

Kudelski Group
 Consolidated income statements for the years ended December 31, 2007 and 2006

In CHF'000	Notes	2007	2006
Revenues	5	925 813	694 340
Other operating income	6	14 635	2 759
Gain on sale of subsidiary	36	2 087	59 083
		942 535	756 182
Loss on sale of subsidiary	36	-2 179	-
Cost of material		-261 810	-213 975
Employee benefits expense		-336 107	-215 311
Other operating expenses	7	-205 273	-138 734
Operating income before interest, taxes, depreciation, amortization and impairment		137 166	188 162
Depreciation, amortization and impairment	8	-49 511	-37 955
Operating income (EBIT)		87 655	150 207
Interest expense	9	-12 422	-11 772
Other finance income/(expense), net	10	4 688	8 630
Share of results of associates	16	2 465	3 231
Income before tax		82 386	150 296
Income tax expense	11	-14 938	-11 766
Net income for the year		67 448	138 530
Attributable to:			
- equity holders of the company		66 096	136 044
- minority interest		1 352	2 486
		67 448	138 530

In CHF	Notes	2007	2006
Earnings per bearer share			
- basic	13	1.2689	2.6226
- diluted	13	1.2672	2.5716
Earnings per registered share (not listed)			
- basic	13	0.1269	0.2623
- diluted	13	0.1267	0.2572

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

Kudelski Group
Consolidated balance sheets at December 31, 2007 and 2006

Assets

In CHF'000	Notes	31.12.2007	31.12.2006
Non-current assets			
Tangible fixed assets	14	177 596	149 457
Intangible assets	15	204 117	28 405
Investments in associates	16	10 700	9 441
Deferred income taxes	17	39 750	32 217
Financial assets and other non-current assets	18	38 474	37 951
Total non-current assets		470 637	257 471
Current assets			
Inventories	19	93 813	59 778
Trade accounts receivable	20	260 239	227 039
Other current assets	21	78 030	29 571
Financial assets (short term)	22	23 310	26 147
Cash and cash equivalents	23	278 140	444 007
Total current assets		733 532	786 542
Total assets		1 204 169	1 044 013

Equity and liabilities

In CHF'000	Notes	31.12.2007	31.12.2006
Capital and reserves			
Share capital	24	521 594	519 352
Reserves		-1 201	-30 630
Treasury shares	25	-380	-380
Equity attributable to equity holders of the parent		520 013	488 342
Minority interest		105 542	26 926
Total equity		625 555	515 268
Non-current liabilities			
Long-term financial debt	26	324 868	318 516
Deferred income tax liabilities	17	4 470	2 952
Employee benefits liabilities	28	20 050	17 612
Provisions for other liabilities and charges	29	9 363	7 390
Other long-term liabilities	30	1 560	866
Total non-current liabilities		360 311	347 336
Current liabilities			
Short-term financial debt	31	11 954	9 967
Trade accounts payable	32	70 993	68 705
Other current liabilities	33	95 005	69 732
Current income taxes		10 790	15 870
Advances received from clients	34	21 645	9 382
Derivative financial instruments	35	359	-
Provisions for other liabilities and charges	29	7 557	7 753
Total current liabilities		218 303	181 409
Total liabilities		578 614	528 745
Total equity and liabilities		1 204 169	1 044 013

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

Kudelski Group
Consolidated cash flow statements for the years ended December 31, 2007 and 2006

In CHF'000	Notes	2007	2006
Net income for the year attributable to equity holders of the company		66 096	136 044
Adjustments for:			
Current and deferred income tax		14 938	11 766
Interest expense and other finance income/(expense), net		-228	-11 257
Allocation of the equity conversion component and transaction costs of convertible bonds		5 405	5 262
Depreciation, amortization and impairment		49 511	37 955
Change in fair value of financial assets at fair value through profit or loss		-187	4 863
Share of result of associates		-2 465	-3 231
Dividends received from associated companies		1 229	1 879
Minority interest in net income		1 352	2 486
Non-cash employee benefits expenses		9 439	7 932
Net gain on sale of subsidiary		92	-59 083
Net cash paid and received on subsidiary share based payment		-169	-
Other non cash income/expenses		1 710	-424
		146 723	134 192
Change in inventories		-32 660	-7 179
Change in trade accounts receivable		-8 034	-56 693
Change in trade accounts payable		-6 483	13 503
Change in other net current working capital headings		-20 349	23 163
Interest paid		-6 401	-6 347
Interest received		12 969	11 282
Income tax paid		-21 323	-14 742
Cash flow from operating activities		64 442	97 179
Purchases of intangible fixed assets		-33 878	-21 968
Purchases of tangible fixed assets		-56 528	-47 348
Proceeds from sales of tangible and intangible fixed assets		2 625	1 602
Investment in financial assets		-12 081	-23 682
Divestment of financial fixed assets and loan reimbursement		34 583	2 567
Disposal of subsidiaries, cash inflow/outflow	36	1 709	36 301
Acquisition of subsidiaries, cash outflow	37	-128 678	-11 114
Cash flow used in investing activities		-192 248	-63 642
Change in bank overdrafts, long term loans and other non-current liabilities		2 058	-8 035
Proceeds from employee share purchase program		277	113
Cash received from exercise of stock options		2 703	1 556
Dividends paid to minority interest		-85	-1 250
Dividends paid to shareholders		-31 258	-15 540
Cash flow used in/from financing activities		-26 305	-23 156
Effect of foreign exchange rate changes on cash and cash equivalents		-11 756	-1 059
Net increase (decrease) in cash and cash equivalents		-165 867	9 322
Cash and cash equivalents at the beginning of the year		444 007	434 685
Cash and cash equivalents at the end of the year		278 140	444 007
Net increase (decrease) in cash and cash equivalents		-165 867	9 322

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

Kudelski Group
Consolidated statement of changes in equity

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority interest	Total equity
January 1, 2006		516 829	53 284	-240 668	33 470	550	-380	27 408	390 493
Currency translation adjustment						-1 495		-1 718	-3 213
Net income				136 044				2 486	138 530
Total recognized income & expense for the year		-	-	136 044	-	-1 495	-	768	135 317
Employee share purchase program	41	47	101	6					154
Employee stock option plan	41			470					470
Exercise of stock options by employees	41	778	778						1 556
Shares issued for employees	41	1 698	2 370						4 068
Dividend paid to shareholders	40			-15 540					-15 540
Dividends paid to minority interests								-1 250	-1 250
December 31, 2006		519 352	56 533	-119 688	33 470	-945	-380	26 926	515 268
Currency translation adjustment						-6 520		-8 867	-15 387
Net gain/(loss) on available-for-sale financial assets					8			14	22
Net income				66 096				1 352	67 448
Total recognized income & expense for the year		-	-	66 096	8	-6 520	-	-7 501	52 083
Employee share purchase program	41	184	202	8					394
Employee stock option plan	41			245					245
Exercise of stock options by employees	41	1 180	1 180						2 360
Shares issued for employees	41	878	1 846						2 724
Dividend paid to shareholders	40			-31 258					-31 258
Minority interest arising on business combinations	3							90 371	90 371
Impact of transactions with minority interests	3			-3 644				-6 900	-10 544
Impact of subsidiaries share based payments	42			1 266				2 731	3 997
Dividends paid to minority interests								-85	-85
December 31, 2007		521 594	59 761	-86 975	33 478	-7 465	-380	105 542	625 555

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

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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.

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

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

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

(b) Joint ventures

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

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

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

(c) Associates

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

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

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

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



(C) 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 reporting currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Transactions are recorded using the exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.

Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using average exchange rates. The balance sheets are translated using the year-end exchange rates. Translation differences arising from movements in the exchange rates used to translate equity, long-term internal financing deemed as net investment in a foreign operation and net income are allocated to reserves.



(D) Revenue recognition

Revenue includes the fair value from the sale of goods and services, net of value-added tax, rebates, discounts and sales commissions and after eliminating sales within the Group.

(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.

(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.

Complete security solutions may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements contracted with the client. Assets made available to clients under such contracts are initially recognized in the balance sheet at cost under fixed assets as they remain the Group property. Revenue is recognized when contractually earned and is usually dependent on the client's number of subscribers or number of smartcards made available. 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. It is also subject to periodic impairment reviews. Other costs (such as main-

tenance, 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.

Revenue from system integration, specific developments and customization is recognized under the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract.

For certain customers, the Group commits to provide replacement smartcards at low or no cost to the customer against the payment of a recurring security fee. Such revenues are recognized when earned, while estimated related cost in order to cover the risk is charged to the cost of material and disclosed under provision in the balance sheet.

Revenue from maintenance and training is recognized when earned (maintenance revenue is allocated over the contractual period).

(c) Royalties and licenses

Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled. Revenue on licenses with a fixed term is recognized upon the life of the contract on a straight line basis.

