KUDELSKI GROUP FINANCIAL STATEMENTS 2010

NAGRA
KUDELSKI GROUP

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CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009)

In CHF'000	Notes	2010	2009
Revenues	6	1 035 172	1 052 343
Other operating income	7	34 169	8 433
Total revenues and other operating income		**1 069 341**	**1 060 776**
Cost of material		-260 220	-321 522
Employee benefits expense		-402 160	-373 760
Other operating expenses	8	-233 975	-227 650
Operating income before depreciation, amortization and impairment		**172 986**	**137 844**
Depreciation, amortization and impairment	9	-62 974	-64 498
Operating income		**110 012**	**73 346**
Interest expense	10	-16 709	-14 440
Other finance income/(expense), net	11	-16 677	342
Share of results of associates	17	4 897	1 275
Income before tax		**81 523**	**60 523**
Income tax expense	12	-14 846	-9 432
Net income for the year		**66 677**	**51 091**
Attributable to:			
– Equity holders of the company		65 689	48 980
– Non controlling interests		988	2 111
		66 677	**51 091**

In CHF	Notes	2010	2009
Earnings per bearer share			
– basic	14	1.2314	0.9213
– diluted	14	1.2313	0.9213
Earnings per registered share (not listed)			
– basic	14	0.1231	0.0921
– diluted	14	0.1231	0.0921

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009)

In CHF'000	2010	2009
Net income	66 677	51 091
Currency translation differences	-32 217	-16 154
Cash flow hedges	1 561	–
Net gain / (loss) on available-for-sale financial assets	72	-165
Total comprehensive income for the year	**36 093**	**34 772**
Attributable to:		
– Equity holders of the company	36 454	37 152
– Non controlling interests	-361	-2 380
	36 093	**34 772**

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

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2010 AND 2009)

Assets

In CHF'000	Notes	31.12.2010	31.12.2009
Non-current assets			
Tangible fixed assets	15	146 723	145 846
Intangible assets	16	223 511	236 525
Investments in associates	17	7 624	6 653
Deferred income tax assets	18	56 471	57 206
Financial assets and other non-current assets	19	72 476	97 009
Total non-current assets		**506 805**	**543 239**
Current assets			
Inventories	20	85 703	82 276
Trade accounts receivable	21	245 458	292 019
Other current assets	22	66 255	92 841
Financial assets (short term)	23	2 103	37 658
Cash and cash equivalents	24	199 031	210 139
Total current assets		**598 550**	**714 933**
Total assets		**1 105 355**	**1 258 172**

Equity and liabilities

In CHF'000	Notes	31.12.2010	31.12.2009
Capital and reserves			
Share capital	25	533 683	531 935
Reserves		-82 384	-92 989
Treasury shares	26	-489	-380
Equity attributable to equity holders of the parent		**450 810**	**438 566**
Non controlling interests		15 808	33 079
Total equity		**466 618**	**471 645**
Non-current liabilities			
Long-term financial debt	27	352 899	388 105
Deferred income tax liabilities	18	5 854	5 693
Employee benefits liabilities	29	27 737	25 069
Provisions for other liabilities and charges	30	2 397	7 321
Other long-term liabilities	31	4 438	3 314
Total non-current liabilities		**393 325**	**429 502**
Current liabilities			
Short-term financial debt	32	61 596	123 191
Trade accounts payable	33	55 980	78 830
Other current liabilities	34	102 024	123 705
Current income taxes		2 599	9 626
Advances received from clients	35	12 643	18 574
Derivative financial instruments	36	456	231
Provisions for other liabilities and charges	30	10 114	2 868
Total current liabilities		**245 412**	**357 025**
Total liabilities		**638 737**	**786 527**
Total equity and liabilities		**1 105 355**	**1 258 172**

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

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009)

In CHF'000	Notes	2010	2009
Net income for the year		**66 677**	**51 091**
Adjustments for:			
Current and deferred income tax		14 846	9 432
Interest expense and other finance income/(expense), net		10 244	3 216
Allocation of the equity conversion component and transaction costs of convertible bond and borrowings		7 848	5 703
Depreciation, amortization and impairment	9	62 974	64 498
Change in fair value of financial assets at fair value through profit or loss		150	231
Share of result of associates	17	-4 897	-1 275
Dividends received from associated companies	17	828	780
Non-cash employee benefits expense		5 904	10 756
Other non operating cash items		-3 240	1 707
Other non cash income/expenses		23 839	-11 360
		185 173	**134 779**
Change in inventories		-7 945	19 267
Change in trade accounts receivable		26 551	60 844
Change in trade accounts payable		-12 730	-38 387
Change in deferred costs and other net current working capital headings		-29 578	-32 005
Interest paid		-8 871	-7 803
Interest received		8 855	1 548
Income tax paid		-12 309	-3 060
Cash flow from operating activities		**149 146**	**135 183**
Purchases of intangible fixed assets		-29 754	-23 395
Purchases of tangible fixed assets		-43 388	-27 861
Proceeds from sales of tangible and intangible fixed assets		1 339	1 438
Investment in financial assets and loans granted		-7 110	-58 710
Divestment of financial fixed assets and loan reimbursement		69 932	17 198
Acquisition of subsidiaries, cash outflow	37	-34 008	-132 150
Disposal of associated companies	17	3 080	–
Acquisition of associated companies		-1 086	-741
Cash flow used in investing activities		**-40 995**	**-224 221**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-121 921	-58 665
Increase in bank overdrafts, long term loans and other non-current liabilities		28 902	120 708
Proceeds from employee share purchase program	41	142	148
Cash received from exercise of stock options		14	243
Dividends paid to non controlling interests		–	-86
Dividends paid to shareholders	40	-15 958	-7 921
Sale of treasury shares		605	–
Acquisition of treasury shares	26	-489	–
Cash flow (used in)/from financing activities		**-108 705**	**54 427**
Effect of foreign exchange rate changes on cash and cash equivalents		-10 554	-3 069
Net increase / (decrease) in cash and cash equivalents		**-11 108**	**-37 680**
Cash and cash equivalents at the beginning of the year	24	210 139	247 819
Cash and cash equivalents at the end of the year	24	199 031	210 139
Net increase / (decrease) in cash and cash equivalents		**-11 108**	**-37 680**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2009		**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
Employee stock option plan		4	4						8
Shares issued for employees	41	7 837	-1 413						6 424
Dividend paid to shareholders	40			-7 921					-7 921
Non controlling interests arising on business combinations	4			-62 289				-70 854	-133 143
Impact of transactions with non controlling interests	42			2 497				324	2 821
Impact of subsidiaries share based payments								-86	-86
December 31, 2009		**531 935**	**58 614**	**-139 830**	**30 571**	**-42 344**	**-380**	**33 079**	**471 645**
Total comprehensive income for the year		**–**	**–**	**65 689**	**1 633**	**-30 868**	**–**	**-361**	**36 093**
Employee share purchase program	41	88	86	5					179
Exercise of stock options by employees		7	7						14
Shares issued for employees	41	1 653	329						1 982
Acquisition of treasury shares	42						-489		-489
Sale of treasury shares	26			225			380		605
Dividend paid to shareholders	40			-15 958					-15 958
Impact of transactions with non controlling interests	4			-9 685				-16 910	-26 595
Impact of subsidiaries share based payments	42			-993					-993
Restricted shares allocated over the vesting period	42			135					135
December 31, 2010		**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**466 618**

Fair value and other reserves as of December 31, 2010, include kCHF 33 470 (2009: kCHF 33 470) of equity component of the convertible bond, put-option on acquisition of non controlling interests for kCHF -2 672 (2009: kCHF -2 672) and kCHF -155 (2009: kCHF -227) of unrealized gain/(loss) on available-for-sale financial assets. It also includes an unrealized gain of kCHF 1 561 relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

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 non controlling interests as transactions with equity owners of the Group ("economic entity approach"). For purchases from non controlling 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 non controlling 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. 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 non controlling interests. Cost occured for an acquisition is charged against income statement.

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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is then recognised as other operating income.

(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 recognised in other comprehensive income. The partial or total disposal of a subsidiary triggers the recycling of the translation difference to the income statement.

(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,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

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

Property, plant and equipment are measured at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes 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

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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.

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.

