

# KUDELSKI GROUP FINANCIAL STATEMENTS 2000

CONSOLIDATED FINANCIAL STATEMENTS OF KUDELSKI SA  
FINANCIAL STATEMENTS OF KUDELSKI SA

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# FINANCIAL STATEMENTS 2000

CONSOLIDATED FINANCIAL STATEMENTS OF KUDELSKI SA

# KUDELSKI GROUP CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

| ASSETS                                 | Notes | 12.31.2000     | 12.31.1999     |
|--|-------|----------------|----------------|
| <b>Fixed assets</b>                    |       |                |                |
| Intangible assets                      | (3.1) | 12 165         | 11 640         |
| Financial assets                       |       |                |                |
| Non-consolidated financial investments | (3.2) | 202            | 150            |
| Loan                                   |       | 2 457          | 0              |
| Tangible assets                        |       |                |                |
| Land and buildings                     | (3.3) | 23 964         | 16 405         |
| Fixtures and fittings                  | (3.4) | 11 708         | 8 167          |
| <b>Total fixed assets</b>              |       | <b>50 496</b>  | <b>36 362</b>  |
| <b>Current assets</b>                  |       |                |                |
| Inventories                            | (3.5) | 29 129         | 17 542         |
| Work in progress                       | (3.6) | 3 855          | 3 164          |
| Trade accounts receivable              | (3.7) | 184 949        | 113 514        |
| Other receivables                      | (3.8) | 21 844         | 5 337          |
| Cash and cash equivalents              | (3.9) | 554 395        | 61 161         |
| <b>Total current assets</b>            |       | <b>794 172</b> | <b>200 718</b> |
| <b>TOTAL ASSETS</b>                    |       | <b>844 668</b> | <b>237 080</b> |

The auditor's opinion, accounting policies and notes set out on pages 8 to 24 form an integral part of these consolidated financial statements.

# KUDELSKI GROUP

## CONSOLIDATED BALANCE SHEETS

### AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

| SHAREHOLDERS' EQUITY AND LIABILITIES                | Notes  | 12.31.2000     | 12.31.1999     |
|---|--------|----------------|----------------|
| <b>Shareholders' equity</b>                         |        |                |                |
| Share capital                                       |        | 499 310        | 41 599         |
| Reserves  |        | 108 045        | 62 826         |
| Net income  |        | 66 618         | 35 427         |
| <b>Total shareholders' equity, Group's interest</b> |        | <b>673 973</b> | <b>139 852</b> |
| Minority interests                                  |        | 19 183         | 14 356         |
| <b>Total shareholders' equity</b>                   | (3.10) | <b>693 156</b> | <b>154 208</b> |
| <b>Long-term liabilities</b>                        |        |                |                |
| Provisions  | (3.11) | 7 292          | 3 188          |
| Deferred tax liability                              | (3.12) | 941            | 1 102          |
| Other long-term loans                               |        | 5 077          | 2 220          |
| <b>Total long-term liabilities</b>                  |        | <b>13 310</b>  | <b>6 510</b>   |
| <b>Current liabilities</b>                          |        |                |                |
| Overdrafts  |        | 10 784         | 998            |
| Trade accounts payable                              | (3.13) | 76 470         | 55 752         |
| Advances received from clients                      |        | 10 419         | 5 313          |
| Other payables                                      |        | 17 446         | 1 970          |
| Accrued liabilities                                 | (3.14) | 23 083         | 12 329         |
| <b>Total current liabilities</b>                    |        | <b>138 202</b> | <b>76 362</b>  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>   |        | <b>844 668</b> | <b>237 080</b> |

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The auditor's opinion, accounting policies and notes set out on pages 8 to 24 form an integral part of these consolidated financial statements.

# KUDELSKI GROUP CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

|   | Notes | 2000           | 1999           |
|---|-------|----------------|----------------|
| Sales   | (4.1) | 192 659        | 120 035        |
| Sales on long-term contracts                        | (4.1) | 160 749        | 90 661         |
| Capitalization of new product development costs     | (4.2) | 6 119          | 4 041          |
| <b>Total income</b>                                 |       | <b>359 527</b> | <b>214 737</b> |
| Cost of goods and components sold                   | (4.3) | -181 211       | -111 366       |
| Salaries and wages                                  |       | -44 319        | -27 787        |
| Operating expenses                                  | (4.4) | -23 535        | -11 576        |
| Sales and administration costs                      | (4.5) | -23 765        | -13 123        |
| Depreciation and amortization                       |       | -11 415        | -8 113         |
| Change in provision for bad debts                   |       | -1 303         | -4 726         |
| Change in long term provisions                      |       | 1 426          | 2 342          |
| <b>Operating income</b>                             |       | <b>75 405</b>  | <b>40 388</b>  |
| Financial income                                    | (4.6) | 6 955          | 2 749          |
| Financial expenses                                  | (4.7) | -904           | -310           |
| <b>Net income before tax and minority interests</b> |       | <b>81 456</b>  | <b>42 827</b>  |
| Income tax  | (4.8) | -8 513         | -4 064         |
| <b>Net income of the Group</b>                      |       | <b>72 943</b>  | <b>38 763</b>  |
| Minority interests                                  |       | -6 325         | -3 336         |
| <b>NET INCOME</b>                                   |       | <b>66 618</b>  | <b>35 427</b>  |
| <b>As a percentage of income</b>                    |       |                |                |
| Operating income                                    |       | 21%            | 19%            |
| Net income  |       | 19%            | 17%            |
| <b>Earnings per share (in CHF)</b>                  |       |                |                |
| Basic / diluted earnings per share                  | (4.9) | 14.74          | 8.51           |

The auditor's opinion, accounting policies and notes set out on pages 8 to 24 form an integral part of these consolidated financial statements.

# KUDELSKI GROUP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

|  | Notes | 2000           | 1999           |
|--|-------|----------------|----------------|
| Operating cash flow  | (5.1) | 32 038         | 27 613         |
| Interest paid  |       | -904           | -310           |
| Interest received  |       | 5 816          | 680            |
| Tax paid   |       | -4 060         | -1 817         |
| <b>Net cash from operating activities</b>                    |       | <b>32 890</b>  | <b>26 166</b>  |
| Investment of intangible assets                              |       | -5 767         | -8 464         |
| Investment of tangible assets                                |       | -12 772        | -9 978         |
| Investment in financial assets                               |       | -2 487         | -100           |
| Acquisition of subsidiaries, net of cash acquired            | (5.2) | -4 374         | 0              |
| <b>Net cash used in investing activities</b>                 |       | <b>-25 400</b> | <b>-18 542</b> |
| Increase in share capital and agio                           |       | 488 149        | 72             |
| Change in long-term loans                                    |       | -1 369         | -2 752         |
| Payments from minority shareholders                          |       | 150            | 3 506          |
| Dividends paid to minority interests                         |       | -1 000         | -1 000         |
| <b>Net cash used in / from financing activities</b>          |       | <b>485 930</b> | <b>-174</b>    |
| Effect of exchange rate changes on cash and cash equivalents |       | -186           | 1 260          |
| <b>Movement in cash and cash equivalents</b>                 |       | <b>493 234</b> | <b>8 710</b>   |
| Cash and cash equivalents at January 1                       |       | 61 161         | 52 451         |
| Cash and cash equivalents at December 31                     |       | 554 395        | 61 161         |
| <b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>                 |       | <b>493 234</b> | <b>8 710</b>   |

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The auditor's opinion, accounting policies and notes set out on pages 8 to 24 form an integral part of these consolidated financial statements.

