 3.23	514 018	4.52	3.01	514 018	3.01
3.35 – 10.00	478 438	2.87	6.96	478 438	6.96
10.19 – 81.00	196 324	0.63	43.54	196 324	43.54
82.06 – 82.06	3 000	0.25	82.06	3 000	82.06
	4 697 728	**5.53**	**4.65**	**4 663 328**	**4.67**

And as of December 31, 2008:

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

EMPLOYEE AND BOARD MEMBERS SHARE ALLOCATIONS

In March 2008, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's executive chairman. Such shares are restricted as to sale or transfer for a period of four years from the date of grant.

In November 2008, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's chief executive officer. The restriction as to sale or transfer of such shares lapse with respect to one-third of the restricted shares on each of March 5, 2009, 2010 and 2011. As of December 31, 2009, restrictions as to 33 333 of such shares lapsed and OpenTV Corp withheld 12'864 of such shares to satisfy applicable withholding tax liabilities.

In March 2009, OpenTV Corp issued 100 000 restricted Class A ordinary shares to OpenTV's chief executive officer. The restrictions as to sale or transfer for such shares lapse with respect to one-third of the restricted shares on each January 1, 2010, 2011 and 2012.

2007 RESTRICTED SHARES

In December 2007, OpenTV Corp issued 1 211 250 restricted Class A ordinary shares to employees, in lieu of option grants consideration. These shares are restricted from sale or transfer and subject to forfeiture for a period of time that is equivalent to the normal vesting schedule applied to stock option granted under the current option plan. The fair value of the grant has been determined as being the stock market value at the date of grant of USD 1.04 per ordinary share. The expense is recognized over the remaining requisite service period. As of December 31, 2009, an aggregate of 215 340 of such restricted share grant had been forfeited and cancelled as a result of employee terminations.

In December 2008, restrictions on the sale or transfer of the 2007 restricted shares lapses as to 25% of such shares. Restriction on the remaining 2007 Restricted shares lapse in equal monthly installments over the remaining 36 months. As of December 31, 2009, restrictions as to an aggregate of 1 262 621 of the 2007 Restricted shares had lapsed. OpenTV Corp withheld an aggregate of 393 300 of such shares to satisfy applicable withholding tax liabilities. As of December 31, 2009, zero of the 2007 Restricted Shares were outstanding and subject to restriction.

2007 MANAGEMENT BONUS AND EQUITY ISSUANCE PLAN

As of December 31, 2007 OpenTV Corp's board of directors approved a grant of 1 020 232 restricted class A ordinary shares including performance and service element for certain OpenTV's senior management and other key employees. This grant allows for both performance and service elements. Accordingly, once vesting is considered probable, expense is recognized on a straight line basis over the remaining requisite service period. Final compensation cost is recognized only for awards that ultimately vest. As part of this plan, 1 020 232 Class A ordinary shares were issued in August 2007 as 2007 Management Restricted Shares. Profitability targets were achieved in May 2008. At such time, restrictions as to an aggregate of 929 767 Restricted shares lapsed and the company withheld an aggregate of 332 528 shares to satisfy applicable withholding tax liability.

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Pursuant to the company's share based compensation plan, upon a change in control in the company, outstanding stock options and stock award held by an employee become fully vested. The closing of the tender offer by the Kudelski Group qualified as a change of control as defined in the share based compensation plan. As a result, on November 25, 2009, OpenTV Corp accelerated all of the unvested shares causing the remaining share-based compensation expense to be recognized in the second half of 2009. Therefore the activity relating to OpenTV's unvested restricted shares during the years ended December 31, 2009 and 2008 is as follows:

	Number of Shares	Weighted average Grant date fair value
Unvested 2007 Management Restricted Shares granted	1 020 232	1.43
Unvested 2007 Restricted Shares granted	1 211 250	1.04
Unvested share balance, December 31, 2007	**2 231 482**	**1.22**
Unvested restricted shares granted	200 000	1.17
Unvested restricted shares forfeited and cancelled	-679 923	1.28
Restricted shares vested	-771 212	1.34
Unvested shares balance, December 31, 2008	**980 347**	**1.07**
Unvested restricted shares granted	100 000	1.34
Unvested restricted shares forfeited and cancelled	-44 972	1.09
Restricted shares vested	-1 035 375	1.04
Unvested shares balance, December 31, 2009	**–**	**–**

As a result, 1 035 375 shares vested and were issued (2008: 771 212), 364 284 (2008: 419 091) shares vested, were issued and immediately cancelled in order to satisfy withholding tax payment on the shares issued in favour of the employees and 44 972 shares forfeited.