(c) External research and development

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

(d) Computer software

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

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(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 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.

(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) Profit sharing and bonus plan

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

(e) OpenTV Corp employee share based payments

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

(f) 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 accounts payable

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, 2010. The adoption of following standards had limited impact on the financial statements:
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 lead no 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 non controlling interests. All transaction costs will be expensed. The change did not lead to significant changes.

Annual IFRS improvement projects effective from 1 January 2010 had limited impact on Group accounts.

Following IFRICs were not relevant on Group's account:
IFRIC 9 – Reassessment of embedded derivatives (effective from periods beginning on or after 1 July 2009);

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IFRIC 16 – Hegdes of a net investment in a foreign operation (effective from periods beginning on or after 1 July 2009);

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

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

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 2011 or later periods, but which the Group has not early adopted:

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.

IAS 36 (amendment) – (effective from 1 January 2010) clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

IAS 24 - Related party disclosure – (effective from 1 January 2011) clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

IFRS 2 (amendment) – (effective from 1 January 2010) expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

IFRS 5 (amendment) – (effective from 1 January 2010) clarifies the disclosures required and that the general requirement of IAS 1 still apply.

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 19 – Extinguishing financial liabilities (effective from periods beginning on or after 1 July 2010).

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.

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

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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 2010 and 2009, 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 December 10, 2010, the Group closed an asset deal to acquire certain assets from the French technology company Iwedia for a cash consideration of EUR 0.5 million (CHF 0.7 million). Iwedia develops software products for television operators, as well as set-top box and integrated digitalTV vendors. No goodwill arose from this business combination.

Public Access

On May 17, 2010, Skidata AG purchased 100% of C-oncept software GmbH, Austria, for a consideration of kCHF 2 293. C-oncept software GmbH provides online public access software solutions and services. The Goodwill, amounting to kCHF 105, is allocated to the Public Access cash generating unit and is attributable to the knowledge of employees to develop user-friendly access services.

The aggregated assets and liabilities arising from the above 2010 business combinations are as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	88	317
Intangible fixed assets (goodwill excl.)	15	3 324
Inventories	135	–
Trade accounts receivable	542	542
Trade accounts payable	-356	-356
Other current liabilities	-137	-137
Long term liabilities	–	-852
Net assets	**287**	**2 838**
Non controlling interests purchased		–
Fair value of net assets acquired		**2 838**
Purchase consideration:		
– cash paid		2 943
Fair value of net assets acquired		-2 838
Goodwill		**105**
Purchase consideration:		
– cash paid		2 943
Cash and cash equivalents acquired		–
Net cash outflow from acquisitions		**2 943**

Correction of previous purchase price

On Septembrer 18, 2009, the Group purchased 100% of Medialive SA, a French company which was further merged with Nagra France SAS. The final purchase price allocation was dependent on the French tax authorities agreement to net out Medialive SA tax losses carried forward with Nagra France SAS net income. Such confirmation was provided by French tax authorities during the first half 2010. Hence, the purchase price allocation has been changed to reflect a tax asset for tax losses carried forward for CHF 2.5 million and recognized as a badwill for such amount. The badwill has been presented in the income statement as other operating income.

Transactions with non controlling interests

On March 26, 2010, OpenTV Corp completed the redemption of all of its outstanding Class A ordinary shares, other than such Class A shares held by Kudelski Group. A total of 16 098 257 shares, representing 11.5% of the share capital of the company, have been redeemed for a total consideration of kCHF 26 595. The redemption of the above shares was treated as transaction with non controlling interest and was allocated to retained earnings for kCHF 9 685 and non controlling interests for kCHF 16 910. Furthermore, as part of the going private process, cash payments were made for kCHF 1 101 for the cancellation of employees or former employees' option rights. Employee share based payments and cash payments for kCHF 108 were received from employees stock option exercises. The above transactions were considered as «Impact of subsidiaries share based payment» and were allocated to retained earnings for kCHF 993.

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BUSINESS COMBINATIONS IN 2009

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 was revised as outlined in this section (see Correction of previous purchase price). 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**
Non controlling interests 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 non controlling 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 non controlling interests and have resulted in a total consideration of kCHF 133 143 which was allocated to retained earnings for kCHF 62 743 and non controlling 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.

Contribution and Pro forma data including business combinations for all of 2010
The acquired businesses contributed net income of kCHF -1 038 (2009: kCHF -1 173) to the Group for the period from acquisition dates to December 31, 2010.
If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 1 035 820 (2009: kCHF 1 052 519) and kCHF 64 549 (2009: kCHF 50 337) respectively.

5. DIVESTMENTS

On February 19, 2010, the Group disposed of its 28% stake of its associated company Ticketcorner AG for kCHF 3 080. Furthermore, the buyer repaid the Ticketcorner loan and interest at closing date.

Arising in 2009
No divestment arose in 2009.

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6. SEGMENT INFORMATION

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 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 2010 and 2009 is as follows:

	Operating divisions	
	Digital Television Solutions	
In CHF'000	2010	2009
Total segment Revenues	**690 194**	**689 906**
Inter-segment revenues	-5 717	-4 871
Revenues from external customers	**684 477**	**685 035**
Depreciation and amortisation	-45 196	-39 512
Impairment	-1 177	-8 200
Operating income/(loss) - excluding corporate common functions	**129 465**	**67 503**
Corporate common functions		
Interest expense and other Finance income/(expense), net		
Share of result of associates		
Income before tax		
	31.12.2010	31.12.2009
Total segment Assets	**733 402**	**756 948**

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.

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.

	Public Access		Middleware & Advertising		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	224 727	**236 674**	**139 328**	**139 235**	**1 054 249**	**1 065 815**
	-103	-82	-13 257	-8 519	-19 077	-13 472
	224 624	**236 592**	**126 071**	**130 716**	**1 035 172**	**1 052 343**
	-9 100	-9 415	-7 501	-7 371	-61 797	-56 298
	–	–		–	-1 177	-8 200
	8 802	**16 777**	**-6 425**	**10 535**	**131 842**	**94 815**
					-21 830	-21 469
					-33 386	-14 098
					4 897	1 275
					81 523	**60 523**
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	155 422	**205 562**	**180 380**	**286 056**	**1 069 204**	**1 248 566**

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

In CHF'000	31.12.2010	31.12.2009
Total Segment Assets	1 069 204	1 248 566
Cash & Cash equivalents	30 981	6 866
Other current assets	602	81
Financial assets and other non-current assets	4 568	2 659
Total Assets as per Balance Sheet	**1 105 355**	**1 258 172**

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	2010	2009	31.12.2010	31.12.2009
Switzerland	44 889	41 998	240 859	245 821
United States of America	154 838	162 262	119 018	133 607
France	93 359	92 345	15 439	18 665
Italy	91 958	96 886	897	1 108
Germany	75 544	66 087	5 790	6 568
United Kingdom	74 184	66 516	1 710	632
Brazil	72 663	35 644	–	–
Rest of the world	427 738	490 605	54 003	59 146
	1 035 172	**1 052 343**	**437 716**	**465 547**

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	2010	2009
Sale of goods	537 754	590 821
Services rendered	331 654	288 093
Royalties and licenses	165 764	173 429
	1 035 172	**1 052 343**

7. OTHER OPERATING INCOME

In CHF'000	2010	2009
Government grants (research, development and training)	29 758	7 414
Badwill on business combinations	2 473	–
Gain/(Loss) on fixed assets sales proceeds	668	-1 707
Earn-out adaptation	-761	–
Others	2 031	2 726
	34 169	**8 433**

2010 government grants include a one-off entitlement accrued from work performed in previous years yet only fullfilling group revenue recognition criteria in 2010.

8. OTHER OPERATING EXPENSES

In CHF'000	2010	2009
Development and engineering expenses	56 992	54 485
Travel, entertainment and lodging expenses	36 073	34 132
Legal, experts and consultancy expenses	41 844	36 138
Administration expenses	34 384	29 473
Building and infrastructure expenses	34 294	31 381
Marketing and sales expenses	14 382	14 356
Taxes other than income tax	5 425	7 682
Insurance, vehicles and others	10 581	20 003
	233 975	**227 650**

Prior year figures have been reclassified from «Insurance, vehicles and others» to «Development expenses» for kCHF 4 357 for comparison purposes.