# KUDELSKI GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

#### 1. GENERAL COMMENTS AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the years ended December 31, 2000 and 1999 are prepared in accordance with Swiss Accounting and Reporting Recommendations (ARR) and give a true and fair view of the financial position and results of the Group.

The accounts have been prepared under the historical cost convention and on an accruals basis.

All companies integrated into the scope of consolidation have a December 31 accounting year. The consolidated financial statements comprise the financial elements of Kudelski SA and those of its subsidiaries and affiliated companies according to the method indicated below.

#### SUBSIDIARIES

Full consolidation has been applied to those companies in which the Group owns more than 50% of the share capital and voting rights.

#### CONSOLIDATION SCOPE

| Companies                                   | Location       | Activity   |
|---|----------------|--|
| Kudelski SA                                 | Cheseaux       | Holding  |
| Nagravision SA                              | Cheseaux       | Digital TV and audio production and sales                            |
| NagraCard SA                                | Cheseaux       | Smartcards production and sales                                      |
| Nagra Trading SA                            | Cheseaux       | Trading  |
| Nagravision Iberica SL                      | Madrid         | Sales  |
| Nagra France Sàrl                           | Paris          | Sales  |
| Nagra Kudelski (GB) Ltd                     | St. Albans     | Sales  |
| Nagra Italia SRL                            | Roma           | Sales  |
| Nagra Kudelski GmbH                         | Munich         | Sales  |
| Nagra USA, Inc.                             | Nashville      | Sales  |
| Nagrastar LLC                               | Englewood      | Smartcards sales and pay TV site maintenance                         |
| Nagra Plus                                  | Cheseaux       | Analog TV  |
| Intelegis SA                                | Marin-Epagnier | Identification security systems                                      |
| NagraID SA                                  | Chaux-de-Fonds | Identification security systems                                      |
| MediaCrypt SA                               | Zurich         | Scrambling security systems  |
| Précision Electronique Preceel SA           | Neuchâtel      | Mechanical and electronics   |
| Political Rights SA (Polirights)            | Geneva         | Secure interactive communication solutions for public administration |
| SportAccess Holding SA                      | Sion           | Holding  |
| SportAccess Kudelski SA                     | Sion           | Access control system  |
| Systems AG                                  | Bregenz        | Access control system  |
| Systems Ticketsysteme Vertriebs GmbH        | Kaufbeuren     | Access control system  |
| Systems Ticketsysteme Vertriebsgesellschaft | Bregenz        | Access control system  |
| Systems Produktion AG                       | Mauren         | Access control system  |
| Systems Ticketing AG                        | Muri           | Access control system  |
| <b>NON-CONSOLIDATED INVESTMENTS</b>         |                |  |
| Pay TV SA                                   | Lausanne       | Pay Television   |
| Nagra Travel Sàrl                           | Cheseaux       | Travel agency  |
| A Novo Americas LLC                         | Delaware       | Services   |



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

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

In view of its relative immateriality, Nagra Travel Sàrl is not consolidated.

#### JOINT-VENTURES

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

| Share capital | Percentage of held |      | Consolidation method |      |
|---------------|--------------------|------|----------------------|------|
|               | 2000               | 1999 | 2000                 | 1999 |
| kCHF 499 310  | —                  | —    | —                    | —    |
| kCHF 12 000   | 100                | 100  | FC                   | FC   |
| kCHF 100      | 100                | 100  | FC                   | FC   |
| kCHF 100      | 100                | 100  | FC                   | FC   |
| kEUR 3        | 100                | —    | FC                   | —    |
| kFRF 350      | 100                | 100  | FC                   | FC   |
| kGBP 1        | 100                | 100  | FC                   | FC   |
| kITL 20 000   | 100                | 100  | FC                   | FC   |
| kDEM 50       | 100                | 100  | FC                   | FC   |
| kUSD 10       | 100                | 100  | FC                   | FC   |
| kUSD 597      | 50                 | 50   | FC                   | FC   |
| kCHF 2 000    | 50                 | 50   | FC                   | FC   |
| kCHF 1 000    | 50                 | 50   | FC                   | FC   |
| kCHF 4 000    | 50                 | 50   | FC                   | FC   |
| kCHF 3 000    | 50                 | 50   | FC                   | FC   |
| kCHF 100      | 100                | —    | FC                   | —    |
| kCHF 450      | 66                 | —    | FC                   | —    |
| kCHF 8 144    | 76                 | —    | FC                   | —    |
| kCHF 6 150    | 54                 | —    | FC                   | —    |
| kEUR 5 510    | 54                 | —    | FC                   | —    |
| kDEM 600      | 54                 | —    | FC                   | —    |
| kATS 500      | 54                 | —    | FC                   | —    |
| kCHF 50       | 54                 | —    | FC                   | —    |
| kCHF 100      | 54                 | —    | FC                   | —    |
| kCHF 490      | 5.88               | 5.88 |                      |      |
| kCHF 50       | 100                | 100  |                      |      |
| kUSD 200      | 10                 | —    |                      |      |

(FC: Full consolidation)

#### CHANGES IN THE CONSOLIDATION SCOPE

In 2000 the consolidation scope has been modified by the inclusion of the following entities:

- SportAccess Holding SA, Sion, in which a 76% interest is held, owns 71% of SportAccess Kudelski SA, which provide access control systems. SportAccess Kudelski SA owns a 100% interest in following entities: Systems AG, Bregenz, Systems Ticketsysteme Vertriebs GmbH, Kaufbeuren, Systems Ticketsysteme Vertriebsgesellschaft, Bregenz, Systems Produktion AG, Mauren and Systems Ticketing AG, Muri.
- Précision Electronique Precel SA, Neuchâtel: this company, in which a 100% interest is held, produces mechanical and electronic spare parts.
- Political Rights SA (Polirights), Geneva: this company, in which a 66% interest is held, offers secure interactive communication solutions for public administrations, such as e-voting and cyberadministration.
- Nagravision Iberica SL, Madrid : this is a selling company for the Spanish market, in which a 100% interest is held.

#### CONSOLIDATION OF CAPITAL / TREATMENT OF GOODWILL

The book value of investments has been eliminated against the share in the net assets of companies acquired or created. The purchase method is applied.

The difference between the acquisition cost and the fair value of net assets required, including the restructuring provision, is booked directly against shareholders' equity in the year of acquisition.

In accordance with the Accounting and Reporting Recommendations (ARR) No 9 relating to the financial statement disclosures, the theoretical effect of the amortization of the goodwill over a specified period is dealt in note 3.10.