OTHER SHARE BASED TRANSACTIONS

Minority interest of OpenTV Corp subsidiaries converted their subsidiary shares into OpenTV Corp shares for kCHF 309 (2008: kCHF 2).

OPENTV SHARE BASED TRANSACTIONS IMPACTS

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

In CHF'000	Retained earnings	Translation difference	Income statement	Retained earnings	Translation difference	Income statement
	2009	2009	2009	2008	2008	2008
Stock option and share based compensation expense recognized	3 072	262	-3 334	2 705	25	-2 730
Repurchase of options	–	–	–	–	–	–
Exercise of options	224	–	–	19	–	–
Conversion by minority into OpenTV Corp shares	309	–	–	2	–	–
Impact of shares cancelled for withholding tax purposes	-475	–	–	-590	–	–
Total in OpenTV Corp books	**3 130**	**262**	**-3 334**	**2 136**	**25**	**-2 730**
Acceleration of vesting period considered as acquisition cost	–	-91	1 784	–	–	–
Cancellation of conversion by minority treated as Goodwill in OpenTV Corp	-309	–	–	-2	–	–
Total in Kudelski Group books	**2 821**	**171**	**-1 550**	**2 134**	**25**	**-2 730**
to adjust for minority interests	-324	-20	178	-1 444	-17	1 847
Total	**2 497**	**151**	**-1 372**	**690**	**8**	**-883**

43. RELATED PARTIES

TRADING TRANSACTIONS

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

	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
In CHF'000	2009	2008	2009	2008	31.12.09	31.12.08	31.12.09	31.12.08
Digital-Elektonik GmbH				47 717				
APT-Skidata Ltd	7 174	13 277					1 610	3 661
Skidata Parking System	7 450	10 519					1 883	3 057
SKIDATA India Private Limited, India	1 091	407				10	146	150
Resort Technology Partners LLC, USA	1 836					43	1 225	
Tickercorner Group	5	6					26 525	23 864
Total associated companies	**17 556**	**24 209**	**–**	**47 717**	**–**	**53**	**31 389**	**30 732**
Polyright SA	19	247	82	34	22	10	178	274
Nagra Thomson Licensing	65						14	22
Total joint ventures	**84**	**247**	**82**	**34**	**22**	**10**	**192**	**296**

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

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44. COMPENSATION, SHAREHOLDINGS AND LOANS

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2009 and 2008 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Variable compensation in OpenTV Corp shares (number)	Variable compensation in OpenTV Corp options (number)	Other CHF	Total 2009 CHF
Board of Directors							
Kudelski André, chairman	548 600	–	–	–	–	–	548 600
Smadja Claude, vice chairman	200 040	–	–	–	–	–	200 040
Bucher Norbert, member	60 000	–	–	–	–	–	60 000
Dassault Laurent, member	40 000	–	–	–	–	–	40 000
Foetisch Patrick, member	60 000	–	–	–	–	96 752	156 752
Lescure Pierre, member	60 000	–	–	–	–	–	60 000
Kudelski Marguerite, member	50 000	–	–	–	–	–	50 000
Zeller Alexandre, member	40 000	–	–	–	–	–	40 000
Total board members	**1 058 640**	**–**	**–**	**–**	**–**	**96 752**	**1 155 392**
Management							
Kudelski André, CEO	538 577	3 300 000	200 000	–	–	26 308	6 027 685
Other management members	3 632 023	2 237 206	125 962	–	–	125 031	7 397 090
Total Management	**4 170 600**	**5 537 206**	**325 962**	**–**	**–**	**151 339**	**13 424 775**
Former board members							
Kudelski Stefan, founder and “Président d’honneur“	205 020	–	–	–	–	–	205 020