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2010	2009
Land and buildings	15	6 311	8 655
Equipment and machines	15	31 402	31 538
Total depreciation and impairment of tangible fixed assets		**37 713**	**40 193**
Intangible assets	16	25 261	24 305
Total amortization and impairment on intangible fixed assets		**25 261**	**24 305**
Depreciation, amortization and impairment		**62 974**	**64 498**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

10. INTEREST EXPENSE

In CHF'000	Note	2010	2009
Interest expense:			
– Convertible bond 2005–2012	28	11 546	11 391
– Other and bank charges		5 163	3 049
		16 709	**14 440**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2010	2009
Interest income		2 562	4 768
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-2 437	-3 055
Net foreign exchange transaction gains/(losses)	13	-17 463	-1 121
Gain on sales of investment		400	–
Others		261	-250
		-16 677	**342**

Change in fair value of kCHF 72 (2009: kCHF -165) for available-for-sale financial assets were recognized directly in equity while kCHF 0 (2009: kCHF 0) were removed from equity and recognized in the income statement.
Change in fair value of held for trading financial assets amounting to kCHF -2 437 (2009: kCHF -3 055) are disclosed under Net gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2010	2009
Current income tax		-13 138	-13 487
Deferred income tax	18	438	4 899
Other taxes		-2 146	-844
		-14 846	**-9 432**

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	2010	2009
Income before taxes	**81 523**	**60 523**
Expected tax calculated at domestic tax rates in the respective countries	-22 693	-16 721
Effect of income not subject to income tax or taxed at reduced rates	11 172	3 013
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	3 675	8 942
Effect of temporary differences and tax losses not recognized and deferred tax assets writ-ten-off	-5 678	-2 926
Efffect of associates' result reported net of tax	428	342
Effect of disallowed expenditures	-574	-1 363
Effect of prior year income taxes	330	-17
Effect of non-refundable withholding tax	-2 146	-844
Other	640	142
Tax expense	**-14 846**	**-9 432**

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 1 157 (2009: kCHF 127) and is disclosed under other in the above table.

The weighted average applicable tax rate was stable at 27.84% (2009: 27.63%).

13. NET FOREIGN EXCHANGE RESULT

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

In CHF'000	2010	2009
Sales	-10 106	3 274
Cost of material	5 265	-1 512
Other finance income/(expense) net	-17 463	-1 121
Total exchange differences	**-22 304**	**641**

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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	2010	2009
Net income attributable to bearer shareholders	59 988	44 715
Net income attributable to registered shareholders	5 701	4 265
Total net income attributable to equity holders	**65 689**	**48 980**
Weighted average number of bearer shares outstanding	48 715 278	48 535 674
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (in CHF)		
Bearer shares	1.2314	0.9213
Registered shares	0.1231	0.0921

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	2010	2009
Net income attributed to equity holders of the company	65 689	48 980
Elimination of interest expense on convertible debt *	–	–
Tax impact on above adjustments	–	–
Net income used to determine earnings per share	**65 689**	**48 980**
Of which:		
– attributable to bearer shareholders	59 988	44 715
– attributable to registered shareholders	5 701	4 265
	65 689	**48 980**
Weighted average number of bearer shares outstanding	48 715 278	48 535 674
Effect of dilutive potential bearer share:		
– employee stock option plan (ESOP)	3 233	763
– convertible bond*	–	–
Weighted average number of bearer shares for the purpose of diluted earnings per share	**48 718 511**	**48 536 437**
Weighted average number of registered shares for the purpose of diluted earnings per share	46 300 000	46 300 000
Diluted earnings per share (in CHF)		
Bearer shares	1.2313	0.9213
Registered shares	0.1231	0.0921

* Shares equivalent of 5 225 440 (2009: 5 225 440) relating to the convertible bond were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

15. TANGIBLE FIXED ASSETS

Tangible fixed assets comprise the following:

In CHF'000	31.12.2010	31.12.2009
Land and buildings	77 819	74 672
Equipment and machines	68 904	71 174
	146 723	**145 846**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Construction in progress	Total
Gross values at cost					
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 effects	-4	-50	-157	3	-208
Reclassification & others	–	–	–	-559	-559
As of January 1, 2010	**15 641**	**80 621**	**18 015**	**1 779**	**116 056**
Additions	2 114	5 942	3 369		11 425
Disposals and retirements	-155	-738	-478		-1 371
Currency translation effects	-380	-2 633	-777	–	-3 790
Reclassification & others	–	1 716	697	-1 779	634
As of December 31, 2010	**17 220**	**84 908**	**20 826**	**–**	**122 954**
Accumulated depreciation and impairment					
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 effects	–	39	66	–	105
As of January 1, 2010	**–**	**-26 712**	**-12 893**	**-1 779**	**-41 384**
Systematic depreciation	–	-3 929	-2 352	–	-6 281
Impairment	–	–	-30	–	-30
Recovery of depreciation on disposals and retirements	–	215	433	–	648
Currency translation effects	–	1 659	273		1 932
Reclassification & others		-1 739	-60	1 779	-20
As of December 31, 2010	**–**	**-30 506**	**-14 629**	**–**	**-45 135**
Net book values as of December 31, 2009	**15 641**	**53 909**	**5 122**	**–**	**74 672**
Net book values as of December 31, 2010	**17 220**	**54 402**	**6 197**	**–**	**77 819**
Useful life in years	Indefinite	10 – 50	4 – 8		

In CHF'000	31.12.2010	31.12.2009
Fire insurance value of buildings	83 091	94 581
Corporate buildings on land whose owner has granted a permanent and specific right of use	6 401	4 473

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, 2009	**197 502**	**15 862**	**213 363**
Additions	21 701	1 628	23 329
Disposals and retirements	-21 190	-1 078	-22 268
Impact of business combinations	–	22	22
Currency translation effects	-967	-135	-1 102
Reclassification & others	12 743	-304	12 439
As of January 1, 2010	**209 789**	**15 995**	**225 783**
Additions	29 930	2 058	31 988
Impact of business combinations	317	–	317
Disposals and retirements	-45 170	-3 327	-48 497
Currency translation effects	-9 946	-631	-10 577
Reclassification & others	-198	-616	-814
As of December 31, 2010	**184 722**	**13 479**	**198 200**
Accumulated depreciation and impairment			
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 effects	766	75	841
Reclassification & others	-16 663	52	-16 611
As of January 1, 2010	**-143 239**	**-11 371**	**-154 610**
Systematic depreciation	-28 734	-1 550	-30 284
Impairment	-1 118	–	-1 118
Recovery of depreciation on disposals and retirements	45 361	3 111	48 472
Currency translation effects	7 589	480	8 069
Reclassification & others	136	38	174
As of December 31, 2010	**-120 005**	**-9 292**	**-129 297**
Net book values as of December 31, 2009	**66 550**	**4 624**	**71 174**
Net book values as of December 31, 2010	**64 717**	**4 187**	**68 904**
Useful life in years	2–10	4–7	

The technical equipment and machinery comprises assets made available to clients and generating recurring service revenue. 2010 and 2009 impairment losses mainly consisted in assets made available to clients that were written off due to swaps out of those assets. Included in 2009 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	31.12.2010	31.12.2009
Fire insurance value of technical equipment and machinery	136 517	132 765