For software license arrangements, the Group recognizes new software license revenue when: (1) The company has entered into a legally binding arrangement with a customer for the license of software; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Government grants

Government grants are recognised as other operating income when the conditions for their receipt have been met and there is reasonable assurance that the grant will be received.

(e) Interest income

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

(E) Derivative financial instruments

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

(F) Taxes

Taxes reported in the consolidated income statements include current and deferred taxes on profit, as well as non reimbursable withholding taxes and tax adjustments relating to prior years. Income tax is recognized in the income statement, except to the extent that it relates to items directly taken 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 calculated using the comprehensive liability method at the substantially enacted rates of tax expected to prevail when the temporary differences reverse. Any changes of the tax rates are recognized in the income statement unless related to items directly recognized in equity.

Deferred tax liabilities are recognized on all taxable temporary differences excluding non deductible goodwill. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

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.

(G) Tangible fixed assets

(a) General

All property, plant and equipment is shown at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred. Financing costs associated with the construction of tangible fixed assets are not capitalized.

Building acquisitions or constructions and building improvements are allocated to components which are depreciated over their useful life. Such useful life may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.

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

Technical equipment and machinery

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

Other equipment

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

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

(b) Leased tangible fixed assets

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

(c) Fixed assets made available to clients

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

(H) 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, except for those developments related to the deployment of complete security solutions provided to certain customers and paid for by those customers in a rental agreement. In such cases, these specific developments are capitalized under the fixed assets made available to clients and amortized using the straight-line method over their estimated useful life of 4 to 5 years.

(c) External research and development

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

(d) Computer software

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

(e) Other intangibles in connection with business combinations

Under IFRS 3, in process research and development, core development technologies, customer lists and trademarks are valued as part of the process of allocating the purchase price in a new business combination. The respective values are recorded separately from goodwill and are allocated to cash-generating units.

Acquired intangibles are amortized on a straight-line basis over the following periods with the expense recorded in the income statement:

Over the useful life, in years

Core development technologies	5 – 10
Customer lists	10
Trademarks and brands	5

(l) 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 accumulative 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.

(J) 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.

(K) Trade accounts receivable

Trade accounts receivable are carried at invoiced amounts, 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.

(L) Cash and cash equivalents

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

(M) 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.

(N) 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.

(O) 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.

(P) 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.

(Q) Employee benefits

(a) Pension obligations

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

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

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

(b) Other long-term employee benefits

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

(c) Employee Share Purchase Program (ESPP)

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

(d) Employee Stock Option Plan (ESOP)

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

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

(e) Profit sharing and bonus plan

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

(f) OpenTV Corp employee share based payments

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

(g) Other employee benefits

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

(R) Treasury shares

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

(S) Dividends

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

(T) New and amended accounting standards and IFRIC interpretations

Standards and Interpretation effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives; and
- IFRIC 10 Interim Financial Reporting and Impairment.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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 2008 or later periods but which the Group has not early adopted:

- IAS 1 (amendment) – Presentation of financial statements (effective from 1 January 2009). It primarily affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosures of specific transactions and other events.
- IAS 23 (amendment) – Borrowing Costs (effective from 1 January 2009). The revised standard eliminates the previously available option to expense all borrowing costs when incurred. This revised standard will have a limited impact for Group's operations and borrowing costs incurred will be capitalized in qualifying assets.
- IAS 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.

- IFRS 2 (amendment)-(effective from 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- IFRS 3 (revised)-Business combinations (effective from 1 July 2009) requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include goodwill related to the minority interest. All transaction costs will be expensed. The change may have a significant impact on the accounting for future business combinations.
- IFRS 8 - Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. This new requirements will have an impact on the segments presented, the items reported and their respective measurement.

Following IFRICs are not relevant or are expected to have no impact on the Group's accounts:

- IFRIC 11, Group and Treasury Share Transactions (effective from periods beginning on or after 1 March 2007)
- IFRIC 12, Service Concessions Arrangements (effective from periods beginning on or after 1 January 2008)
- IFRIC 13, Customer Loyalty Programmes (effective from periods beginning on or after 1 July 2008)
- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

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 affect the accounting in the areas described in this section.

Complete security solutions generating recurring service revenues

As defined in note 1 D, the Group provides complete security solutions generating recurring service revenues 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. Depending on the contract terms with each client, the Group may replace the assets made available 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.

Litigation and product liability provisions

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

Provision for smart card replacement

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

Deferred tax assets

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 17). 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 28) 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. Business combinations

OpenTV Corp

On January 17, 2007 the Group completed the acquisition of a controlling interest in OpenTV Corp for a cash consideration of USD 132.3 million corresponding to an economic interest of 26.53% and a voting interest of 74.51%. OpenTV Corp is a leading provider of middleware technology for the delivery of digital and interactive television. OpenTV Corp is a company listed on the NASDAQ (Ticker: OPTV) and is fully consolidated in the Group financial statements from the acquisition date.

The assets and liabilities arising from the acquisition were as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	7 997	7 997
Intangible fixed assets (goodwill excl.)	23 025	20 977
Goodwill	121 136	-
Deferred income taxes	431	431
Financial assets and other non-current assets	15 665	28 959
Inventories	298	298
Trade accounts receivable	25 892	24 806
Other current assets	5 592	12 217
Financial assets (short term)	10 661	10 661
Cash and cash equivalents	59 858	59 858
Minority interest	-597	-597
Trade accounts payable	-5 124	-5 124
Other current liabilities	-54 846	-28 044
Current income taxes	-4 434	-4 434
Advances received from clients	-275	-6 153
Net assets	205 279	121 852
Minority interest purchased		-89 519
Fair value of net assets acquired		32 333
Purchase consideration:		
– cash paid		162 420
– acquisition costs		2 824
Fair value of net assets acquired		-32 333
Goodwill		132 911
Purchase consideration:		
– cash paid		162 420
– acquisition costs		2 824
Cash and cash equivalents acquired		-59 858
Net cash outflow from acquisitions		105 386

The goodwill is attributable to the potential synergies considered when purchasing the company as well as the work-force capacity to develop new technologies and a premium for the controlling stake acquired.

Transactions with minority interests of OpenTV Corp

The Kudelski Group additionally acquired OpenTV Corp shares for a consideration of kCHF 9 069 on the NASDAQ stock exchange in the second half of 2007. In December 2007, OpenTV Corp bought own shares on the NASDAQ stock exchange for a total consideration of kCHF 1 474. The acquisitions of the above shares are treated as a transaction with minority interests and have resulted in a total consideration of kCHF 10 544 and were allocated to retained earnings for kCHF 3 504 and minority interests for kCHF 7 040.

Share based payments, exercise of options and conversion rights at OpenTV Corp led to a dilution effect amounting to kCHF 140.

Other acquisitions

As at October 24, 2007, the Group bought 50% of TESC Test Solution Center GmbH, Germany for a consideration of CHF 6.3 million. As the Group formerly owned 25 % of that company, TESC is treated as a subsidiary starting October 24, 2007. The goodwill is essentially attributed to the workforce.

As at August 31, 2007, the Group bought 51% of Parking Access Control Technologies SA, Belgium for a cash consideration of EUR 1.6 million (CHF 2.6 million). The remaining 49% are subject to a forward contract agreement and will be bought in several stages until March 2010. For consolidation purposes, the acquisition of this company has been considered with a 100% interest and a contingent consideration has been taken into consideration. This company is active in distributing Skidata parking systems. After the acquisition the company has been renamed as Skidata SA/NV. The goodwill is mainly attributable to the potential to attract new contracts for its parent unit.

The assets and liabilities arising from these acquisitions were as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	2 337	2 533
Intangible fixed assets (goodwill excl.)	103	1 637
Inventories	1 238	1 123
Trade accounts receivable	2 356	2 122
Other current assets	126	79
Cash and cash equivalents	1 338	1 338
Trade accounts payable	-3 716	-3 606
Other current liabilities	-644	-757
Deferred tax liabilities	-	-490
Long term liabilities	-744	-744
Net assets	2 394	3 235
Minority interest purchased		-254
Fair value of net assets acquired		2 981
Purchase consideration:		
- cash paid		8 945
- contingent consideration		1 839
- acquisition costs		96
Recognized income of a purchased associate		254
Fair value of net assets acquired		-2 981
Goodwill		8 153
Purchase consideration in cash:		
- cash paid		8 945
- acquisition costs		96
Cash and cash equivalents acquired		-1 338
Net cash outflow from acquisitions		7 703

Business combinations in 2006

Following business combinations arose in 2006:

Digital Television solutions

On May 22, 2006 the Kudelski Group closed an asset deal to acquire the assets of DTVS (Digital Television Solutions), a division of secure access solutions provider SCM Microsystems for a total consideration of USD 11 million.

SmarDTV SA, Cheseaux, a newly created Swiss company owns the intellectual property and the contracts while Research and Development activities are located in La Ciotat, France.

Furthermore, the Group bought 50% of Mediacrypt AG for a consideration of kCHF 800 increasing its share to 100% as of June 30, 2006 and merged it with Nagravision SA.