	Base compensation Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Variable compensation in OpenTV Corp shares (number)	Variable compensation in OpenTV Corp options (number)	Other CHF	Total 2008 CHF
Board of Directors							
Kudelski André, chairman	498 400	–	–	50 000	–	–	549 600
Smadja Claude, vice chairman	201 155	–	–	–	10 000	–	216 977
Bucher Norbert, member	60 000	–	–	–	–	–	60 000
Dassault Laurent, member	40 000	–	–	–	–	–	40 000
Foetisch Patrick, member	50 000	–	–	–	–	173 653	223 653
Lescure Pierre, member	60 000	–	–	–	–	–	60 000
Kudelski Marguerite, member	50 000	–	–	–	–	–	50 000
Zeller Alexandre, member	40 000	–	–	–	–	–	40 000
Total board members	**999 555**	**–**	**–**	**50 000**	**10 000**	**173 653**	**1 240 230**
Management							
Kudelski André, CEO	529 000	1 860 000	250 000	–	–	25 734	3 806 734
Other management members	3 398 617	1 299 231	171 816	–	30 000	109 500	5 915 217
Total Management	**3 927 617**	**3 159 231**	**421 816**	**–**	**30 000**	**135 234**	**9 721 951**
Former board members							
Kudelski Stefan, founder and “Président d’honneur“	205 020	–	–	–	–	–	205 020

Shares allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 300 222 (2008: 331 444) bearer shares granted to certain management members are subject to a 7 year blocking period, 47 232 (2008: 78 569) bearer shares are subject to a 3 year blocking period and 14 471 bearer shares (2008: 0) subject to a one year blocking period. Variable compensation in cash and granted in Kudelski bearer shares, were granted based on the Remuneration Committee's assessment of the achievement of the individual and Group's objectives. In 2008, variable compensation was not yet paid as of December 31, 2008, but was fully accrued in the 2008 financial statements.

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

At December 31, 2009 and 2008, 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, 2009, the members of the Board of Directors and members of the management had following interest within the company:

	31 december 2009			
	Registered shares	Bearer shares	Options	Convertible bond
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	7 924 311	–	–
Smadja Claude, vice chairman	–	1 300	–	–
Bucher Norbert, member	–	1 700	–	–
Dassault Laurent, member *	–	2 000	–	–
Foetisch Patrick, member	–	1 000	–	–
Lescure Pierre, member	–	2 000	–	–
Kudelski Marguerite, member	–	3 005 112	–	–
Zeller Alexandre, member	–	7 200	–	–
Total board members	**46 300 000**	**10 944 623**	**–**	**–**
Management				
Kudelski André, CEO	see above	see above	see above	see above
Saladini Mauro, CFO	–	153 403	1 603	125 000
Roy Pierre, COO	–	55 917	–	–
Egli Charles, CEO Public Access	–	86 436	120	–
Gani Lucien, General Counsel	–	35 913	–	–
Osadzinski Alex, EVP Product	–	5 656	–	–
Pitton Yves, SVP Business Development	–	29 632	200	–
Goetschmann Nicolas, Corporate Secretary	–	22 056	240	–
Burke John, SVP head of Human Resources	–	27 490	1 080	–
Total Management	**–**	**416 503**	**3 243**	**125 000**

Convertible bond is disclosed in CHF nominal value.

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And for 2008 (without including shares from 2008 variable compensation - issued in 2009):

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

At December 31, 2009 and 2008, 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.

* 2008 interest for Laurent Dassault included shares held by a related entity. Such shares are no longer included in Laurent Dassault's 2009 interest as he is no longer related to the relevant entity.

45. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2009	2008
Within one year	8 735	6 483
In the second to fifth year inclusive	22 916	6 774
	31 651	**13 257**

46. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2009:

Assets as per balance sheet date December 31, 2009 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2009
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		2 705		2 705
– marketable securities	19		10 199		10 199
– long term loan	19			2 726	2 726
– guarantee deposits	19			4 856	4 856
Trade accounts receivable	21			281 893	281 893
Other current assets:					–
– Loans	22			29 955	29 955
Financial assets:					–
– marketable securities	23		37 658		37 658
Cash and cash equivalents	24			210 139	210 139
		–	**50 562**	**529 569**	**580 131**

Liabilities as per balance sheet date December 31, 2009 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2009
Long term financial debt	27		388 105	388 105
Other long term liabilities	31		265	265
Short term financial debt	32		123 191	123 191
Trade accounts payable	33		78 830	78 830
Other payables	34		28 045	28 045
Derivative financial instruments	36	231		231
		231	**618 436**	**618 667**

And for 2008:

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

Liabilities as per balance sheet date December 31, 2008 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2008
Long term financial debt	27		364 180	364 180
Other long term liabilities	31		250	250
Short term financial debt	32		78 904	78 904
Trade accounts payable	33		113 701	113 701
Other payables	34		20 506	20 506
Derivative financial instruments	36	2 522		2 522
		2 522	577 541	580 063

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In CHF'000	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Financial liabilities				
– CHF 350 million unsubordinated convertible bond	333 346	339 827	327 643	330 716

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

48. 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
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Convertible bond	5 688	5 688	361 376	367 064	–	–	-33 718	-45 109	333 346	327 643
Long term bank loans	1 524	1 632	57 832	40 977	280	433	-4 877	-6 505	54 759	36 537
Long term loans – third parties	6	10	156	260	114	–	-12	-20	264	250
Short term financial debt	125 230	79 818	–	–	–	–	-2 039	-914	123 191	78 904
Trade accounts payable	78 830	113 701	–	–	–	–	–	–	78 830	113 701
Other payables	28 045	20 508	–	–	–	–	–	–	28 045	20 508
Total	**239 323**	**221 357**	**419 364**	**408 301**	**394**	**433**	**-40 646**	**-52 548**	**618 435**	**577 543**

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

49. SENSITIVITY ANALYSIS

FOREIGN CURRENCY

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% increase and decrease to the USD and a 10% 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.

In CHF'000	USD 2009	USD 2008	EUR 2009	EUR 2008
Post-tax net income				
– Increase	3 579	16 200	2 165	2 264
– Decrease	-3 733	-16 200	-2 165	-2 264
Equity (post-tax effect)				
– Increase	12 619	7 501	24 797	27 488
– Decrease	-12 631	-7 501	-24 797	-27 488

INTEREST RATES

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

– USD: 100 basis points (2008: 100 basis points)
– EUR: 100 basis points (2008: 100 basis points)
– CHF: 50 basis points (2008: 50 basis points)

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

– post-tax profit for the year ended December 31, 2009 would increase/decrease by kCHF 84 (2008: decrease/increase by kCHF 1 274). This is mainly due to the interest rate exposure on cash balances.
– other equity reserves would increase/decrease by kCHF 302 (2008: decrease/increase by kCHF 83) mainly as a result of the fact that available-for-sale marketable securities are linked to debt instruments.

EQUITY PRICES

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

50. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2009	31.12.2008
Guarantee in favor of third parties	130 033	17 347

51. RISK CONCENTRATION

At December 31, 2009 and 2008, no financial asset exposure was more than 10% of the financial assets, except with a high rated bank counterparty representing 11.3% at December 31, 2008.

52. 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 2009 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

53. 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 2009 was 44.9% (2008: -3.8%).

54. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2009	2008	2009	2008
1 USD	1.030	1.070	1.085	1.080
1 EUR	1.485	1.490	1.509	1.590
1 GBP	1.660	1.560	1.695	2.000
1 SGD	0.735	0.740	0.746	0.760
100 MYR	30.100	30.900	30.770	32.500
100 SEK	14.500	13.700	14.200	16.500

55. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In February 19, the Group announced that it has sold its 28% equity in Ticketcorner. The buyer will refund the Ticketcorner loan and interest at closing date. The transaction is expected to lead to a net cash inflow of over CHF 30 million for the Group.

56. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on February 25, 2010.

57. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2009	2008
Digital Television solutions				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
Quative Ltd	UK – London	IPTV solutions	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
Nagra Thomson Licensing SA	FR – Paris	Intellectual property management	50	50
Public Access solutions				
Nagra Public Access AG	CH – Zug	Holding in public access	100	100
SkiData Group	AT – Gartenau	People and car access systems	100	100
TicketCorner Group	CH – Rümlang	Event distribution and ticketing	28	28
Polyright SA	CH – Sion	Multifunction chipcard system	50	50
Middleware & Advertising				
OpenTV Corp.	British Virgin Islands	Middleware for set-top-boxes and advertising solutions	89*	32*
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100
Kudelski Financial Services SCA	LU – Luxemburg	Finance, convertible bearing company	100	100

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

*The Group has 96% (2008: 77%) of the voting power in OpenTV Corp

58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

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

GLOBAL RISK MANAGEMENT

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

FINANCIAL RISK MANAGEMENT

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

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

REPORT OF THE STATUTORY AUDITOR

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 5 to 66), for the year ended December 31, 2009.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements for the year ended December 31, 2009 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