16. INTANGIBLE ASSETS

In CHF'000	Techno-logy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other in-tangibles	Total
Gross values at cost						
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
Impact of business combinations	1 485	–	–	–	–	1 485
Currency translation effects	-744	-62	-206	-5 160	13	-6 159
Reclassification & others	–	–	788	–	–	788
As of January 1, 2010	**101 164**	**3 892**	**41 620**	**150 350**	**247**	**297 273**
Additions	7 253	–	20 801	–	–	28 054
Disposals and retirements	-215		-6 448	–	–	-6 663
Impact of business combinations	2 956		368	105	–	3 429
Currency translation effects	-5 915	-393	-2 405	-14 909	-48	-23 670
Reclassification & others	1 411		4 470		205	6 086
						–
As of December 31, 2010	**106 654**	**3 499**	**58 406**	**135 546**	**404**	**304 509**
Accumulated depreciation and impairment						
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 effects	335	42	129	–	1	507
Reclassification & others	–	–	-116	–	–	-116
As of January 1, 2010	**-35 301**	**-1 602**	**-23 654**	**–**	**-191**	**-60 748**
Systematic amortization	-11 639	-521	-13 024	–	-50	-25 234
Impairment	–	–	-27	–		-27
Recovery of amortization on disposal and retirements	215	–	6 523	–		6 738
Currency translation effects	2 550	193	1 931	–	45	4 719
Reclassification & others	-1 413	–	-4 828	–	-205	-6 446
As of December 31, 2010	**-45 588**	**-1 930**	**-33 079**	**–**	**-401**	**-80 998**
Net book values as of December 31, 2009	**65 863**	**2 290**	**17 966**	**150 350**	**56**	**236 525**
Net book values as of December 31, 2010	**61 066**	**1 569**	**25 327**	**135 546**	**3**	**223 511**
Useful life in years	4 – 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 101 766 (2009: kCHF 112 051) have been allocated to Middleware & Advertising, kCHF 29 211 (2009: kCHF 32 980) to Digital Television Solutions and kCHF 4 569 (2009: kCHF 5 319) 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 and a discount rate of 11.0% (2009: 12.0%). The cash flows beyond that five-year period have been extrapolated using a steady 2.5% (2009: 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 2011 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	2010	2009
At January 1	**6 653**	**5 563**
Acquisition of associates	998	741
Share of profit	4 897	1 275
Gain on sale of an associated company	-3 080	–
Dividends received	-828	-780
Currency translation effects	-1 016	-146
At December 31	**7 624**	**6 653**

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

Name of associate	Principal activity	Interest held 2010	Interest held 2009
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%	49%
Resort Technology Partners LLC, USA	Sales of Physical Access products	25%	25%
Hantory Co., Ltd, South Korea	Digital Television sales and service	49%	0%
Ticketcorner Holding AG, Switzerland	Event distribution and ticketing	0%	28%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2010	31.12.2009
Total assets	32 118	134 402
Total liabilities	17 868	140 132
Net assets	14 250	-5 729
Group's share of associates' net assets	7 624	6 653

	2010	2009
Revenue	54 625	81 126
Result of the period	5 952	685
Group's share of associates' result for the period	4 897	1 275

The Group's share of associates results in 2010 includes the gain on the sale of the 28% stake in TicketCorner AG of kCHF 3 080 corresponding to the sale consideration. Prior to the disposal, its carrying value as adjusted for the unrealized portion of its revalued assets and liabilities was nil.

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	31.12.2010	31.12.2009
Deferred tax assets	56 471	57 206
Deferred tax liabilities	-5 854	-5 693
	50 617	**51 513**

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

In CHF'000	Note	2010	2009
At January 1		**51 513**	**46 768**
Exchange differences		-633	-154
Impact of business combinations		-701	–
Income statement (expense)/income	12	438	4 899
At December 31		**50 617**	**51 513**

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, 2010	Income statement effect	Business combinations	Currency translation effects	At December 31, 2010
Deferred tax assets associated with					
– intangibles	26 704	3 668	-701	94	29 765
– employee benefits	5 210	874	–	-162	5 922
– tax losses	16 553	-1 053	–	-201	15 299
– provisions and other elements tax deductible when paid	6 141	-3 451	–	-202	2 488
– inter-company profit elimination	3 405	179	–	-500	3 084
– others	414	-202	–	-34	178
Total deferred tax assets (gross)	**58 427**	**15**	**-701**	**-1 005**	**56 736**
Deferred tax liabilities associated with					
– affiliates and allowances for Group companies	-3 204	-974	–	26	-4 152
– provisions & accelerated tax depreciation	-2 293	348	–	266	-1 679
– others	-1 417	1 049	–	80	-288
Total deferred tax liabilities (gross)	**-6 914**	**423**	**–**	**372**	**-6 119**
Net deferred tax asset/(liability)	**51 513**	**438**	**-701**	**-633**	**50 617**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

And for the past year:

In CHF'000	At January 1, 2009	Income statement effect	Business combinations	Currency translation effects	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**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 717.4 million (2009: CHF 789.1 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 244.2 million (2009: CHF 242.2 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 473.2 million (2009: CHF 546.9 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	2010	2009
Expiration within:		
One year	1.6	0.2
Two years	1.5	1.3
Three years	5.5	0.8
Four years	6.8	1.7
Five years	104.0	5.6
More than five years	353.8	537.3
Total	**473.2**	**546.9**

19. FINANCIAL ASSETS AND OTHER NON CURRENT ASSETS

In CHF'000	Note	31.12.2010	31.12.2009
Available-for-sale financial assets:			
– equity instruments with no quoted market price (level 3)		4 572	2 705
– marketable securities (level 1)	23	385	10 199
Loan – third party		1 870	2 576
Loan – related party		350	150
Deferred contract cost (long term portion)		59 858	76 523
Others		5 441	4 856
		72 476	**97 009**

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 4 572 (2009: kCHF 2 705) and marketable securities for kCHF 385 (2009: kCHF 10 199) which have a maturity exceeding twelve months. Third party and related parties loans are measured at amortized cost. The loan to a related party amounting to kCHF 350 (2009: kCHF 150) include the uneliminated portion of a loan granted to a joint-venture company bearing interest at 3% (2009: 4%). The effective interest rate on third party loan was 2.25% (2009: 2.25%). Others mainly consist of guarantee deposits.

20. INVENTORIES

In CHF'000	31.12.2010	31.12.2009
Raw materials	30 658	22 680
Work in progress	7 405	9 952
Finished goods	47 640	49 644
	85 703	**82 276**

The cost of inventories recognised as an expense includes kCHF 2 240 (2009: kCHF 12 765) in respect of write-downs of inventories and has been reduced by kCHF 559 (2009: kCHF 1 040) 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 1 371 (2009: kCHF 13 567).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2010	31.12.2009
Trade accounts receivable	256 677	302 361
Less: provision for impairment	-24 384	-26 754
Trade accounts receivable related parties	7 680	6 286
Trade receivables – net	**239 973**	**281 893**
Amounts due from customers for contract work, of which kCHF -453 provision (2009: kCHF -1'860)	5 485	10 126
Total	**245 458**	**292 019**

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	2010	2009
January 1	**-26 754**	**-21 839**
Provision for impairment charged to income statement	-4 071	-13 084
Utilization	2 291	1 883
Reversal	3 773	6 217
Translation effects	377	69
December 31	**-24 384**	**-26 754**

The creation and release of provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -4 071 (2009: kCHF -13 084). 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	31.12.2010	31.12.2009
Not overdue	157 800	168 605
Past due and not impaired:		
– not more than one month	26 484	55 410
– more than one month and not more than three months	26 672	34 050
– more than three months and not more than six months	9 538	12 212
– more than six months and not more than one year	11 295	6 451
– more than one year	8 184	5 165
Total trade accounts receivable, net	**239 973**	**281 893**

22. OTHER CURRENT ASSETS

In CHF'000	31.12.2010	31.12.2009
Loans third parties – short term portion	306	3 430
Loans related parties - short term portion	–	26 525
Prepaid expenses	6 943	5 907
Accrued income	1 226	4 361
State and government institutions	24 837	20 379
Advances to suppliers and employees	11 169	8 915
Deferred contract cost (short term portion)	19 329	18 529
Other receivables	2 445	4 795
	66 255	**92 841**

Loans are measured at amortized cost. The effective interest rate on short term loans was 10.2% (2009: 10.1%). In 2009, loans to related parties comprised a loan to Ticketcorner which principal amount was kCHF 19 715 and included accrued interest for kCHF 6 810. The principal amount and interests were fully repaid in 2010.