Contribution and Pro forma data including business combinations for all of 2007

The acquired businesses contributed net income of kCHF 2 908 (2006: kCHF -1 831) to the Group for the period from acquisition dates to December 31, 2007.

If the acquisitions had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 937 885 (2006: kCHF 707 404) and kCHF 65 617 (2006: kCHF 137 093) respectively.

4. Divestments

Arising in 2007

On December 31, 2007 OpenTV Corp disposed 100% of Static 2358 Holdings Limited for a cash consideration of kCHF 255 (kUSD 225), a contingent consideration of kUSD 875, 50% of any net operating losses utilized, and a 19% stake in the newly formed holding company of Static 2358 Holdings Limited. As cash flow arising from the contingent consideration is not likely, it has been valued at zero.

On January 18, 2007 the Group disposed of a 50% interest in Polyright SA, Sion for a cash consideration of CHF 1 million. The remaining 50% stake in Polyright SA is consolidated using joint venture accounting.

Arising in 2006

On February 17, 2006, the Group closed a sale agreement with a consortium of investors to dispose of the Ticketcorner company. The Group retains a 28% stake of the Ticketcorner business. The net consideration for the equity sold was CHF 71.1 million consisting of a cash payment of CHF 53.6 million and a loan of CHF 17.5 million. Furthermore, the acquirer has reimbursed the CHF10 million loan and committed to an earn-out payment of up to CHF 15.5 million. The net profit realized in connection with this divestment amounts to CHF 59.1 million and is disclosed under Gain on sale of subsidiaries.

5. Segment information

Primary segments

A business segment is a group of assets and operations engaged in providing products and services subject to risks and returns that are different from those of other business segments.

Operating divisions

The Group is divided operationally on a worldwide basis into three divisions, Digital Television Solutions, Public Access and Middleware & Advertising. These divisions, which are also based on internal management structures, can be described as follows:

- The Digital TV Solutions division provides open conditional access solutions allowing digital TV and content providers to operate a wide range of high value-added pay TV services on a secure platform.
- The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and important events as well as multifunctional cards for universities and corporations.
- The Middleware & Advertising division provides middleware software, applications, including advanced advertising and interactive services as well as professional services for digital and interactive television.

The primary segment information for 2007 and 2006 is as follows:

In CHF'000	Operating divisions			
	Digital Television Solutions		Public Access	
	2007	2006	2007	2006
Revenues				
External sales	573 410	500 593	224 303	193 747
Inter-segment sales	8 667	6 691	101	873
Total revenues	582 077	507 284	224 404	194 620
Income statement				
Operating income (EBIT)	87 981	92 357	25 776	76 705
Interest expense and other Finance income/(expense), net				
Share of result of associates	-109	144	2 574	3 087
Income before tax				
Income tax expense				
Net income for the year				
Balance sheet				
Assets				
Segment assets	679 151	584 850	186 140	170 844
Investments in associates	–	351	10 700	9 090
	679 151	585 201	196 840	179 934
Liabilities				
Segment liabilities	130 655	131 640	81 233	77 556
Other information				
Capital expenditures	75 495	58 425	13 831	10 891
Depreciation and amortization	-33 290	-33 807	-6 206	-4 108
Impairment losses	-2 897	–	–	–

Expenses, assets and liabilities relating to Corporate include the costs, assets and liabilities of Group headquarters and the items of expenses, assets and liabilities which are not directly attributable to specific divisions.

Corporate

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.

Intersegment sales

Inter-segment transactions are contracted on arm's length basis.

Middleware & Advertising		Corporate		Eliminations		Total	
2007	2006	2007	2006	2007	2006	2007	2006
128 100	-	-	-	-	-	925 813	694 340
499	-	-	-	-9 267	-7 564	-	-
128 599	-	-	-	-9 267	-7 564	925 813	694 340
-7 575	-	-18 527	-18 855			87 655	150 207
						-7 734	-3 142
-	-	-	-			2 465	3 231
						82 386	150 296
						-14 938	-11 766
						67 448	138 530
280 171	-	48 007	278 878			1 193 469	1 034 572
-	-	-	-			10 700	9 441
280 171	-	48 007	278 878			1 204 169	1 044 013
40 556	-	326 170	319 549			578 614	528 745
4 078	-	-	-			93 404	69 316
-7 118	-	-	-40			-46 614	-37 955
-	-	-	-			-2 897	-

Secondary segments

A geographical segment provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

Sales

In CHF'000	Digital Television Solutions		Public Access		Middleware & Advertising		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Europe	321 996	286 134	186 420	162 749	56 918	–	565 334	448 883
Americas	139 898	143 183	18 378	16 042	33 861	–	192 137	159 225
Asia & Oceania	109 280	69 404	19 200	14 496	31 027	–	159 507	83 900
Africa	2 236	1 872	305	460	6 294	–	8 835	2 332
	573 410	500 593	224 303	193 747	128 100	–	925 813	694 340

Sales are allocated based on where the client is located.

Other geographical information

In CHF'000	Europe	Americas	Others	Total
Total assets as of December 31,				
– 2007	789 049	412 635	2 485	1 204 169
– 2006	928 055	109 891	6 067	1 044 013
Capital expenditures for				
– 2007	87 855	5 459	90	93 404
– 2006	67 864	832	620	69 316

Assets and capital expenditures are allocated based on location of the entity owning the assets.

Revenue categories

In CHF'000	2007	2006
Sale of goods	546 924	481 891
Services rendered	215 985	158 987
Royalties and licenses	162 904	53 462
	925 813	694 340

6. Other operating income

In CHF'000	2007	2006
Government grants (research, development and training)	8 114	1 176
Settlement of litigations	4 228	-
Loss on fixed assets sales proceeds	-86	-126
Others	2 379	1 709
	14 635	2 759

7. Other operating expenses

In CHF'000	2007	2006
Development and engineering expenses	41 409	27 325
Travel, entertainment and lodging expenses	30 469	23 767
Legal, experts and consultancy expenses	47 097	30 531
Administration expenses	25 458	15 656
Building and infrastructure expenses	28 467	16 617
Marketing and sales expenses	12 284	11 201
Taxes other than income tax	5 385	3 567
Insurance, vehicles and others	14 704	10 070
	205 273	138 734

8. Depreciation, amortization and impairment

In CHF'000	Note	2007	2006
Land and buildings	14	4 649	2 681
Equipment and machines	14	34 600	31 257
Total depreciation and impairment of tangible fixed assets		39 249	33 938
Intangible assets	15	10 262	4 017
Total amortization and impairment on intangible fixed assets		10 262	4 017
Depreciation, amortization and impairment		49 511	37 955

9. Interest expense

In CHF'000	Note	2007	2006
Interest expense:			
- Convertible bond 2005 - 2012	27	11 092	10 950
- Other and bank charges		1 330	822
		12 422	11 772

10. Other finance income/(expense), net

In CHF'000	Note	2007	2006
Interest income		15 600	13 936
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		1 423	1 916
Net foreign exchange transaction gains/(losses)	12	-13 489	-182
Impairment losses on available for sale financial assets		-	-6 623
Others		1 154	-417
		4 688	8 630

Change in fair value of kCHF 22 (2006: kCHF 0) for available-for-sale financial assets were recognized directly in equity while kCHF 0 (2006: kCHF 0) were removed from equity and recognized in the income statement. Foreign exchange derivative financial instruments are classified as held for trading financial instruments. Change in fair value of held for trading financial assets amounting to kCHF 1 423 (2006: kCHF 1 916) are disclosed under Net gains on foreign derivative financial instruments not qualifying for hedge accounting.

11. Income tax expense

In CHF'000	Note	2007	2006
Current income tax		-18 863	-15 536
Deferred income tax	17	6 158	4 872
Other taxes		-2 233	-1 102
		-14 938	-11 766

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	2007	2006
Profit before taxes	82 386	150 296
Tax calculated at domestic tax rates applicable to profits in the respective countries	-11 343	-22 077
Income not subject to income tax	4 249	8 891
Utilization of previously unrecognized tax losses	298	3 109
Write off and tax losses not recognized as deferred taxes	-6 085	-1 217
Expenses not deductible for tax purposes	-404	-395
Prior year income taxes	75	-521
Non-reimbursable withholding tax	-2 233	-1 102
Other	505	1 546
Tax expense	-14 938	-11 766

Profit before tax includes the full profit before tax of a joint venture company whose taxes are paid by its shareholder since it is a tax transparent company. As a result 100% of the profit before taxes of this company is included although the Group only recognizes 50% of the taxes on this profit due to the special tax arrangements. The tax impact which is included in other amounts to kCHF 0 (2006: 1 138).

The weighted average applicable tax rate was 13.77% (2006: 14.69%). The decrease in tax rate is mainly attributable to change in the profitability mix of the subsidiaries (different countries, different tax regimes).