No goodwill arose on consolidation as at December 31, 1999.

#### FOREIGN CURRENCIES

##### Translation of financial statements

Financial statements of Group companies expressed in currencies other than Swiss francs are translated at year-end rates of exchange with respect to the balance sheet and average rates of exchange for the year with respect to the income statement. Translation adjustments are included in the translation reserve in the consolidated shareholders' equity.

##### Foreign currency transactions

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

|       | Exchange rates | Average rates |       | Year-end rates |       |
|-------|----------------|---------------|-------|----------------|-------|
|       |                | 2000          | 1999  | 2000           | 1999  |
| 1     | USD            | 1.69          | 1.50  | 1.64           | 1.59  |
| 1     | GBP            | 2.55          | 2.40  | 2.41           | 2.51  |
| 1     | EUR            | 1.56          | 1.60  | 1.52           | 1.60  |
| 100   | ATS            | 11.32         | —     | 11.04          | —     |
| 100   | DEM            | 79.61         | 82.38 | 77.72          | 80.75 |
| 100   | ESP            | 0.94          | —     | 0.91           | —     |
| 100   | FRF            | 23.74         | 24.57 | 23.17          | 24.10 |
| 1 000 | ITL            | 0.80          | 0.82  | 0.79           | 0.82  |

## 2. ACCOUNTING POLICIES AND VALUATION METHODS

### INTANGIBLE ASSETS

Know-how represents knowledge acquired from third parties. The annual amortization of know-how depends on their economic life and the corresponding volume of sales. The useful life is from 4 to 8 years.

Developments of new products acquired from third parties together with patents are recorded at acquisition costs. Developments of new products created by the Group include directly incurred cost. Amortization is provided on a straight-line basis over the estimated useful life of 4 to 5 years. Amortization starts as soon as new products are commercialized.

Goodwill is booked directly against shareholders' equity in the year of acquisition and the theoretical effects of the accounting as an asset are mentioned in the notes to the financial statements. The theoretical useful live of goodwill is defined at acquisition and is generally from 10 to 20 years.

### TANGIBLE ASSETS

Land and buildings are stated in the balance sheet at their economic value less depreciation. Buildings are depreciated on a straight-line basis over 33 years. Building improvement costs are depreciated on a straight-line basis over 4 years.

Machinery and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the useful life of the assets.

### Useful live years

#### Technical equipment and machinery

|                                    |       |
|------------------------------------|-------|
| Machinery                          | 4 – 7 |
| Measurement instruments            | 5     |
| Digital material and equipment     | 4 – 5 |
| Computers and information networks | 4     |
| <b>Other equipment</b>             |       |
| Office furniture                   | 7     |
| Workshop furniture                 | 5     |
| Office machines and equipment      | 7     |
| Vehicles                           | 4     |

### INVENTORIES

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

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

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

### WORK IN PROGRESS

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

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

**TRADE ACCOUNTS RECEIVABLE**

Trade receivables are carried at anticipated realizable value. This heading also contains amounts due from customers on long-term contracts assessed in accordance with the percentage of completion method.

An estimate is made for doubtful receivables at year-end. A specific provision is recognized for risks on debtors on long-term contracts.

**CASH AND CASH EQUIVALENTS**

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

**PROVISIONS**

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

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

**DEFERRED TAXES**

Some restatements made to the statutory accounts in order to bring them into line with the accounting principles of the Group create some temporary differences arising between the tax basis and the result stated for financial reporting purposes. These differences give rise to deferred taxes in the consolidated financial statements, which are recorded using the liability method.

**PENSION SCHEME**

The Group companies have introduced a pension scheme, which is independent of the Group, and in accordance with the local legislation of each country concerned. The employer's contributions have been recorded as current expenses.

## FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage the foreign exchange exposure for their operational activities. Due to the nature of the Group's operations, most of the financial instruments covered foreign exchange risks in USD and EUR for the income as well as the forecasted expenses.

They are entered into with high credit quality financial institutions, consistent with specific approval, limit and monitoring procedures.

The instruments used during the year to hedge foreign currency positions mainly include forward foreign exchange contracts, currency swaps and zero cost option strategies.

At December 31, 2000 and 1999, the settlement dates on open forward contracts ranged between 1 and 3 months. The financial instruments in place at year-end 2000 covered the debtors and creditors open position at same date. The local currency amounts to be received and contractual exchange rates of the company's outstanding contracts were:

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Balance sheet derivative financial instruments at December 31 are:

|  | Contractual<br>amounts<br>2000 | Positive<br>replacement<br>value<br>2000 | Contractual<br>amounts<br>1999 | Positive<br>replacement<br>value<br>1999 |
|--|--------------------------------|--|--------------------------------|--|
| Forward currency contracts<br>(1 CHF = 1.55 USD) | —                              | —  | kUSD 1 315                     | kCHF 57                                  |
| Hedging options on<br>currency increase          | kEUR 5 000                     | kCHF 56                                  | —                              | —  |
| Hedging options on<br>currency decrease          | kUSD 20 000                    | kCHF 1 600                               | —                              | —  |

### 3. NOTES TO THE CONSOLIDATED BALANCE SHEET

#### (3.1) INTANGIBLE ASSETS

|                                       | Know-how      | Development of<br>new products | Patents<br>and other | Total         |
|---------------------------------------|---------------|--------------------------------|----------------------|---------------|
| <b>YEAR ENDED DECEMBER 31, 2000</b>   |               |                                |                      |               |
| <b>Gross values</b>                   |               |                                |                      |               |
| At 1.1.2000                           | 20 887        | 21 294                         | 4 612                | 46 793        |
| Additions                             | 0             | 5 760                          | 7                    | 5 767         |
| Disposals                             | 0             | 0                              | -1 169               | -1 169        |
| Changes in the scope of consolidation | 556           | 548                            | 114                  | 1 218         |
| Currency translation adjustment       | 0             | 1                              | -3                   | -2            |
| <b>At 12.31.2000</b>                  | <b>21 443</b> | <b>27 603</b>                  | <b>3 561</b>         | <b>52 607</b> |
| <b>Accumulated depreciation</b>       |               |                                |                      |               |
| At 1.1.2000                           | 19 080        | 15 315                         | 758                  | 35 153        |
| Systematic amortization               | 1 251         | 3 366                          | 1 394                | 6 011         |
| Amortization on disposals             | 0             | 0                              | -1 169               | -1 169        |
| Changes in the scope of consolidation | 276           | 130                            | 39                   | 445           |
| Currency translation adjustment       | 0             | 0                              | 2                    | 2             |
| <b>At 12.31.2000</b>                  | <b>20 607</b> | <b>18 811</b>                  | <b>1 024</b>         | <b>40 442</b> |
| <b>Net values at 12.31.2000</b>       | <b>836</b>    | <b>8 792</b>                   | <b>2 537</b>         | <b>12 165</b> |
| <b>YEAR ENDED DECEMBER 31, 1999</b>   |               |                                |                      |               |
| <b>Gross values</b>                   |               |                                |                      |               |
| At 1.1.1999                           | 19 887        | 17 253                         | 1 189                | 38 329        |
| Additions                             | 1 000         | 4 041                          | 3 423                | 8 464         |
| <b>At 12.31.1999</b>                  | <b>20 887</b> | <b>21 294</b>                  | <b>4 612</b>         | <b>46 793</b> |
| <b>Accumulated depreciation</b>       |               |                                |                      |               |
| At 1.1.1999                           | 18 024        | 12 417                         | 148                  | 30 589        |
| Systematic amortization               | 1 056         | 2 898                          | 610                  | 4 564         |
| <b>At 12.31.1999</b>                  | <b>19 080</b> | <b>15 315</b>                  | <b>758</b>           | <b>35 153</b> |
| <b>Net values at 12.31.1999</b>       | <b>1 807</b>  | <b>5 979</b>                   | <b>3 854</b>         | <b>11 640</b> |
| Useful live in years                  | 4-8           | 4-5                            | 4-5                  |               |