23. FINANCIAL ASSETS

In CHF'000	Note	31.12.2010	31.12.2009
Financial assets used for hedging:			
– derivative financial instruments (level 2)	36	1 411	–
Financial assets available-for-sale:			
– marketable securities (level 1)		692	37 658
		2 103	**37 658**

Available-for-sale marketable securities include the following:

In CHF'000	Note	31.12.2010	31.12.2009
Corporate debt securities		–	17 923
Asset-backed securities		385	403
Money market securities		692	8 144
Certificates of deposits		–	8 739
US government debt securities		–	12 648
		1 077	**47 857**
of which:			
– short term		692	37 658
– long term	19	385	10 199
		1 077	**47 857**

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24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2010	31.12.2009
Cash at bank and in hand	167 254	179 099
Short term deposits	31 777	31 040
	199 031	**210 139**

The effective interest rate on short term deposits was 0.7% (2009: 0.6%). 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	31.12.2010	31.12.2009
48'738'312 / 48'563'478 bearer shares, at CHF 10 each	487 383	485 635
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	533 683	**531 935**

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	2010	2009
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 4, 2012, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2010	2009
Conditional share capital as of January 1	109 503	107 478
Increase of conditional share capital	–	10 000
Employee share purchase plan	-88	-134
Exercise of options	-7	-4
Shares allotted to employees	-1 653	-7 837
Conditional share capital as of December 31	**107 755**	**109 503**
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:		
775'444 / 950'278 bearer shares, at CHF 10 each	7 755	9 503
	107 755	**109 503**

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, 2009 and December 31, 2009	**20 155**	**380**
Sale of treasury shares	-20 155	-380
Acquisition of treasury shares	16 752	489
As of December 31, 2010	**16 752**	**489**

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27. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2010	31.12.2009
Bank loans		13 694	54 759
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	28	339 205	333 346
		352 899	**388 105**

The effective interest rate on long term bank loans was 3.7% (2009: 3.1%).

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	2010	2009
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	24 496	18 792
Interest expense for the year	11 546	11 391
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	-1 343	-1 343
Liability component as of December 31	**339 205**	**333 346**

Transaction costs amounted to kCHF 6 337 of which kCHF 618 were allocated to the equity component of the convertible bond.

The above interest expense includes the following:

In CHF'000	2010	2009
Base interest (1.625%)	5 688	5 688
Allocation of the equity conversion component	5 041	4 886
Effective interest expense (effective yield rate of 3.2%)	**10 729**	**10 574**
Allocation of transaction costs	817	817
Interest expense	**11 546**	**11 391**

29. EMPLOYEE BENEFITS LIABILITIES

In addition to the social security plans mandated by the law, the Kudelski Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19. 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 audited every year by an independent actuary.

Abroad the Kudelski Group sponsors six others long term employee benefit plans 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	31.12.2010	31.12.2009	31.12.2008	01.01.2008
Fair value of plan assets	105 664	95 089	75 443	87 081
Defined benefit obligation	-164 785	-129 496	-111 687	-107 717
Funded status	**-59 121**	**-34 407**	**-36 244**	**-20 636**
Unrecognized gains/(losses)	-31 336	-9 338	-14 537	-586
Unrecognized prior service cost	-48	–	–	–
Prepaid/(accrued) pension cost	**-27 737**	**-25 069**	**-21 707**	**-20 050**

The liability that is recognized in the balance sheet at December 31, 2010 amounts kCHF 27 737 (kCHF 25 069 at December 31, 2009).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2010 (respectively 2009):

In CHF'000	2010	2009
Service cost	-16 452	-14 075
Interest cost	-4 318	-4 015
Expected return on plan assets	4 279	3 395
Employees contributions	5 871	5 333
Amortization of gains/(losses)	-94	-387
Amortisation of prior service cost	-2	–
Net pension (cost)/income	**-10 716**	**-9 749**
Exchange rate difference	**1 126**	**32**
Employer contribution	**7 082**	**6 355**

The net pension cost for the financial year 2010 amounts kCHF 10 716 (kCHF 9 749 for the financial year 2009).
The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2010 and 2009 are as follows:

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	31.12.2010	31.12.2009
Switzerland		
Discount rate	2.50%	3.25%
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	4.9% on average	5.0% on average
Retirement age	according to the rules	according to the rules
Abroad		
Discount rate	4.25%	5.00%
Rate of future increase in compensations	3.33%	3.32%
Turnover	9.0% on average	9.3% 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 2010 and 2009 are as follows:

A. Change in defined benefit obligation

In CHF'000	2010	2009
Defined benefit obligation as of 1.1.	**-129 496**	**-111 687**
Service cost	-16 452	-14 075
Interest cost	-4 318	-4 015
Change in assumptions	-18 232	-4 876
Change in pension plan	-50	–
Actuarial gains/(losses)	-147	1 817
Acquisition	-160	–
Benefits payments	2 945	3 308
Exchange rate difference	1 125	32
Defined benefit obligation as of December 31,	**-164 785**	**-129 496**

B. Change in fair value of plan assets

In CHF'000	2010	2009
Fair value of plan assets as of 1.1.	**95 089**	**75 443**
Expected return on plan assets	4 279	3 395
Employees' contributions	5 871	5 333
Employer's contribution	7 082	6 355
Plan assets gains/(losses)	-3 712	7 870
Benefits (paid)/received	-2 945	-3 307
Fair value of plan assets as of December 31,	**105 664**	**95 089**

C. Change in unrecognized gains/(losses)

In CHF'000	2010	2009
Unrecognized gains/(losses) as of 1.1.	**-9 339**	**-14 537**
Amortization	94	387
Change in assumptions	-18 232	-4 876
Actuarial gains / (losses)	-147	1 817
Plan assets gains / (losses)	-3 712	7 870
Unrecognized gains/(losses) as of December 31,	**-31 336**	**-9 339**

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D. Change in Unrecognized prior service cost

In CHF'000	2010	2009
Unrecognized prior service cost as of 1.1.	**–**	**–**
Unrecognized prior service cost during the year	-50	–
Amortization	2	–
Unrecognized gains/(losses) as of December 31,	**-48**	**–**

The actual return on plan assets amounts to kCHF 567 in 2010 (kCHF 11 265 for the year 2009). The estimated employer's contribution to the pension plans for the financial year 2011 amount kCHF 7 064.

The categories of plan assets and their corresponding expected return at December 31, 2010 (respectively December 31, 2009) are as follows:

In CHF'000	Proportion in % 31.12.2010	Expected return 31.12.2010	Proportion in % 31.12.2009	Expected return 31.12.2009
Cash	4.9%	2.0%	11.3%	2.0%
Swiss bonds	28.6%	3.3%	25.6%	3.3%
Foreign bonds	7.8%	3.3%	8.5%	3.3%
Swiss shares	20.8%	7.0%	19.7%	7.0%
Foreign shares	24.2%	6.5%	22.9%	6.5%
Real estates	11.2%	4.5%	9.4%	4.5%
Structured products	2.5%	4.5%	2.6%	4.5%
Total	**100.0%**	**4.9%**	**100.0%**	**4.7%**

30. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2010	Total 2009
As of January 1	**1 319**	**2 075**	**6 795**	**10 189**	**15 003**
Additional provisions	17	7 484	1 121	8 622	845
Unused amounts reversed	–	–	-5 384	-5 384	-1 293
Used during the year	-172	–	-243	-415	-4 290
Exchange differences	-104	-44	-353	-501	-76
As of December 31	**1 060**	**9 515**	**1 936**	**12 511**	**10 189**
Thereof:					
– Short term	223	7 955	1 936	10 114	2 868
– Long term	837	1 560	–	2 397	7 321
	1 060	**9 515**	**1 936**	**12 511**	**10 189**

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 0 (2009: kCHF 4 570) to cover the risk of smart card replacement for certain customers paying a recurring security fee. The 2009 provision has been reversed due to changes in the agreement with the customer.

31. OTHER LONG TERM LIABILITIES

In CHF'000	31.12.2010	31.12.2009
Contingent consideration - long term portion	2 590	3 000
Loans granted by third parties	384	265
Other long-term liabilities	1 464	49
	4 438	**3 314**

Loan granted by third parties bears a 3% interest rate (2009: 4%).

32. SHORT TERM FINANCIAL DEBT

In CHF'000	31.12.2010	31.12.2009
Short term bank borrowings	61 596	123 175
Other short term financial liabilities	–	16
	61 596	**123 191**

The average effective interest paid in 2010 for short term bank borrowings was 3.92% (2009: 2.45%).