12. Net foreign exchange result

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

In CHF'000	2007	2006
Sales	-5 493	-4 390
Cost of material	-367	145
Other finance income/(expense) net	-13 489	-182
Total exchange differences	-19 349	-4 427

13. 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	2007	2006
Net income attributable to bearer shareholders	60 221	123 902
Net income attributable to registered shareholders	5 875	12 142
Total net income	66 096	136 044
Weighted average number of bearer shares outstanding	47 457 434	47 244 699
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic earnings per share (in CHF)		
Bearer shares	1.2689	2.6226
Registered shares	0.1269	0.2623

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	2007	2006
Net income attributed to equity holders of the company	66 096	136 044
Elimination of interest expense on convertible debt *	-	10 950
Tax impact on above adjustments	-	-
Net income used to determine earnings per share	66 096	146 994
Of which:		
- attributable to bearer shareholders	60 229	135 088
- attributable to registered shareholders	5 867	11 906
	66 096	146 994
Weighted average number of bearer shares outstanding	47 457 434	47 244 699
Effect of dilutive potential bearer share:		
- employee stock option plan (ESOP)	71 911	120 877
- convertible bond*	-	5 165 290
Weighted average number of bearer shares for the purpose of diluted earnings per share	47 529 345	52 530 866
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	1.2672	2.5716
Registered shares	0.1267	0.2572

* Shares equivalent of 5 225 440 (2006: 0) relating to the convertible bonds were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

14. Tangible fixed assets

Tangible fixed assets comprise the following:

In CHF'000	31.12.2007	31.12.2006
Land and buildings	80 579	78 725
Equipment and machines	97 017	70 732
	177 596	149 457

Land and buildings

In CHF'000	Land	Buildings	Building improvements	Construction in progress	Total
Gross values at cost					
As of January 1, 2006	11 188	34 366	8 339	26 597	80 490
Additions	3 973	6 727	1 077	7 980	19 757
Disposals and retirements	-	-	-16	-	-16
Change in scope of consolidation	385	2 127	-	-	2 512
Currency translation adjustment	30	548	-9	-	569
Reclassification & others	-	31 537	-	-31 537	-
As of January 1, 2007	15 576	75 305	9 391	3 040	103 312
Additions	-	4 348	1 671	310	6 329
Disposals and retirements	-	-	-1 507	-	-1 507
Change in scope of consolidation	184	794	3 248	-	4 226
Currency translation adjustment	34	432	-126	-	340
Reclassification & others	-	1 021	-	-3 187	-2 166
As of December 31, 2007	15 794	81 900	12 677	163	110 534
Accumulated depreciation and impairment					
As of January 1, 2006	-	-13 361	-7 605	-	-20 966
Systematic depreciation	-	-2 309	-372	-	-2 681
Recovery of depreciation on disposals and retirements	-	-264	-10	-	-274
Change in scope of consolidation	-	-330	-	-	-330
Currency translation adjustment	-	-343	7	-	-336
As of January 1, 2007	-	-16 607	-7 980	-	-24 587
Systematic depreciation	-	-3 393	-1 256	-	-4 649
Recovery of depreciation on disposals and retirements	-	-	1 507	-	1 507
Change in scope of consolidation	-	-68	-1 853	-	-1 921
Currency translation adjustment	-	-265	40	-	-225
Reclassification & others	-	-26	-54	-	-80
As of December 31, 2007	-	-20 359	-9 596	-	-29 955
Net book values as of December 31, 2006	15 576	58 698	1 411	3 040	78 725
Net book values as of December 31, 2007	15 794	61 541	3 081	163	80 579
Useful life in years	Indefinite	10 – 50	4 – 8	Indefinite	

In CHF'000

31.12.2007

31.12.2006

Fire insurance value of buildings	96 074	91 622
Corporate buildings on land whose owner has granted a permanent and specific right of use	4 579	4 667

Equipment and machines

In CHF'000	Technical equipment and machinery	Other equipment	Total
Gross values at cost			
As of January 1, 2006	156 312	11 397	167 709
Additions	25 178	2 413	27 591
Disposals and retirements	-19 350	-272	-19 622
Change in scope of consolidation	-5 558	-1 527	-7 085
Currency translation adjustment	1 443	-62	1 381
Reclassification & others	-394	-9	-403
As of January 1, 2007	157 631	11 940	169 571
Additions	49 646	1 481	51 127
Disposals and retirements	-9 417	-1 426	-10 843
Change in scope of consolidation	25 827	4 342	30 169
Currency translation adjustment	-265	-270	-535
Reclassification & others	3 198	-477	2 721
As of December 31, 2007	226 620	15 590	242 210
Accumulated depreciation and impairment			
As of January 1, 2006	-84 503	-7 438	-91 941
Systematic depreciation	-29 575	-1 682	-31 257
Impairment	-	-	-
Recovery of depreciation on disposals and retirements	19 063	226	19 289
Change in scope of consolidation	4 312	1 245	5 557
Currency translation adjustment	-927	43	-884
Reclassification & others	397	-	397
As of January 1, 2007	-91 233	-7 606	-98 839
Systematic depreciation	-29 750	-1 953	-31 703
Impairment	-2 897	-	-2 897
Recovery of depreciation on disposals and retirements	9 417	1 426	10 843
Change in scope of consolidation	-19 467	-2 623	-22 090
Currency translation adjustment	688	209	897
Reclassification & others	-1 844	440	-1 404
As of December 31, 2007	-135 086	-10 107	-145 193
Net book values as of December 31, 2006	66 398	4 334	70 732
Net book values as of December 31, 2007	91 534	5 483	97 017
Useful life in years	2 – 10	4 – 7	

The technical equipment and machinery comprises assets made available to clients and generating recurring service revenue.

In CHF'000	31.12.2007	31.12.2006
Fire insurance value of technical equipment and machinery	128 880	56 946

15. Intangible assets

In CHF'000	Technology	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
Gross values at cost						
As of January 1, 2006	31 810	12	8 266	–	110	40 198
Additions	18 464	22	3 467	–	15	21 968
Disposals and retirements	-980	–	–	–	-10	-990
Change in scope of consolidation	-16 103	778	416	1 808	–	-13 101
Currency translation adjustment	133	–	186	21	1	341
Reclassification & others	-1	–	-6	–	–	-7
As of January 1, 2007	33 323	812	12 329	1 829	116	48 409
Additions	30 206	–	5 752	–	–	35 958
Disposals and retirements	-7 641	–	-1 664	–	–	-9 305
Change in scope of consolidation	18 545	3 245	7 914	141 062	–	170 766
Currency translation adjustment	-1 316	-136	-349	-10 589	3	-12 387
Reclassification & others	–	–	1 464	–	-33	1 431
As of December 31, 2007	73 117	3 921	25 446	132 302	86	234 872
Accumulated depreciation and impairment						
As of January 1, 2006	-17 651	-8	-6 393	–	-104	-24 156
Systematic amortization	-2 043	-56	-1 907	–	-11	-4 017
Recovery of amortization on disposal and retirements	–	–	–	–	11	11
Change in scope of consolidation	8 691	–	-378	–	–	8 313
Currency translation adjustments	-27	–	-137	–	-1	-165
Reclassification & others	–	–	11	–	-1	10
As of January 1, 2007	-11 030	-64	-8 804	–	-106	-20 004
Systematic amortization	-6 474	-564	-3 224	–	–	-10 262
Recovery of amortization on disposal and retirements	5 014	-19	1 664	–	21	6 680
Change in scope of consolidation	14	–	-7 105	–	–	-7 091
Currency translation adjustments	91	18	325	–	-1	433
Reclassification & others	–	–	-511	–	–	-511
As of December 31, 2007	-12 385	-629	-17 655	–	-86	-30 755
Net book values as of December 31, 2006	22 293	748	3 525	1 829	10	28 405
Net book values as of December 31, 2007	60 732	3 292	7 791	132 302	–	204 117
Useful life in years	5 – 10	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 122 304 (2006: kCHF 0) have been allocated to Middleware & Advertising, kCHF 7 645 (2006: kCHF 1 829) to Digital Television solutions and kCHF 2 353 (2006: kCHF 0) 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 weighted average cost of capital used as discount rate of 12.8%. The cash flows beyond that five-year period have been extrapolated using a steady 3.0% per annum growth. The 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.