### (3.2) NON-CONSOLIDATED FINANCIAL INVESTMENTS

This balance comprises investments in Nagra Travel Sàrl, Pay TV SA and A Novo Americas LLC.

### (3.3) LAND AND BUILDINGS

|   | Land         | Buildings     | Building improvements | Total             |
|---|--------------|---------------|-----------------------|-------------------|
| <b>YEAR ENDED DECEMBER 31, 2000</b>   |              |               |                       |                   |
| <b>Gross values</b>   |              |               |                       |                   |
| At 1.1.2000   | 3 109        | 12 721        | 2 980                 | 18 810            |
| Additions   | 3 267        | 1 032         | 2 827                 | 7 126             |
| Changes in the scope of consolidation   | 800          | 990           | 161                   | 1 951             |
| Currency translation adjustment   | 0            | 0             | 17                    | 17                |
| At 12.31.2000   | 7 176        | 14 743        | 5 985                 | 27 904            |
| <b>Accumulated depreciation</b>   |              |               |                       |                   |
| At 1.1.2000   | —            | 1 179         | 1 226                 | 2 405             |
| Systematic depreciation   | —            | 441           | 1 050                 | 1 491             |
| Changes in the scope of consolidation   | —            | 44            | 0                     | 44                |
| At 12.31.2000   | —            | 1 664         | 2 276                 | 3 940             |
| <b>Net values at 12.31.2000</b>   | <b>7 176</b> | <b>13 079</b> | <b>3 709</b>          | <b>23 964</b>     |
| <b>YEAR ENDED DECEMBER 31, 1999</b>   |              |               |                       |                   |
| <b>Gross values</b>   |              |               |                       |                   |
| At 1.1.1999   | 3 109        | 12 315        | 807                   | 16 231            |
| Additions   | 0            | 406           | 2 173                 | 2 579             |
| At 12.31.1999   | 3 109        | 12 721        | 2 980                 | 18 810            |
| <b>Accumulated depreciation</b>   |              |               |                       |                   |
| At 1.1.1999   | —            | 800           | 420                   | 1 220             |
| Systematic depreciation   | —            | 379           | 806                   | 1 185             |
| At 12.31.1999   | —            | 1 179         | 1 226                 | 2 405             |
| <b>Net values at 12.31.1999</b>   | <b>3 109</b> | <b>11 542</b> | <b>1 754</b>          | <b>16 405</b>     |
| Useful live in years  | —            | 33            | 4                     |                   |
|   |              |               | <b>12.31.2000</b>     | <b>12.31.1999</b> |
| Land and buildings pledged  |              |               | 1 026                 | 0                 |
| Fire insurance values   |              |               | 33 047                | 27 544            |
| Corporate building on land whose owner has granted a permanent and specific right of use (right granted up to November 3, 2097) |              |               | 2 352                 | 2 427             |

**(3.4) FIXTURES AND FITTINGS**

|                                       | Technical equipment<br>and machinery | Other<br>equipment | Total             |
|---------------------------------------|--------------------------------------|--------------------|-------------------|
| <b>YEAR ENDED DECEMBER 31, 2000</b>   |                                      |                    |                   |
| Gross values                          |                                      |                    |                   |
| At 1.1.2000                           | 11 902                               | 1 936              | 13 838            |
| Additions                             | 4 802                                | 844                | 5 646             |
| Changes in the scope of consolidation | 1 649                                | 1 026              | 2 675             |
| Currency translation adjustment       | 21                                   | -96                | -75               |
| At 12.31.2000                         | 18 374                               | 3 710              | 22 084            |
| Accumulated depreciation              |                                      |                    |                   |
| At 1.1.2000                           | 4 931                                | 740                | 5 671             |
| Systematic depreciation               | 3 251                                | 663                | 3 914             |
| Changes in the scope of consolidation | 701                                  | 163                | 864               |
| Currency translation adjustment       | -52                                  | -21                | -73               |
| At 12.31.2000                         | 8 831                                | 1 545              | 10 376            |
| <b>Net values at 12.31.2000</b>       | <b>9 543</b>                         | <b>2 165</b>       | <b>11 708</b>     |
| <b>YEAR ENDED DECEMBER 31, 1999</b>   |                                      |                    |                   |
| Gross values                          |                                      |                    |                   |
| At 1.1.1999                           | 5 392                                | 992                | 6 384             |
| Additions                             | 6 475                                | 925                | 7 400             |
| Currency translation adjustment       | 35                                   | 19                 | 54                |
| At 12.31.1999                         | 11 902                               | 1 936              | 13 838            |
| Accumulated depreciation              |                                      |                    |                   |
| At 1.1.1999                           | 3 001                                | 393                | 3 394             |
| Systematic depreciation               | 2 022                                | 341                | 2 363             |
| Currency translation adjustment       | -92                                  | 6                  | -86               |
| At 12.31.1999                         | 4 931                                | 740                | 5 671             |
| <b>Net values at 12.31.1999</b>       | <b>6 971</b>                         | <b>1 196</b>       | <b>8 167</b>      |
| Useful live in years                  | 4-7                                  | 4-7                |                   |
|                                       |                                      | <b>12.31.2000</b>  | <b>12.31.1999</b> |
| Fire insurance value                  |                                      |                    |                   |
| Other fixed assets                    |                                      | 25 500             | 17 885            |



### (3.5) INVENTORIES

|   | 12.31.2000 | 12.31.1999 |
|---|------------|------------|
| Raw material and components                     | 5 195      | 5 309      |
| Devices in production                           | 2 594      | 3 176      |
| Finished goods, smartcards and digital material | 21 340     | 9 057      |
|   | 29 129     | 17 542     |

The above amounts include write-downs of kCHF 1 532 (1999: kCHF 1 417).