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33. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2010	31.12.2009
Trade accounts payable – third parties	55 980	78 185
Trade accounts payable – related parties	–	645
	55 980	**78 830**

34. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2010	31.12.2009
Accrued expenses	73 477	81 599
Deferred income	9 033	8 938
Payable to pension fund	820	2 906
Contingent consideration - short term portion	435	2 217
Other payables	18 259	28 045
	102 024	**123 705**

35. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2010	31.12.2009
Amounts due to customers for contract work	4 610	11 200
Advances from clients	8 033	7 374
	12 643	**18 574**

36. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**
Currency related instruments (level 2)						
– Over the counter currency options	28 050	21 630	1 411	–	456	231
– Cross currency swaps	14 025	10 000		–	–	–
Total of currency related instruments	**42 075**	**31 630**	**1 411**	**–**	**456**	**231**

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. In 2010 and 2009, liabilities are classified as held-for-trading. 2010 assets are qualifying for hedge accounting. The contractual maturity date of all these derivative instruments is less than one year and the undiscounted planned cash inflow and outflow are kCHF 43 541 and kCHF 42 075 respectively (2009: kCHF 31 176 and kCHF 31 630).

37. CASH FLOWS FOR ACQUISITION OF SUBSIDIARIES

In CHF'000	Notes	2010 Acquisitions	2009 Acquisitions
Tangible fixed assets		317	21
Intangible fixed assets (excluding goodwill)		3 324	1 484
Financial assets and other non-current assets		–	34
Net working capital		49	465
Deferred tax liabilities		-701	–
Long term liabilities		-151	-114
Cash and cash equivalents		–	33
Fair value of net assets acquired for the Group	**4**	**2 838**	**1 923**
Goodwill		105	–
Impact of transaction with non controlling interests	4	27 696	133 143
Total acquisition costs		**30 639**	**135 066**
Of which:			
– cash consideration paid		30 639	125 884
– acquisition costs		–	9 182
		30 639	**135 066**
To adjust for:			
– prior years contingent considerations paid		2 129	2 434
– prior year acquisition costs paid		3 624	–
– correction of prior year purchase price		-2 384	–
– cash and cash equivalents acquired	4	–	-33
– unpaid acquisition costs		–	-3 624
– non cash items transferred to acquisition costs		–	-1 693
Net cash outflow from acquisitions		**34 008**	**132 150**

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38. PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Kudelski family pool	57%	57%	24%	24%

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	2010	2009
Research and development	238 011	236 698

40. DIVIDEND

The ordinary dividend paid in 2010 was kCHF 15 958 (2009: kCHF 7 921) which corresponds to a dividend of CHF 0.30 (2009: CHF 0.15) per bearer share and CHF 0.03 (2009: CHF 0.015) per registered share.
For the current year, the Board of Directors proposes a dividend of CHF 0.30 per bearer share and CHF 0.03 per registered share. The dividend to be paid is kCHF 16 010 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 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 2010	Options 2010	Shares 2009	Options 2009
Shares underwritten by employees	7 800	–	12 235	–
Bonus shares and options from ESPP	976	584	1 108	1 339
Total employee share program	**8 776**	**584**	**13 343**	**1 339**

In CHF'000	Shares 2010	Options 2010	Shares 2009	Options 2009
Amount paid by employee	142		148	
Booked corporate charges (excluding social charges)	32	5	28	16
	174	**5**	**176**	**16**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF 2010	Options 2010	Options 2009
In circulation on January 1	20	1 292	1 712
In circulation on January 1	15	6 107	4 768
Total in circulation on January 1		**7 399**	**6 480**
New rights issued	15	584	1 339
Rights exercised	20	-723	-420
Rights forfeited	20	-4	–
In circulation on December 31		**7 256**	**7 399**
– of which exercisable as of January 1	20	–	420
– of which exercisable as of December 31	20	565	–

Shares issued for employees

In 2010, 165 335 bearer shares of Kudelski SA (2009: 783 741) were given to employees for no consideration as part of their remuneration, of which 148 170 (2009: 631 666) include a seven-year blocking period, 17 165 include a three year blocking period (2009: 125 801) and 0 include a one year blocking period (2009: 14 471). The fair value recognized for this equity based compensation is kCHF 1 982 (2009: kCHF 6 425) of which kCHF 0 was accrued in the prior year (2009: kCHF 2 452).

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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 2010, no options were granted to employees and board members of OpenTV Corp while there were 453 400 granted in 2009 with an average strike price of USD 1.40. Employees and board members of OpenTV Corp exercised 85 815 (2009: 191 853) options with an average strike price of USD 1.16 (2009: 1.14). In April 2010, OpenTV Corp accelerated its employee stock option vesting as a result of Kudelski's acquisition, and redeemed all its outstanding and vested stock options. The table below summarizes movements in options in 2010 and 2009:

	Options outstanding	Exercice price	Weighted average exercice price
		in USD	in USD
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**
Options exercised	-85 815	1.03 – 1.51	1.16
Options redeemed	-4 611 913	1.03 – 82.06	4.66
Balance, December 31, 2010	**–**	**–**	

As of December 31, 2010, OpenTV Corp did not have any stock options outstanding while the following options were outstanding as of December 31, 2009:

	Options outstanding			Options currently exercisable	
Exercice price in USD	Number outsdanding	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**

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.

In January 2010, 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, 2011, 2012 and 2013.

Subsequently, OpenTV Corp removed the restrictions and redeemed all these shares in April 2010 as result of Kudelski's acquisition.

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 options granted under the current option plan. The fair value of the grant has been determined as being the stock market value at the date of grant of USD 1.04 per ordinary share. The expense is recognized over the remaining requisite service period. 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 lapsed as to 25% of such shares. Restriction on the remaining 2007 Restricted shares lapsed 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 elements for certain OpenTV's senior managers and other key employees. This grant allowed for both performance and service elements. Accordingly, once vesting was considered probable, expense was recognized on a straight line basis over the remaining requisite service period. Final compensation cost was recognized only for awards that ultimately vested. 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, 2010 and 2009 is as follows:

	Number of Shares	Weighted average Grant date fair value
Unvested share balance, January 1, 2009	**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 (acceleration due to 2009 change in control)	-1 035 375	1.04
Unvested shares balance, December 31, 2009	**–**	
Unvested restricted shares granted	100 000	1.55
Restriction removed as a result of Kudelski Group acquisition	-100 000	1.55
Unvested shares balance, December 31, 2010	**–**	

In 2009, 1 035 375 shares vested and were issued, 364 284 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

In 2010, OpenTV Corp converted its non controlling interests in its subsidiary, OpenTV Inc., into OpenTV Corp shares for kCHF 47 (2009: kCHF 309). After the conversion, there are no remaining minority shares from OpenTV Inc. outstanding.

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
	2 010	2 010	2 010	2009	2009	2009
Stock option and share based compensation expense recognized	**–**	**–**	**–**	**3 072**	**262**	**-3 334**
Redeem of restricted shares and options	1 101	–	-1 101	–	–	–
Exercise of options	-108	–	108	224	–	–
Conversion by minority into OpenTV Corp shares	44	–	–	309	–	–
Impact of shares cancelled for withholding tax purposes	–	–	–	-475	–	–
Total in OpenTV Corp books	**1 037**	**–**	**-993**	**3 130**	**262**	**-3 334**
Acceleration of vesting period considered as acquisition cost	–	–	993	–	-91	1 784
Cancellation of conversion by minority treated as Goodwill in OpenTV Corp	-44	–		-309	–	–
Total in Kudelski Group books	**993**	**–**	**–**	**2 821**	**171**	**-1 550**
To adjust for non controlling interests	–	–	–	-324	-20	178
Total	**993**	**–**	**–**	**2 497**	**151**	**-1 372**

RETENTION PLAN FOLLOWING KUDELSKI GROUP ACQUISITION

Upon completion of OpenTV Corp's acquisition by the Kudelski Group, OpenTV Corp purchased 16 752 Kudelski SA bearer shares in order to establish a retention plan for selected OpenTV employees. Such shares are subject to vesting condition lapsing with respect to one third on each anniversary date of June 30, 2011, June 30, 2012 and June 30, 2013 before such shares are transferred to the employees. The expense of kCHF 135 is charged to the income statement according to the vesting conditions. The fair value of these shares amounted to kCHF489 and was based on market price on the purchase date. These shares are considered treasury shares before they are vested and transferred to the selected employees.