16. Investments in associates

In CHF'000	2007	2006
At January 1	9 441	7 559
Acquisition of an associate	-	207
Change in scope of consolidation	-254	-
Share of profit/(loss)	2 465	3 231
Dividends received	-1 229	-1 879
Exchange differences	277	323
At December 31	10 700	9 441

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

Name of associate	Principal activity	Interest held	
		2007	2006
Digital Elektronik GmbH, Austria	Manufacture of Electronics products	25%	25%
APT-SkiData Ltd, United Kingdom	Sales of Physical Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Physical Access products	26%	26%
TESC Test Solution Center GmbH, Germany	Services for Digital Television	*	25%
Ticketcorner Holding AG	Event distribution and ticketing	28%	28%

* consolidated as a subsidiary starting October 24, 2007

Summarized financial information of the Group's associates

In CHF'000	31.12.2007	31.12.2006
Total assets	183 308	193 986
Total liabilities	152 128	162 077
Net assets	31 180	31 908
Group's share of associates' net assets	10 700	9 441

	2007	2006
Revenue	163 629	149 867
Result of the period	10 720	8 849
Group's share of associates' result for the period	2 465	3 231

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

17. 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	31.12.2007	31.12.2006
Deferred tax assets	39 750	32 217
Deferred tax liabilities	-4 470	-2 952
	35 280	29 265

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

In CHF'000	Note	2007	2006
At January 1		29 265	24 356
Exchange differences		-84	37
Impact of business combinations		-59	-
Income statement (expense)/income	11	6 158	4 872
At December 31		35 280	29 265

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, 2007	Income statement effect	Business combinations	Exchange differences	At December 31, 2007
Deferred tax assets associated with:					
- intangibles	15 531	828	431	-42	16 748
- employee benefits	3 403	509	-	14	3 926
- tax losses	9 759	5 290	-	-	15 049
- provisions	295	777	-	14	1 086
- inter-company profit elimination	3 506	149	-	-32	3 623
- others	519	-490	-	-	29
Total deferred tax assets (gross)	33 013	7 063	431	-46	40 461
Deferred tax liabilities associated with:					
- affiliates and allowances for Group companies	-3 526	-960	-	-81	-4 567
- provisions & accelerated tax depreciation	-17	-134	-490	47	-594
- others	-205	189	-	-4	-20
Total deferred tax liabilities (gross)	-3 748	-905	-490	-38	-5 181
Net deferred tax asset/(liability)	29 265	6 158	-59	-84	35 280

And for the past year:

In CHF'000	At January 1, 2006	Income statement effect	Exchange differences	At December 31, 2006
Deferred tax assets associated with:				
- intangibles	8 372	7 159	-	15 531
- employee benefits	2 777	607	19	3 403
- tax losses	9 818	-92	33	9 759
- provisions	4 086	-3 851	60	295
- inter-company profit elimination	3 215	250	41	3 506
- others	299	220	-	519
Total deferred tax assets (gross)	28 567	4 293	153	33 013
Deferred tax liabilities associated with:				
- affiliates and allowances for Group companies	-3 354	-62	-110	-3 526
- provisions & accelerated tax depreciation	-857	842	-2	-17
- others	-	-201	-4	-205
Total deferred tax liabilities (gross)	-4 211	579	-116	-3 748
Net deferred tax asset/(liability)	24 356	4 872	37	29 265

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 657.6 million (2006: 271.1 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 173.5 million (2006: CHF 143.5 million) of such losses and temporary differences. No deferred tax asset has been recognized in respect of the remaining CHF 484.1 million (2006: CHF 127.6 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:

Not capitalized tax losses carried forward

In CHF million	2007	2006
Expiration within:		
One year	1.6	1.8
Two years	8.7	1.6
Three years	25.1	33.7
Four years	-	25.1
Five years	0.7	1.6
More than five years	448.0	63.8
Total	484.1	127.6

18. Financial assets and other non current assets

In CHF'000	Note	31.12.2007	31.12.2006
Available-for-sale financial assets:			
– equity instruments with no quoted market price		2 675	2 631
– marketable securities	22	3 470	–
Loans – third parties		2 978	14 981
Loans – associated companies		22 217	17 550
Deferred contract cost (long term portion)		3 769	–
Others		3 365	2 789
		38 474	37 951

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be measured reliably that are measured at cost net of impairment for kCHF 2 675 (2006: kCHF 2 631) and marketable securities for kCHF 3 470 (2006: 0) which have a maturity exceeding twelve months. Third party and associated company loans are measured at amortized cost. The loans to associated companies include a kCHF 19 715 loan to TicketCorner which bears a 7% interest rate and includes accrued interests for kCHF 2 327. The effective interest rate on third party loans was 2.13% (2006: 5.13%). Others mainly consist of guarantee deposits.

19. Inventories

In CHF'000	31.12.2007	31.12.2006
Raw materials	14 851	11 059
Work in progress	6 795	6 317
Finished goods	72 167	42 402
	93 813	59 778

Write-downs of inventories recognized as an expense amount to kCHF 5 851 (2006: kCHF 1 198). Changes in inventories of finished goods and work in progress included in cost of material are kCHF 31 850 (2006: kCHF 6 758).

20. Trade accounts receivable

In CHF'000	31.12.2007	31.12.2006
Trade accounts receivable	253 758	227 746
Less provision for doubtful trade accounts receivable	-7 851	-13 241
Trade accounts receivable related parties	9 051	11 148
Trade receivables – net	254 958	225 653
Amounts due from customers for contract work, of which kCHF -420 provision (2006: kCHF -483)	5 281	1 386
Total	260 239	227 039

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 doubtful trade accounts receivable:

In CHF'000	31.12.2007	31.12.2006
January 1	-13 241	-12 054
Change in scope	-418	-
Provision on trade accounts receivable charged to income statement	-1 735	-3 727
Utilization	769	318
Reversal	6 772	2 279
Translation effects	2	-57
December 31	-7 851	-13 241

The creation and release of provision for doubtful trade receivables are included in other operating expenses (sales expenses) in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -1 735 (2006: kCHF -3 727). 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	31.12.2007	31.12.2006
Not overdue	134 314	143 593
Past due and not impaired:		
– not more than one month	41 582	38 983
– more than one month and not more than three months	39 942	22 350
– more than three months and not more than six months	19 045	11 839
– more than six months and not more than one year	14 605	6 760
– more than one year	5 470	2 128
Total trade accounts receivable, net	254 958	225 653

21. Other current assets

In CHF'000	31.12.2007	31.12.2006
Loans – short term portion	11 196	3 065
Prepaid expenses	7 162	5 071
Accrued income	6 878	1 113
Premium in connection with business combination to receive	16 139	-
State and government institutions	20 089	14 821
Advances to suppliers and employees	10 596	2 088
Other receivables	5 970	3 413
	78 030	29 571

Loans are measured at amortized cost. The effective interest rate on short term loans was 5.76% (2006: 5.23%).

22. Financial assets

In CHF'000	Note	31.12.2007	31.12.2006
Financial assets held for trading:			
– marketable securities		–	26 147
– derivative financial instruments	35	546	–
Financial assets available-for-sale:			
– marketable securities		22 764	–
		23 310	26 147

Available-for-sale marketable securities include the following:

In CHF'000	31.12.2007	31.12.2006
Corporate debt securities	8 955	–
Asset-backed securities	5 233	–
Money market securities	9 344	–
US agency debt securities	1 131	–
Certificates of deposits	1 571	–
	26 234	–
of which:		
– short term	22 764	–
– long term	3 470	–
	26 234	–

23. Cash and cash equivalents

In CHF'000	31.12.2007	31.12.2006
Cash at bank and in hand	196 281	115 480
Short term deposits	81 859	328 527
	278 140	444 007

The effective interest rate on short term deposits was 3.7% (2006: 2.5%). These deposits have an average maturity of 30 days. The Group only enters into transactions with high rated banks.

24. Share capital

Issued and fully paid share capital

In CHF'000	31.12.2007	31.12.2006
47'529'417 / 47'305'240 bearer shares, at CHF 10 each	475 294	473 052
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	521 594	519 352

The Registered Shares are neither listed nor traded on any stock exchange. The Bearer Shares have been listed on the main market of the SWX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360) and are included in the SMIM (Swiss Market Index Mid-Cap).

Authorized share capital

In CHF'000	31.12.2007	31.12.2006
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 2, 2008, for the purpose of financing the full or partial acquisition of other companies.

Conditional share capital

In CHF'000	2007	2006
Conditional share capital as of January 1	112 085	114 609
Increase of conditional share capital	–	–
Employee share purchase plan	-184	-47
Exercise of options	-1 180	-778
Shares allotted to employees	-877	-1 699
Conditional share capital as of December 31	109 844	112 085
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:		
984'339 / 1'208'516 bearer shares, at CHF 10 each	9 844	12 085
	109 844	112 085

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 2005 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 15 841 760 consisting of 1 584 176 bearer shares of a nominal value of CHF 10.

25. Treasury shares

	Number of bearer shares	Book value in CHF'000
As of January 1, 2006, December 31, 2006 and 2007	20 155	380

26. Long term financial debt

In CHF'000	Note	31.12.2007	31.12.2006
Bank loans		2 775	1 828
CHF 350 million 1.625% unsubordinated convertible bond 2005/2012	27	322 093	316 688
		324 868	318 516

The fixed interest rate paid in 2007 and 2006 for bank loans is 2%.