### (3.6) WORK IN PROGRESS

|   | 12.31.2000 | 12.31.1999 |
|---|------------|------------|
| Work in progress on long-term contracts | 3 855      | 3 164      |

### (3.7) TRADE ACCOUNTS RECEIVABLE

|  | 12.31.2000 | 12.31.1999 |
|--|------------|------------|
| Trade accounts receivable                          | 139 433    | 81 968     |
| Due from customers on long-term contracts          | 53 311     | 36 679     |
| ./. provision for bad debts                        | -4 950     | -3 133     |
| ./. provision for bad debts on long-term contracts | -2 845     | -2 000     |
|  | 184 949    | 113 514    |

### (3.8) OTHER RECEIVABLES

|                   | 12.31.2000 | 12.31.1999 |
|-------------------|------------|------------|
| Prepaid expenses  | 1 914      | 857        |
| Other receivables | 19 930     | 4 480      |
|                   | 21 844     | 5 337      |

The other receivables comprise in particular receivables from tax authorities (VAT and withholding tax) for kCHF 17 150 (1999: kCHF 3 871)

### (3.9) CASH AND CASH EQUIVALENT

|                          | 12.31.2000 | 12.31.1999 |
|--------------------------|------------|------------|
| Cash at bank and in hand | 34 881     | 26 581     |
| Short-term deposits      | 519 514    | 34 580     |
|                          | 554 395    | 61 161     |

**(3.10) CHANGE IN SHAREHOLDERS' EQUITY**

|                                      | Share capital  | Additional paid-in capital | Other reserves | Consolidated shareholders' equity, Group's interest | Minority interests | Total shareholders' equity |
|--------------------------------------|----------------|----------------------------|----------------|---|--------------------|----------------------------|
| <b>At January 1, 1999</b>            | <b>41 527</b>  | <b>19 359</b>              | <b>42 906</b>  | <b>103 792</b>                                      | <b>7 672</b>       | <b>111 464</b>             |
| Share capital increase               | 72             |                            |                | 72  |                    | 72                         |
| Change in consolidation scope        |                |                            |                | 0   | 3 506              | 3 506                      |
| Dividends paid to minority interests |                |                            |                | 0   | -1 000             | -1 000                     |
| Currency translation adjustment      |                |                            | 561            | 561   | 842                | 1 403                      |
| Net income                           |                |                            | 35 427         | 35 427  | 3 336              | 38 763                     |
| <b>At December 31, 1999</b>          | <b>41 599</b>  | <b>19 359</b>              | <b>78 894</b>  | <b>139 852</b>                                      | <b>14 356</b>      | <b>154 208</b>             |
| Share capital increase               | 457 711        | 41 598                     |                | 499 309   |                    | 499 309                    |
| Cost on share capital increase       |                | -11 159                    |                | -11 159   |                    | -11 159                    |
| Change in consolidation scope        |                |                            |                | 0   | 150                | 150                        |
| Dividends paid to minority interests |                |                            |                | 0   | -1 000             | -1 000                     |
| Purchased goodwill on investments    |                |                            | -21 119        | -21 119   |                    | -21 119                    |
| Currency translation adjustment      |                |                            | 472            | 472   | -648               | -176                       |
| Net income                           |                |                            | 66 618         | 66 618  | 6 325              | 72 943                     |
| <b>At December 31, 2000</b>          | <b>499 310</b> | <b>49 798</b>              | <b>124 865</b> | <b>673 973</b>                                      | <b>19 183</b>      | <b>693 156</b>             |

**THEORETICAL EFFECT OF THE AMORTIZATION OF THE GOODWILL**

Goodwill is booked directly against shareholders' equity under the Group's accounting policies.

If the goodwill had been capitalized as an asset and amortized over the defined period, an additional amount of kCHF 632 would have been included in the 2000 income statement (1999: kCHF 0), whereas the shareholders' equity and the total assets would have increased by kCHF 20 487 (1999: kCHF 0).

## COMPOSITION OF SHARE CAPITAL

|  | 12.31.2000     | 12.31.1999    |
|--|----------------|---------------|
| 4 543 100 / 378 481 bearer shares of CHF 100 each    | 454 310        | 37 849        |
| 4 500 000 / 375 000 registered shares of CHF 10 each | 45 000         | 3 750         |
|  | <b>499 310</b> | <b>41 599</b> |

## CONDITIONAL SHARE CAPITAL

|   |               |            |
|---|---------------|------------|
| Conditional share capital as at January 1                         | 928           | 1 000      |
| Share capital increase as per amended statutes of August 17, 2000 | 10 214        | —          |
| Shares issued   | -133          | -72        |
| <b>Conditional share capital as at December 31</b>                | <b>11 009</b> | <b>928</b> |

## AUTHORIZED SHARE CAPITAL

|   |               |          |
|---|---------------|----------|
| 500 000 bearer shares of CHF 100 each             | 50 000        | —        |
| 450 000 registered shares of CHF 10 each          | 4 500         | —        |
| <b>Authorized share capital as at December 31</b> | <b>54 500</b> | <b>—</b> |

## MAJOR SHAREHOLDERS

|                 | Voting rights |            | Shareholdings |            |
|-----------------|---------------|------------|---------------|------------|
|                 | 12.31.2000    | 12.31.1999 | 12.31.2000    | 12.31.1999 |
| Kudelski Family | 64%           | 65%        | 35%           | 37%        |
| Dassault Group  | 4%            | 5%         | 7%            | 8%         |

## (3.11) PROVISIONS

|  | 12.31.2000   | 12.31.1999   |
|--|--------------|--------------|
| Restructuring provision                          | 3 914        | 0            |
| Provision for cancellation and risk on contracts | 2 100        | 2 100        |
| Other provisions                                 | 1 278        | 481          |
| Exchange rate provision                          | 0            | 607          |
|  | <b>7 292</b> | <b>3 188</b> |

A restructuring provision of kCHF 10 000 has been constituted at the date of acquisition of SportAccess Holding Group and taken as an increase of the purchased goodwill. This provision was used for an amount of kCHF 6 068 to cover the 2000 restructuring charges of this Group. It is planned that the residual provision of kCHF 3 914 will be entirely used in 2001.

**(3.12) DEFERRED TAX LIABILITY**

Tax liabilities by temporary differences category

|                           | 12.31.2000 | 12.31.1999   |
|---------------------------|------------|--------------|
| Inventories               | 500        | 600          |
| Trade accounts receivable | 325        | 390          |
| Investments               | 116        | 112          |
|                           | <b>941</b> | <b>1 102</b> |

**(3.13) TRADE ACCOUNTS PAYABLE**

|   | 12.31.2000    | 12.31.1999    |
|---|---------------|---------------|
| Trade accounts payable                  | 56 951        | 23 240        |
| Due to suppliers on long-term contracts | 19 519        | 32 512        |
|   | <b>76 470</b> | <b>55 752</b> |

**(3.14) ACCRUED LIABILITIES**

|                         | 12.31.2000    | 12.31.1999    |
|-------------------------|---------------|---------------|
| Income tax liabilities  | 11 114        | 6 661         |
| Capital tax liabilities | 1 899         | 0             |
| Accrued liabilities     | 10 070        | 5 668         |
|                         | <b>23 083</b> | <b>12 329</b> |

**(3.15) OTHER INFORMATION**

|  | 12.31.2000 | 12.31.1999 |
|--|------------|------------|
| Guarantees in favor of third-parties             | 57 976     | 33 933     |
| Current assets pledged to secure own commitments | 1 451      | 5 238      |
| Penalty risk for non accomplishment of contracts | p.m.       | p.m.       |
| Pension fund liability                           | 808        | 276        |
| Off balance sheet lease commitments              | 867        | 118        |
| – Less than 1 year                               | 401        | 69         |
| – More than 1 year and less than 5 years         | 466        | 49         |
| Employees  | 425        | 239        |

**(3.16) RELATED PARTIES**

There are no material business transactions with related parties in accordance with the Accounting and Reporting Recommendations (ARR) No 15.