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	**2010**	**2009**	**2010**	**2009**	**31.12.10**	**31.12.09**	**31.12.10**	**31.12.09**
Hantory Co., Ltd	2 633	–					696	–
APT-Skidata Ltd	4 391	7 174					875	1 610
Skidata Parking System	10 128	7 450					2 032	1 883
SKIDATA India Private Limited	2 393	1 091					838	146
Resort Technology Partners LLC	2 425	1 836					3 023	1 225
Tickercorner Group	28	5					–	26 525
Total associated companies	**21 998**	**17 556**	**–**	**–**	**–**	**–**	**7 464**	**31 389**
Polyright SA	71	19	75	82	17	22	407	178
Nagra Thomson Licensing	64	65	–	–	–	–	–	14
Total joint ventures	**135**	**84**	**75**	**82**	**17**	**22**	**407**	**192**

APT SkiData and SkiData Parking Ltd are sales representatives companies for SkiData Group. Ticketcorner Group was sold in 2010 and the amounts owed in 2009 was comprising a kCHF 19 715 loan and accrued interest thereon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

44. COMPENSATION, SHAREHOLDINGS AND LOANS

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2010 and 2009 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (number)	Other CHF	Total 2010 CHF
Board of Directors					
Kudelski André, chairman	547 200	–	–	–	547 200
Smadja Claude, vice chairman	190 775	–	–	–	190 775
Bucher Norbert, member	60 000	–	–	–	60 000
Dassault Laurent, member	40 000	–	–		40 000
Foetisch Patrick, member	60 000	–	–	176 782	236 782
Lescure Pierre, member	120 000	–	–	–	120 000
Kudelski Marguerite, member	50 000	–	–	–	50 000
Zeller Alexandre, member	50 000	–	–	–	50 000
Total board members	**1 117 975**	**–**	**–**	**176 782**	**1 294 757**
Management					
Kudelski André, CEO	555 000	3 130 000	110 000	28 800	5 025 080
Other management members	3 630 298	2 352 855	51 761	155 297	6 764 343
Total Management	**4 185 298**	**5 482 855**	**161 761**	**184 097**	**11 789 423**
Former board members					
Kudelski Stefan, founder and “Président d’honneur“	205 020	–	–	–	205 020

	Base compensation in Cash CHF	Variable compensation in Cash CHF	Variable compensation in Kudelski Shares (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

Shares allotments are measured according to IFRS taking into consideration a discount factor for blocking periods. 148 170 (2009: 288 050) bearer shares granted to certain management members are subject to a 7 year blocking period, 13 591 (2009: 26 597) bearer shares are subject to a 3 year blocking period and 0 bearer share (2009: 11 315) subject to a one year blocking period.

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, 2010 and 2009, 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, 2010, the members of the Board of Directors and members of the management had following interest within the company:

	31 december 2010			
	Registered shares	**Bearer shares**	**Options**	**Convertible bond**
Board of Directors				
Kudelski André, chairman (family pool)	46 300 000	8 034 311	–	–
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**	**11 054 623**	**–**	**–**
Management				
Kudelski André, CEO	see above	see above	see above	see above
Saladini Mauro, CFO	–	159 921	880	125 000
Roy Pierre, COO	–	47 711	–	–
Egli Charles, CEO Public Access	–	82 902	120	–
Gani Lucien, General Counsel	–	36 906	160	–
Osadzinski Alex, EVP Product	–	5 656	–	–
Pitton Yves, SVP Business Development	–	33 822	200	–
Goetschmann Nicolas, Corporate Secretary	–	24 979	240	–
Burke John, SVP head of Human Resources	–	32 490	1 300	–
Total Management	**–**	**424 387**	**2 900**	**125 000**

Convertible bond is disclosed in CHF nominal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

And for 2009 (without including shares from 2009 variable compensation - issued in 2010):

	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**

At December 31, 2010 and 2009, 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.

45. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2010	2009
Within one year	7 855	8 735
In the second to fifth year inclusive	23 027	22 916
	30 882	**31 651**

46. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2010:

Assets as per balance sheet date December 31, 2010 (in CHF'000)	Note	Derivatives used for hedging	Available-for-sale	Loans and receivables	Total 31.12.2010
Financial assets and non current assets:					
– equity instruments with no quoted market price	19		4 572		4 572
– marketable securities	19		385		385
– long term loan	19			2 220	2 220
– guarantee deposits	19			5 441	5 441
Trade accounts receivable	21			239 973	239 973
Other current assets:					
– Loans	22			306	306
Financial assets:					
– marketable securities	23		692		692
– derivatives	23	1 411			1 411
Cash and cash equivalents	24			199 031	199 031
		1 411	**5 649**	**446 971**	**454 031**

Liabilities as per balance sheet date December 31, 2010 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2010
Long term financial debt	27		352 899	352 899
Other long term liabilities	31		384	384
Short term financial debt	32		61 596	61 596
Trade accounts payable	33		55 981	55 981
Other payables	34		18 259	18 259
Derivative financial instruments	36	456		456
		456	**489 119**	**489 575**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

And for 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

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 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Financial liabilities				
– CHF 350 million unsubordinated convertible bond	339 205	345 597	333 346	339 827

IFRS 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
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Convertible bond	5 688	5 688	355 688	361 376	–	–	-22 171	-33 718	339 205	333 346
Long term bank loans	379	1 524	14 235	57 832	–	280	-920	-4 877	13 694	54 759
Long term loans – third parties	11	6	360	156	34	114	-21	-12	384	264
Short term financial debt	62 219	125 230		–		–	-623	-2 039	61 596	123 191
Trade accounts payable	55 980	78 830		–		–		–	55 980	78 830
Other payables	18 259	28 045		–		–		–	18 259	28 045
Total	**142 536**	**239 323**	**370 283**	**419 364**	**34**	**394**	**-23 735**	**-40 646**	**489 118**	**618 435**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

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 15% (2009: 10%) increase and decrease to the USD and a 15% (2009: 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.

	USD		EUR	
In CHF'000	**2010**	**2009**	**2010**	**2009**
Post-tax net income				
– Increase	15 187	3 579	3 992	2 165
– Decrease	-17 882	-3 733	-3 992	-2 165
Equity (post-tax effect)				
– Increase	20 928	12 619	31 112	24 797
– Decrease	-19 740	-12 631	-31 112	-24 797

Interest rates

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

- USD: increase of 150 basis points and decrease of 50 basis points (2009: 100 basis points increase or decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2009: 100 basis points increase or decrease)
- CHF: increase of 150 basis points and decrease of 50 basis points (2009: 50 basis points increase or decrease)

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

- post-tax profit for the year ended December 31, 2010 would increase by kCHF 1 334 and decrease by kCHF 445 (2009: decrease/increase by kCHF 84). This is mainly due to the interest rate exposure on cash balances.
- other equity reserves would increase by kCHF 10 and decrease by kCHF 3 (2009: decrease/increase by kCHF 302) 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	31.12.2010	31.12.2009
Guarantee in favor of third parties	90 720	130 033

51. RISK CONCENTRATION

At December 31, 2010 and 2009, no financial asset exposure was more than 10% of the financial assets.

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 2010 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 2010 was 69.2% (2009: 44.9%).

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	
	2010	2009	2010	2009
1 USD	0.9350	1.0300	1.0400	1.0850
1 EUR	1.2500	1.4850	1.3800	1.5090
1 GBP	1.4500	1.6600	1.6100	1.6950
1 SGD	0.7300	0.7350	0.7650	0.7460
1 AUD	0.9540	0.9300	0.9600	0.8550
100 MYR	30.4000	30.1000	32.3700	30.7700
100 SEK	13.9100	14.5000	14.4500	14.2000
100 CNY	14.2000	15.1000	15.4000	15.9000
100 JPY	1.1500	1.1160	1.1900	1.1600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

55. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on February 23, 2011.

56. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Method	Percentage held 2010	Percentage held 2009
Digital Television solutions					
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	Full consolidation	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	Full consolidation	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	Full consolidation	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	Full consolidation	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	Full consolidation	100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules	Full consolidation	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	Full consolidation	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	Full consolidation	50	50
Nagra Thomson Licensing SA	FR – Paris	Intellectual property management	Joint-venture	50	50
Public Access solutions					
SkiData Group	AT – Gartenau	People and car access systems	Full consolidation	100	100
TicketCorner Group	CH – Rümlang	Event distribution and ticketing	Equity method	–	28
Polyright SA	CH – Sion	Multifunction chipcard system	Joint-venture	50	50
Middleware & Advertising					
OpenTV Group **	US - Delaware	Middleware for set-top-boxes and advertising solutions	Full consolidation	100	89*
Quative Ltd	UK – London	IPTV solutions	Full consolidation	100	100
Corporate					
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	Full consolidation	100	100
Kudelski Financial Services SCA	LU – Luxemburg	Finance, convertible bearing company	Full consolidation	100	100

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

*In 2009, the Group has 96% of the voting power in OpenTV Corp

** Including amongst other OpenTV Interactive Software (Beijing) Co. Ltd, China, OpenTV Australia Pty Ltd, Australia, Nagra Media Japan K.K., Japan.

57. 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 ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 4 to 63), for the year ended 31 December 2010.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Stéphane Jaquet Audit expert

Lausanne, February 23, 2011

BALANCE SHEETS AT DECEMBER 31, 2010 AND 2009

ASSETS

In CHF'000	Notes	31.12.2010	31.12.2009
Fixed assets			
Financial fixed assets			
Investments	3.1	404 637	459 240
Loans to Group companies		670 773	678 050
Total fixed assets		**1 075 410**	**1 137 290**
Current assets			
Accounts receivable from Group companies		54 724	27 992
Other accounts receivable and accruals	3.2	1 058	2 638
Treasury shares	3.4	–	380
Cash and cash equivalents	3.3	31 664	5 912
Total current assets		**87 446**	**36 922**
Total assets		**1 162 856**	**1 174 212**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2010	31.12.2009
Shareholders' equity			
Share capital		533 683	531 935
General reserve		84 122	81 507
Reserve for treasury shares		489	380
Retained earnings		304 285	279 698
Net income		90 615	42 834
Total shareholders' equity	**3.4**	**1 013 194**	**936 354**
Long-term liabilities			
Loans from Group companies		97 420	86 051
Bank, long term borrowings		–	29 355
Total long-term liabilities		**97 420**	**115 406**
Current liabilities			
Short-term provisions	3.5	–	1 111
Short-term loans from Group companies		25 662	23 479
Other liabilities and accruals		543	3 392
Bank, short term borrowings		24 310	94 355
Bank overdraft		1 727	115
Total current liabilities		**52 242**	**122 452**
Total liabilities		**149 662**	**237 858**
Total shareholders' equity and liabilities		**1 162 856**	**1 174 212**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2010

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

In CHF'000	Notes	2010	2009
Royalty income and other		1 087	–
Financial income	4.1	122 857	61 938
Gain on sale of investments	4.2	399	8 335
Administrative and other expenses	4.3	-6 910	-5 242
Financial expenses and exchange result	4.4	-7 630	-11 544
Impairment of financial fixed assets and release of provision for impairment	4.5	-19 123	-10 635
Income before tax		**90 680**	**42 852**
Income tax		-65	-18
Net income		**90 615**	**42 834**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2010

In CHF'000	2010
Balance brought forward from previous year	304 381
Merger premium	13
Change in reserve for treasury shares	-109
Net income	90 615
Total available earnings	**394 900**
Proposal of the Board of Directors:	
Ordinary dividend:	
– CHF 0.30 on 48'738'312* bearer shares	14 621
– CHF 0.03 on 46'300'000 registered shares	1 389
General reserve allocation	4 531
Balance to be carried forward	374 359
Total available earnings	**394 900**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2010. It may fluctuate due to the exercise of option and conversion rights between December 31, 2010 and the ordinary General meeting date.

NOTES TO THE FINANCIAL STATEMENTS 2010

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 for shares held by the company and its affiliates.

NOTES TO THE FINANCIAL STATEMENTS 2010

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2010	2009
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products	kCHF	12 000	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF	100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products	kEUR	32 833	100	100
Nagra Kudelski (GB) Ltd	UK – 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	M	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	–
Polyright SA	CH - Sion	Physical access	kCHF	2 000	50	–
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
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 – Bolzano	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	17
Thema SAS	FR – Paris	Worldwide brokerage for existing audio-visual thematic channels	kEUR	46	–	10
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	–
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	50 000	100	–

M = merged company (effective January 1, 2010, Kudelski SA absorbed Nagra Public Access AG); due to this merger, Skidata AG and polyright SA have been transfered to Kudelski SA.

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2010	31.12.2009
Other accounts receivable	417	3
Prepaid expenses and accrued income	602	2 591
Withholding tax	39	44
	1 058	**2 638**

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2010	31.12.2009
Cash at bank and in hand	31 664	5 912
	31 664	**5 912**

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, 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**
General reserve allocation		2 193		-2 193	–
Dividend				-15 958	-15 958
Share capital increase	1 748	422			2 170
Allocation to provision for treasury shares			489	-489	–
Release of provision for treasury shares			-380	380	–
Merger premium				13	13
Net income				90 615	90 615
As of December 31, 2010	**533 683**	**84 122**	**489**	**394 900**	**1 013 194**

NOTES TO THE FINANCIAL STATEMENTS 2010

TREASURY SHARES

	Number of bearer shares	Purchase cost	Impair-ment reserve	Book value
		CHF '000	CHF '000	CHF '000
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**
Sale of treasury shares (Kudelski SA)	-20 155	-380	–	-380
Acquisition of treasury shares (affiliated companies)	16 752	489	–	489
As of December 31, 2010	**16 752**	**489**	**–**	**489**

Treasury shares bought in 2010 have been acquired by an affiliated company.

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2010	31.12.2009
48'738'312 / 48'563'478 bearer shares, at CHF 10 each	487 383	485 635
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	533 683	**531 935**

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	2010	2009
Conditional share capital as of January 1	109 503	107 478
Increase of conditional share capital	–	10 000
Employee share purchase plan	-88	-134
Exercise of options	-7	-4
Shares allotted to employees	-1 653	-7 837
Conditional share capital at December 31	**107 755**	**109 503**
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:		
940'779 / 950'278 bearer shares, at CHF 10 each	7 755	9 503
	107 755	**109 503**

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.

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2010	31.12.2009
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until May 4, 2012, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Kudelski family pool	57%	57%	24%	24%

3.5 SHORT-TERM PROVISIONS

At December 31, 2009, the short term provisions included an unrealized exchange gain in foreign currencies for kCHF 1 111.

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2010	2009
Dividends received from Group subsidiaries	92 224	37 730
Interest income third parties	664	163
Interest on loans to Group subsidiaries	29 743	24 045
Other financial income	226	–
	122 857	**61 938**

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

NOTES TO THE FINANCIAL STATEMENTS 2010

4.2 GAIN ON SALE OF INVESTMENTS

Kudelski SA sold its 10% stake in Thema SAS in 2010, which resulted in a gain of kCHF 399.
In 2009, Kudelski SA sold 100% of Nagra Trading SA to another Group company. This transaction resulted in a gain of kCHF 8 335.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2010	2009
Administrative expenses	-5 120	-3 609
Taxes other than income tax	-1 790	-1 633
	-6 910	**-5 242**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2010	2009
Net currency exchange result	-2 209	-1 546
Interest on loans from Group subsidiaries	-1 384	-8 823
Interest expenses and bank charges	-4 037	-1 175
	-7 630	**-11 544**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS AND RELEASE OF PROVISION FOR IMPAIRMENT

In CHF'000	2010	2009
Allocation to provisions on Group investments and loans	-48 991	-10 790
Reversal of provisions on Group investments and loans	29 868	–
Value adjustment on treasury shares	–	155
	-19 123	**-10 635**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2010	31.12.2009
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	385	35
	350 385	**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.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE COMPENSATION DISCLOSURES

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

7. RISK ASSESSMENT DISCLOSURES

Kudelski SA, as the ultimate parent company of the Kudelski Group, is fully integrated into the Group-wide internal risk assessment process. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of Kudelski SA. Disclosure of the Group-wide risk assessment procedures are described in note 57 to the Group's consolidated financial statements.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 65 to 73), for the year ended 31 December 2010.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

OPINION

In our opinion, the financial statements for the year ended 31 December 2010 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 submitted to you be approved.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Stéphane Jaquet Audit expert

Lausanne, February 23, 2011

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In case of inconsistency between the French
and the English versions of the 2010 Financial reports,
the English version prevails.