27. 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	2007	2006
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	7 838	2 576
Interest expense for the year	11 092	10 950
Interest paid	-5 688	-5 688
Interest accrued (short term portion)	-1 343	-1 343
Liability component as of December 31	322 093	316 688

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	2007	2006
Base interest (1.625%)	5 688	5 688
Allocation of the equity conversion component	4 587	4 445
Effective interest expense (effective yield rate of 3.2%)	10 275	10 133
Allocation of transaction costs	817	817
Interest expense	11 092	10 950

28. Employee benefits liabilities

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

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

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

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

In CHF'000	31.12.2007	31.12.2006	31.12.2005	01.01.2005
Fair value of plan assets	87 081	69 994	55 886	45 667
Defined benefit obligation	-107 717	-99 328	-81 006	-66 937
Funded status	-20 636	-29 334	-25 120	-21 270
Unrecognized gains/(losses)	-586	-11 721	-11 040	-9 104
Prepaid/(accrued) pension cost	-20 050	-17 613	-14 080	-12 166

The liability that is recognized in the balance sheet at December 31, 2007 amounts to kCHF 20 050 (kCHF 17 613 at December 31, 2006).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial year 2007 (respectively 2006):

In CHF'000	2007	2006
Service cost	-12 701	-10 225
Interest cost	-2 839	-2 304
Expected return on plan assets	3 500	2 794
Employees contributions	4 422	3 027
Amortization of gains/(losses)	-38	-140
Curtailment gain/(loss)	22	-
Net pension (cost)/income	-7 634	-6 848
Exchange rate difference	-141	-181
Employer contribution	5 338	3 569

The net pension cost for the financial year 2007 amounts to kCHF 7 634 (kCHF 6 848 for the financial year 2006).

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2007 and 2006 are as follows:

	31.12.2007	31.12.2006
Switzerland		
Discount rate	3.50%	2.75%
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	5.00%	5.00%
Turnover	5.3% on average according to the rules	5.4% on average according to the rules
Retirement age		
Abroad		
Discount rate	5.00%	4.84%
Rate of future increase in compensations	3.39%	3.30%
Turnover	12.6% on average according to the law	14.9% on average according to the law
Retirement age		

The changes in defined benefit obligation, fair value of plan assets and unrecognized gains/(losses) during the year 2007 and 2006 are as follows:

A. Change in defined benefit obligation

In CHF'000	2007	2006
Defined benefit obligation as of 1.1.	-99 328	-81 006
Service cost	-12 701	-10 225
Interest cost	-2 839	-2 304
Change in assumptions	21 304	-
Actuarial (gains)/losses	-9 671	-2 817
Acquisition	-	-73
Curtailment gain/(loss)	22	-
Benefits payments	-4 363	-2 722
Exchange rate difference	-141	-181
Defined benefit obligation as of 31.12.	-107 717	-99 328

B. Change in fair value of plan assets

In CHF'000	2007	2006
Fair value of plan assets as of 1.1.	69 994	55 886
Expected return on plan assets	3 500	2 794
Employees' contributions	4 421	3 027
Employer's contribution	5 338	3 569
Plan assets gains/(losses)	-535	1 996
Benefits (paid)/received	4 363	2 722
Fair value of plan assets as of 31.12.	87 081	69 994

C. Change in unrecognized gains/(losses)

In CHF'000

2007

2006

Unrecognized gains/(losses) as of 1.1.	-11 721	-11 040
Amortization	38	140
Change in assumptions	21 304	-
Actuarial gains/(losses)	-9 671	-2 817
Plan assets gains/(losses)	-536	1 996
Unrecognized gains/(losses) as of 31.12.	-586	-11 721

The actual return on plan assets amounts to kCHF 2 964 for the year 2007 (kCHF 4 790 for the year 2006).
The estimated employer's contribution to the pension plans for the financial year 2008 amounts to kCHF 5 421.

The categories of plan assets and their corresponding expected return at December 31, 2007 (respectively December 31, 2006) are as follows:

In CHF'000	Proportion in %	Expected return	Proportion in %	Expected return
	31.12.2007	31.12.2007	31.12.2006	31.12.2006
Cash	8.8%	1.5%	11.9%	1.5%
Swiss bonds	29.6%	2.5%	34.9%	2.5%
Foreign bonds	10.5%	3.9%	7.0%	3.9%
Swiss shares	17.9%	8.3%	22.8%	8.3%
Foreign shares	21.7%	8.9%	15.6%	8.9%
Real estates	8.9%	4.4%	7.8%	4.4%
Structured products	2.6%	4.0%	0.0%	4.0%
Total	100.0%	5.0%	100.0%	5.0%

29. Provisions for other liabilities and charges

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2007	Total 2006
As of January 1	–	5 036	10 107	15 143	6 935
Additional provisions	2 812	600	4 988	8 400	8 891
Unused amounts reversed	–	-1 904	–	-1 904	-690
Used during the year	–	–	-4 720	-4 720	-246
Change in scope of consolidation	–	–	–	–	-11
Exchange differences	-164	48	118	2	264
As of December 31	2 648	3 780	10 492	16 920	15 143
Thereof:					
– short term	998	565	5 994	7 557	7 753
– long term	1 650	3 215	4 498	9 363	7 390
	2 648	3 780	10 492	16 920	15 143

Restructuring provisions

Restructuring provisions mainly include lease terminations considered as onerous contracts.

Legal fee and litigations

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

Provision for warranty

Provision for warranty includes kCHF 4 498 (2006: kCHF 2 354) to cover the risk of smart card replacement for certain customers paying a recurring security fee.

30. Other long term liabilities

In CHF'000	31.12.2007	31.12.2006
Contingent consideration – long term portion	1 360	–
Loans granted by third parties	200	866
	1 560	866

Loan granted by third parties bears a 4% interest rate (2006: 0%).

31. Short term financial debt

In CHF'000	31.12.2007	31.12.2006
Short term bank borrowings	11 934	9 954
Other short term financial liabilities	20	13
	11 954	9 967

The average effective interest paid in 2007 for short term bank borrowings is 3.18% (2006: 4.44%).

32. Trade accounts payable

In CHF'000	31.12.2007	31.12.2006
Trade accounts payable – third parties	57 533	57 616
Trade accounts payable – related parties	13 460	11 089
	70 993	68 705

33. Other current liabilities

In CHF'000	31.12.2007	31.12.2006
Accrued expenses	67 602	47 051
Deferred income	9 929	6 120
Payable to pension fund	1 145	947
Contingent consideration – short term portion	477	5 608
Other payables	15 852	10 006
	95 005	69 732

34. Advances received from clients

In CHF'000	31.12.2007	31.12.2006
Amounts due to customers for contract work	5 940	2 564
Advances from clients	15 705	6 818
	21 645	9 382

35. Derivative financial instruments

	Contract of underlying principal amount		Assets		Liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
In CHF'000						
Currency related instruments						
- Forward foreign exchange contracts	1 582	-	23	-	-	-
- Over the counter currency options	28 250	-	-	-	357	-
- Cross currency swaps	17 445	-	523	-	2	-
Total of currency related instruments	47 277	-	546	-	359	-

Short-term derivatives on currencies are entered into to cover exposure in foreign currencies. In 2007 and 2006, they did not qualify for hedge accounting purposes and are classified as held-for-trading. The contractual maturity date of all these derivative instruments is less than one year and the undiscounted planned cash inflow and outflow are kCHF 30 235 and kCHF 29 832 respectively.

36. Cash flows arising from divestments of subsidiaries

	2007	2006
	Disposals	Disposals
In CHF'000		
Financial fixed assets	220	612
Intangible fixed assets	-	13 093
Tangible fixed assets	147	1 627
Net working capital	2 291	-19 644
Short term financial debt	-857	-568
Long term debt	-	-10 272
Cash and cash equivalents	958	16 945
Fair value of net assets disposed of	2 759	1 793
Gain on disposal of subsidiaries	2 087	59 083
Loss on disposal of subsidiaries	-2 179	-
Disposal expenses	675	10 194
Total sale proceeds	3 342	71 070
Disposal consideration not paid as of December 31 (loan granted)	-	-17 550
Reimbursement of an inter-company loan	-	9 920
Cost related to the disposal	-675	-10 194
Cash and cash equivalents disposed of	-958	-16 945
Net cash inflow/(outflow) on disposals	1 709	36 301

37. Cash flows for acquisition of subsidiaries

In CHF'000	2007	2006
	Acquisitions	Acquisitions
Tangible fixed assets	10 530	2 337
Intangible fixed assets (excluding goodwill)	22 614	6 459
Deferred income taxes	431	-
Financial assets and other non-current assets	28 959	-
Net working capital	-7 473	2 682
Financial assets - short term portion	10 661	-
Minority interests	-597	-
Deferred tax liabilities	-490	-
Long term liabilities	-744	-
Short term financial liabilities	-	253
Cash and cash equivalents	61 196	846
Fair value of net assets acquired	125 087	12 577
Minority interest purchased	-89 773	-
Recognized income of a purchased associate	-254	-
Fair value of net assets acquired for the Group	35 060	12 577
Goodwill	141 064	1 808
Impact of transaction with minority interests	10 543	-
Total acquisition costs	186 667	14 385
Of which:		
- cash consideration paid	181 908	11 915
- contingent consideration not paid	1 839	2 470
- acquisition costs	2 920	45
	186 667	14 430
To adjust for:		
- contingent consideration not paid	-1 839	-2 470
- prior year contingent considerations paid	5 044	-
- cash and cash equivalents acquired	-61 196	-846
Net cash outflow from acquisitions	128 676	11 114