Felix Roth
Audit expert

Auditor in charge

Stéphane Jaquet
Audit expert

Lausanne, February 25, 2010

BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

ASSETS

In CHF'000	Notes	31.12.2009	31.12.2008
Fixed assets			
Financial fixed assets			
Investments	3.1	459 240	459 311
Loans to Group companies		678 050	582 171
Total fixed assets		**1 137 290**	**1 041 482**
Current assets			
Accounts receivable from Group companies		27 992	98 546
Other accounts receivable and accruals	3.2	2 638	1 764
Treasury shares	3.4	380	225
Cash and cash equivalents	3.3	5 912	8 673
Total current assets		**36 922**	**109 208**
Total assets		**1 174 212**	**1 150 690**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2009	31.12.2008
Shareholders' equity			
Share capital		531 935	523 960
General reserve		81 507	78 648
Reserve for treasury shares		380	380
Retained earnings		279 698	241 758
Net income		42 834	48 321
Total shareholders' equity	**3.4**	**936 354**	**893 067**
Long-term liabilities			
Loans from Group companies		86 051	192 266
Bank, long term borrowings		29 355	–
Total long-term liabilities		**115 406**	**192 266**
Current liabilities			
Short-term provisions	3.5	1 111	–
Short-term loans from Group companies		23 479	33 347
Other liabilities and accruals		3 392	505
Bank, short term borrowings		94 355	25 000
Bank overdraft		115	6 505
Total current liabilities		**122 452**	**65 357**
Total liabilities		**237 858**	**257 623**
Total shareholders' equity and liabilities		**1 174 212**	**1 150 690**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2009

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

In CHF'000	Notes	2009	2008
Financial income	4.1	61 938	74 983
Gain on sale of investments	4.2	8 335	–
Administrative and other expenses	4.3	-5 242	-5 701
Financial expenses and exchange result	4.4	-11 544	-13 573
Impairment of financial fixed assets	4.5	-10 635	-7 235
Income before tax		**42 852**	**48 474**
Income tax		-18	-153
Net income		**42 834**	**48 321**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2009

In CHF'000	2009
Balance brought forward from previous year	279 698
Net income	42 834
Total available earnings	**322 532**
Proposal of the Board of Directors:	
Ordinary dividend:	
– CHF 0.30 on 48'563'478* bearer shares	14 569
– CHF 0.03 on 46'300'000 registered shares	1 389
General reserve allocation	2 193
Balance to be carried forward	304 381
Total available earnings	**322 532**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2009. It may fluctuate due to the exercise of option and conversion rights between December 31, 2009 and the ordinary General meeting date.

NOTES TO THE FINANCIAL STATEMENTS 2009

1. GENERAL COMMENTS

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

FINANCIAL FIXED ASSETS

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

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

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

TREASURY SHARES

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

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2009	2008
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	kCHF	12 000	100	100
NagraCard SA	CH – Cheseaux	Secure smart cards	kCHF	100	M	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	GB – St. Albans	Sales and support	kGBP	1	100	100
Nagravision GmbH	DE – Hildesheim	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	1 010	100	100
Nagra Public Access AG	CH – Zoug	Physical access holding	kCHF	15 000	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	2 000	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	100	100
Nagra Trading SA	CH – Cheseaux	Trading of set-top-boxes	kCHF	100	M	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	kCHF	1 000	100	100
Kudelski Financial Services Holding SCA	LU – Luxembourg	Finance	kCHF	37 050	100	100
Kudelski Luxembourg Sàrl	LU – Luxembourg	Finance	kEUR	13	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Kudelski Malaysia SDN. BHD.	MA – Kuala Lumpur	Services	kMYR	–	100	100
Abilis Systems Sàrl	CH – Plan-les-Ouates	Research & development for mobile phones	kCHF	20	100	100
Nagravision Shanghaï Technology	CN – Shanghaï	Software integration for Digital TV	KUSD	200	100	100
Quative Ltd	UK – London	IPTV Solutions	KGBP	1 000	100	100
TESC Test Solution Center GmbH	DE – Munich	Services	kEUR	25	100	100
Nagravision Italy Srl	IT – Milan	Services	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
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	15
Thema SAS	FR – Paris	Worldwide brokerage for existing audio-visual thematic channels	kEUR	46	10	10