## 4. NOTES TO THE CONSOLIDATED INCOME STATEMENT

### (4.1) SALES ET SALES ON LONG-TERM CONTRACTS

Geographical segment information is as follows:

|                              | Europe  | America | Asia /Oceania | Africa | Total   |
|------------------------------|---------|---------|---------------|--------|---------|
| Sales                        | 80 283  | 97 665  | 13 081        | 1 630  | 192 659 |
| Sales on long-term contracts | 125 340 | 28 515  | 6 894         | 0      | 160 749 |
|                              | 205 623 | 126 180 | 19 975        | 1 630  | 353 408 |

Sales have increased by 67%. This strong progression mainly comes from revenues generated from previously acquired clients and the signing of new contracts for Pay-TV. Nagravision SA installed 25 new Pay-TV systems in 2000 (1999 : 35). The volume of sales generated increased because of the size of the Pay-TV systems installed, particularly in Poland, in Spain and in the United States of America.

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### (4.2) CAPITALIZATION OF NEW PRODUCT DEVELOPMENT COSTS

This balance represents internally developed products, which were capitalized in 2000 and 1999. The movement of this balance is detailed in note 3.1 of the present document.

Internally developed generic projects of kCHF 3 004 (1999 : kCHF 2 120) were capitalized; the remaining balance of kCHF 3 115 (1999: kCHF 1 921) represents work done by third parties.

### (4.3) COST OF GOODS AND COMPONENTS SOLD

|                                  | 2000     | 1999     |
|----------------------------------|----------|----------|
| Purchase of goods and components | -191 710 | -111 068 |
| Change in inventories            | 10 499   | -298     |
|                                  | -181 211 | -111 366 |

### (4.4) OPERATING EXPENSES

|                                      | 2000    | 1999    |
|--------------------------------------|---------|---------|
| Expenses on projects – external fees | -10 848 | -6 794  |
| Capital and other taxes              | -1 484  | -410    |
| Other operating expenses             | -11 203 | -4 372  |
|                                      | -23 535 | -11 576 |

**(4.5) SALES AND ADMINISTRATION COSTS**

|                            | 2000           | 1999           |
|----------------------------|----------------|----------------|
| Administration costs       | -2 325         | -2 660         |
| Promotion and sales costs  | -17 159        | -7 437         |
| Third-party fees and other | -4 281         | -3 026         |
|                            | <b>-23 765</b> | <b>-13 123</b> |

**(4.6) FINANCIAL INCOME**

|  | 2000         | 1999         |
|--|--------------|--------------|
| Interest income                        | 6 955        | 718          |
| Net foreign exchange transaction gains | 0            | 2 031        |
|  | <b>6 955</b> | <b>2 749</b> |

**(4.7) FINANCIAL EXPENSES**

|   | 2000        | 1999        |
|---|-------------|-------------|
| Interest expense                        | -902        | -310        |
| Net foreign exchange transaction losses | -2          | 0           |
|   | <b>-904</b> | <b>-310</b> |

**(4.8) INCOME TAX**

|                          | 2000          | 1999          |
|--------------------------|---------------|---------------|
| Switzerland              | -5 926        | -3 901        |
| Other countries          | -2 748        | -1 006        |
| Change in deferred taxes | 161           | 843           |
|                          | <b>-8 513</b> | <b>-4 064</b> |

Certain entities within the Group are subject to favorable tax regimes granted by the relevant authorities to promote economic development. Tax rates will be comparative for the next three years.

The US based entities prior year income tax charge was offset by the utilization of net operating losses available for carry forward. The tax charge was reduced in 1999 by kCHF 900.

**(4.9) EARNINGS PER SHARE (EPS)**

|  | 2000         | 1999        |
|--|--------------|-------------|
| <b>Basic / diluted earnings per share (in CHF)</b> | <b>14.74</b> | <b>8.51</b> |
| Net income   | 66 618       | 35 427      |
| Weighted average number of bearer shares           | 4 074 354    | 3 786 208   |

Basic / diluted earnings per share is determined through dividing the net income attributable to shareholders owning shares of a nominal value of CHF 100 by the weighted average number of bearer shares in circulation during the period.

The weighted average number of bearer shares in circulation in 1999 is corrected in order to take into account the splitting of August 2000.

## 5. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

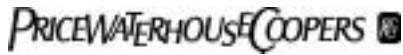
### (5.1) OPERATING CASH FLOW

|                                     | 2000          | 1999          |
|-------------------------------------|---------------|---------------|
| <b>Net income, Group's interest</b> | <b>66 618</b> | <b>35 427</b> |
| Interest income                     | -6 955        | -731          |
| Interest expense                    | 904           | 310           |
| Income tax                          | 8 513         | 4 064         |
| Depreciation and amortization       | 11 415        | 8 113         |
| Change in long-term provisions      | -7 512        | -2 342        |
| Change in deferred tax liability    | -161          | -743          |
| Change in bad debts provision       | 1 303         | 4 726         |
| Minority interest in net income     | 6 325         | 3 336         |
| <b>Cash-flow</b>                    | <b>80 450</b> | <b>52 160</b> |
| Change in inventories               | -10 499       | 731           |
| Change in work in progress          | -231          | 1 834         |
| Change in trade accounts receivable | -67 491       | -70 678       |
| Change in other assets              | -13 174       | -252          |
| Change in trade accounts payable    | 19 317        | 39 382        |
| Change in other liabilities         | 23 666        | 4 436         |
| <b>Operating cash flow</b>          | <b>32 038</b> | <b>27 613</b> |

### (5.2) ACQUISITION OF SUBSIDIARIES, NET OF CASH ACQUIRED

The Group acquired Précision Electronique Precel SA and the SportAccess Holding Group during the year 2000. The fair value of acquired assets and liabilities is follows:

|   |               |
|---|---------------|
| Intangible assets   | -773          |
| Tangible assets   | -3 718        |
| Financial assets  | -22           |
| Inventories   | -1 088        |
| Work in progress  | -460          |
| Trade accounts receivable                                     | -5 247        |
| Other receivables   | -2 195        |
| Cash and cash equivalents                                     | -3 023        |
| Restructuring provision                                       | 10 000        |
| Other provisions  | 1 616         |
| Trade accounts payable  | 6 507         |
| Other liabilities   | 12 124        |
| <b>Fair value of net assets acquired</b>                      | <b>13 721</b> |
| Cash and cash equivalents in subsidiaries acquired            | 3 023         |
| <b>Fair value of net assets acquired net of cash acquired</b> | <b>16 744</b> |
| Goodwill (booked directly against shareholders' equity)       | -21 118       |
| <b>Acquisition of subsidiaries, net of cash acquired</b>      | <b>-4 374</b> |



**REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS OF KUDELSKI SA, CHESEAUX-SUR-LAUSANNE**

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) of Kudelski SA for the year ended December 31, 2000 .