38. Principal shareholders

	Voting rights		Shareholdings	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Kudelski family pool	57%	57%	22%	22%

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	2007	2006
Research and development	210 558	195 285

40. Dividend

The ordinary dividend paid in 2007 was kCHF 15 629 (2006: kCHF 15 540) which corresponds to a dividend of CHF 0.30 (2006: CHF 0.30) per bearer share and CHF 0.03 (2006: CHF 0.03) per registered share. Moreover, an extraordinary dividend of kCHF 15 629 was paid in 2007 (2006: kCHF 0) corresponding to an extraordinary dividend of CHF 0.30 (2006: CHF 0.00) per bearer share and CHF 0.03 (2006: CHF 0.00) 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 15 649 and may fluctuate upon exercise of option and conversion rights. The dividend is subject to the approval of shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

41. Employee share participation plans

Employee stock option plan

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

Year of grant	Number of options	Vesting	Maturity	Ratio	Exercise price
2003	125 000	01.04.2006	01.04.2007	1:1	20
2003	125 000	01.04.2007	01.04.2008	1:1	20
2003	125 000	01.04.2008	01.04.2009	1:1	20
2005	1 000	01.04.2007	01.04.2008	1:1	20
2005	1 000	01.04.2008	01.04.2009	1:1	20

Changes in options held

The following table summarizes the changes in options held:

Changes in options held	Strike price		Strike price	
	Options 2007	in CHF 2007	Options 2006	in CHF 2006
In circulation on January 1	274 245	20	357 140	20
– of which exercisable	40 199	20	–	20
New rights issued	–	–	–	–
Rights exercised	-118 024	20	-77 781	20
Rights forfeited	-11 149	20	-5 114	20
In circulation on December 31	145 072	20	274 245	20
– of which exercisable	32 980		40 199	

The expense charged against the income statement for the financial year 2007 amounts to kCHF 245 (2006: kCHF 470). The expense assumes a departure rate based on the fact that some beneficiaries will not be able to exercise.

Employee share purchase program (ESPP)

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

	Shares 2007	Options 2007	Shares 2006	Options 2006
Shares underwritten by employees	16 241	–	4 085	–
Bonus shares and options from ESPP	2 180	1 068	593	224
Total employee share program	18 421	1 068	4 678	224

In CHF'000	Shares 2007	Options 2007	Shares 2006	Options 2006
Amount paid by employee	277	–	113	–
Booked corporate charges (excluding social charges)	109	8	35	6
	386	8	148	6

Shares issued for employees

In 2007, 87 732 bearer shares of Kudelski SA (2006: 169 867) were given to employees for no consideration, of which 55 000 include a five-year blocking period (2006: 105 000) and 17 116 include a three year blocking period (2006: 15 058). The total expense recognized in the income statement amounts to kCHF 2 723 (2006: kCHF 4 068).

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

Employees and board members of OpenTV exercised 275 906 options with an average strike price of USD 1.10 resulting in an equity increase of kCHF 343. In 2007, management and board members received 557 500 options of Open TV Corp with a strike price of USD 2.02. The fair values of the options have been determined using the Black-Scholes option pricing model on the date of grant including an expected life based on historical experience. The table below summarizes movements in options since acquisition date:

	Options outstanding 2007	Exercise price	Weighted average exercise price
		in USD	in USD
Balance, January 17, 2007	9 680 385		5.04
Options granted	557 500	1.03 – 2.72	2.02
Options exercised	-275 906	0.33 – 2.29	1.10
Options forfeited	-1 494 220	1.51 – 5.04	3.00
Options expired	-2 609 084	1.51 – 54.25	6.31
Balance, December 31, 2007	5 858 675	–	4.89

And the following table summarizes information with respect to the options outstanding as of December 31, 2007:

Exercise price in USD	Options outstanding			Options currently exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		in years	in USD		in USD
0.33 – 2.11	624 202	4.58	1.34	387 498	1.26
2.12 – 2.69	569 940	8.35	2.37	142 489	2.39
2.70 – 2.70	1 178 598	6.52	2.70	876 815	2.70
2.72 – 2.82	302 537	7.49	2.78	177 342	2.78
2.84 – 2.84	1 335 530	7.71	2.84	679 468	2.84
2.85 – 3.05	619 241	6.76	2.98	304 495	2.99
3.06 – 6.00	619 119	5.97	4.39	431 830	4.75
6.04 – 54.25	599 508	2.71	22.14	599 508	22.14
81.00 – 88.00	9 000	2.09	81.35	9 000	81.35
88.00 – 88.00	1 000	1.92	88.00	1 000	88.00
	5 858 675	6.38	4.89	3 609 445	6.28

On June 27, 2007, OpenTV Corp repurchased 1 150 000 stock options for kCHF 189 from James A. Chiddix, the former CEO, in connection with his resignation as CEO.

Employee share allocations

In March 2007, 60 000 restricted shares of OpenTV Corp for no consideration were given to a management member which were expensed for kCHF 271 in the income statement and valuation used was the stock market price at the date of grant. Such shares are restricted from sale or transfer until August 2008 but were fully vested.

In December 2007, OpenTV Corp issued 1 211 250 restricted Class A ordinary shares to employees, in lieu of option grants for no consideration. These restricted shares have the same vesting schedule as the options granted (4 years vesting period). The fair value of the grant has been determined as the stock market value at the date of grant and amounts to kCHF 1 423. The expense is recognized on a straight-line basis over the remaining requisite service period.

Other share based transactions

Minority interest of OpenTV Corp subsidiaries converted their subsidiary shares into OpenTV Corp shares for kCHF 20.

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

In CHF'000	Retained earnings	Translation difference	Income statement
Options exercised	343	-	-
Grant of options and restricted shares with vesting period	3 552	-207	-3 770
Repurchase of options	-189	-	-
Grant of shares	271	-17	-288
Conversion by minority into OpenTV Corp shares	20	-	-
Total in OpenTV Corp books	3 997	-224	-4 058
to adjust for minority interests	-2 731	153	2 337
Total	1 266	-71	-1 721

43. Related parties

(a) 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:

In CHF'000	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
	2007	2006	2007	2006	31.12.07	31.12.06	31.12.07	31.12.06
Digital-Elektronik GmbH	16	61	46 007	40 227	12 073	9 824	-	-
APT-Skidata Ltd	12 551	14 301	-	-	28	-	4 755	5 142
Skidata Parking System	11 876	9 541	-	-	-	-	2 142	2 639
Tickercorner Group	-	74	4 500	-	-	-	22 059	18 631
Total associated companies	24 443	23 977	50 507	40 227	12 101	9 824	28 956	26 412
Polyright SA	140	-	38	-	30	-	199	-
Nagra Thomson Licensing	165	16	-	-	-	-	48	16
Mediacrypt SA	-	1	-	251	-	-	-	-
Total joint ventures	305	17	38	251	30	-	247	16

Digital Elektronik is the main supplier of access control material for Skidata. APT Skidata and Skidata Parking Ltd are sales representatives companies for Skidata Group. The amounts owed by Ticketcorner Group comprise a kCHF 19 715 loan and accrued interest thereon.

(b) Key management compensation

In CHF'000

2006

Salaries and other short-term employee benefits	9 097
Share-based payments	4 053
	13 150

Management compensation includes share and cash-based payments granted for the year but not yet executed at the closing date. Due to the introduction of the article 663 b bis of Swiss Code of Obligation on Board and Executive compensation, the 2007 figure is shown in note 44.

44. Compensation, shareholdings and loans

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2007 to the members of the Board of Directors, members of the Group management and former board members are as follow:

	Base compensation	Bonuses	Bonuses	Bonuses in	Bonuses in		Total
	Cash	in Cash	in Kudelski	OpenTV Corp	OpenTV Corp	Other	2007
	CHF	CHF	Shares	shares	options	CHF	CHF
			(number)	(number)	(number)		
Board of Directors							
Kudelski André, chairman	505 600	-	-	50 000	-	-	559 671
Smadja Claude, vice chairman	206 840	-	-	-	10 000	-	223 549
Bucher Norbert, member	60 000	-	-	-	-	-	60 000
Dassault Laurent, member	40 000	-	-	-	-	-	40 000
Foetisch Patrick, member	60 000	-	-	-	-	-	60 000
Lescure Pierre, member	60 000	-	-	-	-	-	60 000
Kudelski Marguerite, member	50 000	-	-	-	-	-	50 000
Zeller Alexandre, member	40 000	-	-	-	-	-	40 000
Total board members	1 022 440	-	-	50 000	10 000	-	1 093 220
Management							
Kudelski André, CEO	514 125	3 280 000	115 000	-	-	25 734	4 917 879
Other management members	2 938 855	1 000 317	76 512	-	20 000	110 979	5 083 879
Total Management	3 452 980	4 280 317	191 512	-	20 000	136 713	10 001 758
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. 130 562 bearer shares granted to certain management members include a 7 year blocking period and 39 720 bearer shares are subject to a 3 year blocking period. Bonuses in cash and bonuses granted in Kudelski bearer shares, were granted based on the Remuneration Committee's assessment of the achievement of the 2007 objectives, but were neither paid nor issued as of December 31, 2007. They were nevertheless fully accrued while establishing the financial statements.