M = merged company (effective January 1, 2009, Nagravision SA absorbed NagraCard SA and Nagra Trading SA)

NOTES TO THE FINANCIAL STATEMENTS 2009

3.2 OTHER RECEIVABLES

In CHF'000	31.12.2009	31.12.2008
Other accounts receivable	3	12
Prepaid expenses and accrued income	2 591	–
Third party loan	–	1 605
Withholding tax	44	147
	2 638	**1 764**

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2009	31.12.2008
Cash at bank and in hand	5 912	8 673
Short-term deposits	–	–
	5 912	**8 673**

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2007	**521 594**	**75 727**	**380**	**260 161**	**857 862**
General reserve allocation		2 700		-2 700	–
Dividend				-15 703	-15 703
Share capital increase	2 366	221			2 587
Net income				48 321	48 321
As of December 31, 2008	**523 960**	**78 648**	**380**	**290 079**	**893 067**
General reserve allocation		2 460		-2 460	–
Dividend				-7 921	-7 921
Share capital increase	7 975	399			8 374
Net income				42 834	42 834
As of December 31, 2009	**531 935**	**81 507**	**380**	**322 532**	**936 354**

TREASURY SHARES

	Number of bearer shares	Purchase cost	Impairment reserve	Book value
		CHF '000	CHF '000	CHF '000
As of December 31, 2007	**20 155**	**380**		**380**
Adjustment to stock market value as at December 31, 2008	–	–	-155	-155
As of December 31, 2008	**20 155**	**380**	**-155**	**225**
Reversal of last year adjustment to stock market value	–	–	155	155
As of December 31, 2009	**20 155**	**380**	**–**	**380**

No transaction occurred during the last two financial years.

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2009	31.12.2008
48'563'478 / 47'765'974 bearer shares, at CHF 10 each	485 635	477 660
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	531 935	**523 960**

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	2009	2008
Conditional share capital as of January 1	107 478	109 844
Increase of conditional share capital	10 000	–
Employee share purchase plan	-134	-450
Exercise of options	-4	–
Shares allotted to employees	-7 837	-1 916
Conditional share capital at December 31	**109 503**	**107 478**
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:		
950'278 / 747'782 bearer shares, at CHF 10 each	9 503	7 478
	109 503	**107 478**

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 million, through the issue of 10 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. Furthermore the ordinary 2008 General Meeting approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 17 477 820 consisting of 1 747 782 bearer shares of a nominal value of CHF 10.

NOTES TO THE FINANCIAL STATEMENTS 2009

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2009	31.12.2008
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 22, 2010, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Kudelski family pool	57%	57%	24%	23%

3.5 SHORT-TERM PROVISIONS

The short-term provisions includes the unrealized exchange gains in foreign currencies for kCHF 1 111 (kCHF 0 at December 31, 2008).

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2009	2008
Dividends received from Group subsidiaries	37 730	46 700
Interest income third parties	163	411
Interest on loans to Group subsidiaries	24 045	26 810
Other financial income	–	1 062
	61 938	**74 983**

2008 other financial income relates to a payment received from Lufthansa in connection with the Swiss shares.

4.2 GAIN ON SALE OF INVESTMENT

Kudelski SA sold 100% of Nagra Trading SA to another Group company in 2009. This transaction resulted in a gain of kCHF 8 335.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2009	2008
Administrative expenses	-3 609	-4 098
Taxes other than income tax	-1 633	-1 603
	-5 242	**-5 701**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2009	2008
Net currency exchange result	-1 546	-4 020
Interest on loans from Group subsidiaries	-8 823	-9 270
Interest expenses and bank charges	-1 175	-283
	-11 544	**-13 573**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2009	2008
Allocation to provisions on Group investments and loans	-10 790	-7 080
Value adjustment on treasury shares	155	-155
	-10 635	**-7 235**

NOTES TO THE FINANCIAL STATEMENTS 2009

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2009	31.12.2008
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	350 000	350 000
Commitment in favor of third parties	35	35
	350 035	**350 035**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

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

REPORT OF THE STATUTORY AUDITOR

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 69 to 77), for the year ended December 31, 2009.

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

OPINION

In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA

Felix Roth
Audit expert
Auditor in charge

Stéphane Jaquet
Audit expert

Lausanne, February 25, 2010

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