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

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Accounting and Reporting Recommendations (ARR) and comply with Swiss law.

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

PricewaterhouseCoopers SA

D. Lustenberger

Ph. Tzaud

Lausanne, April 11, 2001



# FINANCIAL REPORT 2000

FINANCIAL STATEMENTS OF KUDELSKI SA

# KUDELSKI SA BALANCE SHEETS AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

KUDELSKI GROUP FINANCIAL STATEMENTS OF KUDELSKI SA

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| ASSETS                                   | Notes | 12.31.2000     | 12.31.1999     |
|--|-------|----------------|----------------|
| <b>Fixed assets</b>                      |       |                |                |
| Financial assets                         |       |                |                |
| Investments                              | (3.1) | 30 398         | 23 567         |
| Loans to Group companies                 |       | 14 467         | 4 574          |
| <b>Total fixed assets</b>                |       | <b>44 865</b>  | <b>28 141</b>  |
| <b>Current assets</b>                    |       |                |                |
| Accounts receivable from Group companies |       |                |                |
| Other accounts receivable                | (3.2) | 11 879         | 109            |
| Cash and cash equivalents                | (3.3) | 497 833        | 31 087         |
| <b>Total current assets</b>              |       | <b>603 460</b> | <b>86 687</b>  |
| <b>TOTAL ASSETS</b>                      |       | <b>648 325</b> | <b>114 828</b> |

The auditor's opinion and notes set out on pages 30 to 35 form an integral part of these financial statements.

# KUDELSKI SA

## BALANCE SHEETS

### AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

| SHAREHOLDERS' EQUITY AND LIABILITIES              | Notes | 12.31.2000     | 12.31.1999     |
|---|-------|----------------|----------------|
| <b>Shareholders' equity</b>                       |       |                |                |
| Share capital                                     |       | 499 310        | 41 599         |
| General reserve                                   |       | 52 082         | 21 644         |
| Retained earnings                                 |       | 28 835         | 27 215         |
| Net income  |       | 30 138         | 1 620          |
| <b>Total shareholders' equity</b>                 | (3.4) | <b>610 365</b> | <b>92 078</b>  |
| <b>Long-term liabilities</b>                      |       |                |                |
| Provisions  | (3.5) | 3 306          | 3 371          |
| <b>Total long-term liabilities</b>                |       | <b>3 306</b>   | <b>3 371</b>   |
| <b>Current liabilities</b>                        |       |                |                |
| Short-term loans from Group companies             |       | 29 462         | 17 699         |
| Other liabilities                                 |       | 3 344          | 922            |
| Accrued liabilities                               |       | 1 848          | 758            |
| <b>Total current liabilities</b>                  |       | <b>34 654</b>  | <b>19 379</b>  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> |       | <b>648 325</b> | <b>114 828</b> |

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The auditor's opinion and notes set out on pages 30 to 35 form an integral part of these financial statements.

# KUDELSKI SA

## INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

|   | Notes | 2000          | 1999         |
|---|-------|---------------|--------------|
| Financial income                                  | (4.1) | 33 707        | 2 587        |
| Other income                                      |       | 0             | 13           |
| <b>Total income</b>                               |       | <b>33 707</b> | <b>2 600</b> |
| Administrative and other expenses                 | (4.2) | -2 867        | -388         |
| Financial expenses                                | (4.3) | -767          | -145         |
| Provision for impairment of current assets        |       | 0             | -312         |
| Change in provision for exchange rate differences |       | 65            | 0            |
| <b>Net income before tax</b>                      |       | <b>30 138</b> | <b>1 755</b> |
| Income tax  |       | 0             | -135         |
| <b>NET INCOME</b>                                 |       | <b>30 138</b> | <b>1 620</b> |

The auditor's opinion and notes set out on pages 30 to 35 form an integral part of these financial statements.

# KUDELSKI SA PROPOSAL FOR PROFIT APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2000

(IN THOUSANDS OF CHF)

|  | 2000          |
|--|---------------|
| Balance brought forward from previous year | 28 835        |
| Net income                                 | 30 138        |
| <b>TOTAL AVAILABLE EARNINGS</b>            | <b>58 973</b> |
| Proposal by the Board of Directors:        |               |
| General reserve allocation                 | 1 507         |
| Balance to be carried forward              | 57 466        |
| <b>TOTAL AVAILABLE EARNINGS</b>            | <b>58 973</b> |

# KUDELSKI SA

## NOTES TO THE FINANCIAL STATEMENTS

### AT DECEMBER 31, 2000 AND 1999

(IN THOUSANDS OF CHF)

#### 1. GENERAL COMMENTS

The financial statements are presented in accordance with the requirements of the Swiss Code of Obligations.

On January 1, 1999, Kudelski SA, a mixed holding, was split. The operational activity was transferred to a new 100% held subsidiary, Nagravis SA, Cheseaux-sur-Lausanne. Kudelski SA became a pure holding company, whose new statutory purpose is to hold and manage subsidiaries active, in particular, in communication systems, security and in electronics.

#### 2. ACCOUNTING POLICIES

##### FINANCIAL ASSETS

Investments and loans to Group companies are accounted for 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 includes bank deposits and fixed term investments whose maturities are generally of three months or less from the transaction date.

##### EXCHANGE RATE DIFFERENCES

Current asset items denominated in foreign currencies are converted at year-end exchange rates. Exchange differences not realized are provisioned.