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

At December 31, 2007 and 2006, 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, 2007, the members of the Board of Directors and members of the management had following interest within the company:

	31 december 2007		
	Registered shares	Bearer shares	Options
Board of Directors			
Kudelski André, chairman (family pool)	46 300 000	6 753 147	19 000
Smadja Claude, vice chairman	-	1 300	2 000
Bucher Norbert, member	-	1 700	2 000
Dassault Laurent, member	-	1 195 050	1 000
Foetisch Patrick, member	-	1 000	1 000
Lescure Pierre, member	-	2 000	2 000
Kudelski Marguerite, member	-	3 000 342	-
Zeller Alexandre, member	-	-	-
Total board members	46 300 000	10 954 539	27 000
Management			
Kudelski André, CEO	see above	see above	see above
Mauro Saladini, CFO	-	18 364	5 405
Pierre Roy, COO	-	9 109	6 785
Charles Egli, CEO Public Access	-	11 894	4 234
Lucien Gani, General Counsel	-	3 770	-
Adrienne Corboud, EVP business development	-	3 254	3 334
Nicolas Goetschmann, Corporate secretary	-	4 189	4 234
John Burke, SVP head of Human Ressources	-	1 596	-
Total Management	-	52 176	23 992

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

(a) Operating lease commitments

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

In CHF'000	2007	2006
Within one year	7 540	1 572
In the second to fifth year inclusive	11 390	2 753
	18 930	4 325

46. Categories of financial instruments

The financial assets and liabilities are classified as follow as of December 31, 2007:

Assets as per balance sheet date December 31, 2007 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available- for-sale	Loans and receivables	Total 31.12.2007
Financial assets and non current assets:					
– equity instruments with no quoted market price					
	18		2 675		2 675
	18		3 470		3 470
	18			25 195	25 195
	18			3 364	3 364
Trade accounts receivable	20			254 958	254 958
Other current assets:					
	21			11 196	11 196
	21			16 139	16 139
Financial assets:					
	22		22 764		22 764
	35	546			546
Cash and cash equivalents				278 140	278 140
		546	28 909	588 992	618 447

Liabilities as per balance sheet date December 31, 2007 (in CHF'000)	Note	Financial liabili- ties at fair value through profit or loss	Other financial liabilities	Total 31.12.2007
Long term financial debt	26		324 868	324 868
Other long term liabilities	30		200	200
Short term financial debt	31		11 954	11 954
Derivative financial instruments	35	359	–	359
		359	337 022	337 381

And for 2006:

Assets as per balance sheet date December 31, 2006 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available- for-sale	Loans and receivables	Total 31.12.2006
Financial assets and non current assets:					
– equity instruments with no quoted market price	18		2 631		2 631
– long term loan	18			32 531	32 531
– guarantee deposits	18			2 789	2 789
Trade accounts receivable	20			225 653	225 653
Other current assets:					
– Loans	21			3 065	3 065
Financial assets:					
– marketable securities	22	26 147			26 147
Cash and cash equivalents	35	444 007			444 007
		470 154	2 631	264 038	736 823

Liabilities as per balance sheet date December 31, 2006 (in CHF'000)	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2006
Long term financial debt	26		318 516	318 516
Other long term liabilities	30		866	866
Short term financial debt	31		9 967	9 967
			–	329 349
				329 349

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 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Financial liabilities				
– CHF 350 million unsubordinated convertible bond	322 093	305 472	316 688	302 433
	322 093	305 472	316 688	302 433

48. Financial risk management

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

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

Market risk

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

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

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

(a) Foreign exchange risk

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

arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.

It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 6 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 2007 and 2006, 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 means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that have a sufficient rating to deal with. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information 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 5% of gross monetary assets at any time during 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.

49. Maturity analysis for financial liability

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 tables below include 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.

	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
In CHF'000	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Convertible bond	5 688	5 688	372 752	22 752	-	355 688	-56 347	-67 440	322 093	316 688
Long term bank loans	97	47	2 441	1 822	1 046	126	-809	-167	2 775	1 828
Long term loans – third parties	8	-	208	866	-	-	-16	-	200	866
Short term financial debt	11 954	9 967	-	-	-	-	-	-	11 954	9 967
Total	17 747	15 702	375 401	25 440	1 046	355 814	-57 172	-67 607	337 022	329 349

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

50. Sensitivity analysis

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% increase and decrease to the USD and a 5% increase or decrease to the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a here above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit where the foreign currency strengthens against the relevant currency.

In CHF'000	USD		EUR	
	2007	2006	2007	2006
Post-tax net income:				
- increase	14 515	20 034	7 655	8 691
- decrease	-14 515	-20 034	-7 655	-8 691
Equity (post-tax effect):				
- increase	-	-	9 103	8 855
- decrease	-	-	-9 103	-8 855

Interest rates

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

- USD: 100 basis points (2006: 50 basis points)
- CHF and EUR: 50 basis point (2006: 25 basis points)

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

- post-tax profit for the year ended December 31, 2007 would increase/decrease by kCHF 1 927 (2006: decrease/increase by kCHF 1 497. This is mainly due to the interest rate exposure on cash balances.
- other equity reserves would increase/decrease by kCHF 228 (2006: decrease/increase by kCHF 0) 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.

51. Collateral received and given

In CHF'000	31.12.2007	31.12.2006
Guarantee in favor of third parties	60 313	68 922
Current assets pledged to secure own commitments	-	4 770

52. Risk concentration

At December 31, 2007 and 2006, no financial asset exposure was more than 10% of the financial assets.

53. Financial instruments-unrepresentative risk exposure at reporting date

The quantitative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2007 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods. For the period prior to January 17, 2007, this data is not considered representative due to Group acquisitions and disposals (note 3 and 4).

54. 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 2007 was 107.0%. In 2006, the liquid assets were higher than the financial debt.

55. Principal currency translation rates



















	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2007	2006	2007	2006
1 USD	1.130	1.220	1.200	1.250
1 EUR	1.655	1.610	1.643	1.570
1 GBP	2.260	2.390	2.400	2.310
1 SGD	0.780	0.795	0.796	0.790
100 MYR	34.000	34.500	34.900	34.150
100 SEK	17.600	17.800	17.750	17.000

56. Events subsequent to the Balance sheet date

These consolidated financial statements have been approved for issue by the Board of Directors on February 28, 2008.

On February 8, 2008 the Group announced its agreement to acquire EmbedICs Inc, a US-based embedded software, cryptography and fabless semiconductor design firm delivering state-of-the-art security solutions for the Digital TV market. The closing of the transaction is expected to occur in March 2008.

57. Principal operating companies

Company	Place of incorporation	Activity	Percentage held		
			2007	2006	
Digital Television solutions					
Nagravision SA	CH – Cheseaux	Solutions for Digital TV and audio products		100	100
NagraCard SA	CH – Cheseaux	Secure smartcards		100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production		100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV and audio products		100	100
Nagra USA, Inc.	US – Nashville	Sales and support		100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services		100	100
Quative Ltd	UK – London	IPTV solutions		100	100
SmarDTV SA	CH – Cheseaux	Chipsets for iDTV and conditional access modules		100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support		50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions		50	50
Nagra Thomson Licensing SA	FR – Paris	Intellectual property management		50	50
Public Access solutions					
Nagra Public Access AG	CH – Zug	Holding in public access		100	100
SkiData Group	AT – Gartenau	People and car access systems		100	100
TicketCorner Group	CH – Rümliang	Event distribution and ticketing		28	28
Polyright SA	CH – Sion	Multifunction chipcard system		50	100
Middleware & Advertising					
OpenTV Corp.	British Virgin Islands	Middleware for set-top-boxes and advertising solutions		32*	–
Corporate					
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group		100	100
Kudelski Financial Services SCALU	– Luxemburg	Finance, convertible bearing company		100	100

 Full consolidation method applied

 Joint-venture accounting applied

 Equity method of accounting applied

*The Group has 77% of the voting power in OpenTV Corp

Report of the group auditors
to the general meeting of Kudelski SA
Cheseaux-sur-Lausanne

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) included on pages 4 to 57 of Kudelski SA for the year ended December 31, 2007.

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

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

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

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

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers SA



Felix Roth
Auditor in charge



Stéphane Jaquet

Lausanne, February 28, 2008