### 3. NOTES TO THE BALANCE SHEET

#### (3.1) INVESTMENTS

| Companies                        | Location       | Activity   | Share capital | Percentage of held |      |
|----------------------------------|----------------|--|---------------|--------------------|------|
|                                  |                |  |               | 2000               | 1999 |
| Nagravision SA                   | Cheseaux       | Digital TV and audio production and sales                            | kCHF 12 000   | 100                | 100  |
| NagraCard SA                     | Cheseaux       | Smartcards production and sales                                      | kCHF 100      | 100                | 100  |
| Nagra Trading SA                 | Cheseaux       | Trading  | kCHF 100      | 100                | 100  |
| Nagravision Iberica SI           | Madrid         | Sales  | kEUR 3        | 100                | —    |
| Nagra France Sàrl                | Paris          | Sales  | KFRF 350      | 100                | 100  |
| Nagra Kudelski (GB) Ltd.         | St. Albans     | Sales  | kGBP 1        | 100                | 100  |
| Nagra Italia SRL                 | Roma           | Sales  | kITL 20 000   | 100                | 100  |
| Nagra Kudelski GmbH              | Munich         | Sales  | kDEM 50       | 100                | 100  |
| Nagra USA, Inc.                  | Nashville      | Sales  | kUSD 10       | 100                | 100  |
| Nagra Plus                       | Cheseaux       | Analog TV  | kCHF 2 000    | 50                 | 50   |
| Intelegis SA                     | Marin-Epagnier | Identification security systems                                      | kCHF 1 000    | 50                 | 50   |
| NagraID SA                       | Chaux-de-Fonds | Identification security systems                                      | kCHF 4 000    | 50                 | 50   |
| MediaCrypt SA                    | Zurich         | Scrambling security systems  | kCHF 3 000    | 50                 | 50   |
| Précision Electronique           | Neuchâtel      | Mechanical and electronics   |               |                    |      |
| Preceel SA                       |                |  | kCHF 100      | 100                | —    |
| SportAccess Holding SA           | Sion           | Access control systems   | kCHF 8 144    | 76                 | —    |
| Political Rights SA (Polirights) | Geneva         | Secure interactive communication solutions for public administration | kCHF 450      | 66                 | —    |
| Pay TV SA                        | Lausanne       | Pay television   | kCHF 490      | 5.88               | 5.88 |
| Nagra Travel Sàrl                | Cheseaux       | Travel agency  | kCHF 50       | 100                | 100  |
| A Novo Americas LLC              | Delaware       | Services   | kUSD 200      | 10                 | —    |

**(3.2) OTHER ACCOUNTS RECEIVABLE**

|  | 12.31.2000    | 12.31.1999 |
|--|---------------|------------|
| Withholding tax                                  | 10 659        | 0          |
| Prepaid expenses                                 | 1 139         | 97         |
| Other account receivable                         | 81            | 12         |
| Accounts receivable third-party                  | 0             | 312        |
| ./ provision for accounts receivable third-party | 0             | -312       |
|  | <b>11 879</b> | <b>109</b> |

**(3.3) CASH AND CASH EQUIVALENTS**

|                          | 12.31.2000     | 12.31.1999    |
|--------------------------|----------------|---------------|
| Cash at bank and in hand | 1 283          | 87            |
| Short term deposits      | 496 550        | 31 000        |
|                          | <b>497 833</b> | <b>31 087</b> |

**(3.4) CHANGE IN SHAREHOLDERS' EQUITY**

|                             | Share<br>capital | General<br>reserve | Available<br>earnings | Total<br>shareholders'<br>equity |
|-----------------------------|------------------|--------------------|-----------------------|----------------------------------|
| <b>At December 31, 1998</b> | <b>41 527</b>    | <b>21 644</b>      | <b>27 215</b>         | <b>90 386</b>                    |
| Share capital increase      | 72               |                    |                       | 72                               |
| Net income                  |                  |                    | 1 620                 | 1 620                            |
| <b>At December 31, 1999</b> | <b>41 599</b>    | <b>21 644</b>      | <b>28 835</b>         | <b>92 078</b>                    |
| Share capital increase      | 457 711          | 30 438             |                       | 488 149                          |
| Net income                  |                  |                    | 30 138                | 30 138                           |
| <b>At December 31, 2000</b> | <b>499 310</b>   | <b>52 082</b>      | <b>58 973</b>         | <b>610 365</b>                   |



#### COMPOSITION OF SHARE CAPITAL

|  | 12.31.2000 | 12.31.1999 |
|--|------------|------------|
| 4 543 100 / 378 481 bearer shares of CHF 100 each    | 454 310    | 37 849     |
| 4 500 000 / 375 000 registered shares of CHF 10 each | 45 000     | 3 750      |
|  | 499 310    | 41 599     |

#### CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF STATUTES)

|   |               |            |
|---|---------------|------------|
| Conditional share capital as at January 1                         | 928           | 1 000      |
| Share capital increase as per amended statutes of August 17, 2000 | 10 214        | —          |
| Shares issued   | -133          | -72        |
| <b>Conditional share capital as at December 31</b>                | <b>11 009</b> | <b>928</b> |

#### AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF STATUTES)

|   |               |          |
|---|---------------|----------|
| 500 000 bearer shares of CHF 100 each             | 50 000        | —        |
| 450 000 registered shares of CHF 10 each          | 4 500         | —        |
| <b>Authorized share capital as at December 31</b> | <b>54 500</b> | <b>—</b> |

#### MAJORS SHAREHOLDERS

|                 | Voting rights |            | Shareholdings |            |
|-----------------|---------------|------------|---------------|------------|
|                 | 12.31.2000    | 12.31.1999 | 12.31.2000    | 12.31.1999 |
| Kudelski Family | 64%           | 65%        | 35%           | 37%        |
| Dassault-Group  | 4%            | 5%         | 7%            | 8%         |

#### (3.5) PROVISIONS

|   | 12.31.2000 | 12.31.1999 |
|---|------------|------------|
| Provision on sale of subsidiary               | 1 856      | 1 856      |
| Provisions for return on financial investment | 1 450      | 1 450      |
| Provision for exchange risk                   | 0          | 65         |
|   | 3 306      | 3 371      |

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

#### 4. NOTES TO INCOME STATEMENT

##### (4.1) FINANCIAL INCOME

|   |               |              |
|---|---------------|--------------|
|   | 2000          | 1999         |
| Dividends received from Group companies | 26 000        | 0            |
| Interest on loans to Group companies    | 1 838         | 2 197        |
| Interest income third-party             | 5 869         | 390          |
|   | <b>33 707</b> | <b>2 587</b> |

##### (4.2) ADMINISTRATIVE AND OTHER EXPENSES

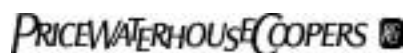
|                           |               |             |
|---------------------------|---------------|-------------|
|                           | 2000          | 1999        |
| Administrative expenses   | -1 581        | -234        |
| Tax other than income tax | -1 286        | -154        |
|                           | <b>-2 867</b> | <b>-388</b> |

##### (4.3) FINANCIAL EXPENSES

|  |             |             |
|--|-------------|-------------|
|  | 2000        | 1999        |
| Interest on loans from Group companies | -765        | -144        |
| Other                                  | -2          | -1          |
|  | <b>-767</b> | <b>-145</b> |

#### 5. COMMITMENTS AND CONTINGENCIES

|  |             |            |
|--|-------------|------------|
|  | 12.31. 2000 | 12.31.1999 |
| <b>Commitments in favor of third-parties</b>       |             |            |
| Guarantees in favor of third-parties               | 0           | 32 848     |
| <b>Other commitments</b>                           |             |            |
| Penalty risk for non-accomplishment of contracts   | p.m.        | p.m.       |
| Comfort letters signed in favor of Group companies | p.m.        | p.m.       |



REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS OF  
KUDELSKI SA, CHESEAUX-SUR-LAUSANNE

As statutory auditors, we have audited the accounting record and the financial statements (balance sheet, income statement and notes) of Kudelski SA for the year ended December 31, 2000 .

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

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

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

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

PricewaterhouseCoopers SA

D. Lustenberger

Ph. Tzaud

Lausanne, April 11, 2001

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