

Kudelski Group

Consolidated financial statements 2005

Kudelski Group

Consolidated balance sheets at December 31, 2005 and 2004

(in CHF'000)

	2005	2004
Revenues	687'102	597'553
Other operating income	10'071	8'578
	697'173	606'131
Cost of material	-227'893	-193'797
Employee benefits expense	-199'525	-180'177
Other operating expenses	-108'922	-106'207
Operating income before interest, taxes, depreciation, amortization and impairment	160'833	125'950
Depreciation, amortization and impairment	-39'691	-33'729
Operating income (EBIT)	121'142	92'221
Interest expense	-20'690	-14'015
Other finance income / (expense), net	-10'401	19'952
Share of results of associates	2'663	1'315
Income before tax	92'714	99'473
Income tax expense	-5'942	-5'973
Net income for the year	86'772	93'500
Attributable to:		
- Equity holders of the company	78'853	83'785
- Minority interest	7'919	9'715
	86'772	93'500

Kudelski Group

Consolidated balance sheets at December 31, 2005 and 2004

(in CHF'000)

ASSETS	31.12.2005	31.12.2004
Non-current assets		
Tangible fixed assets	135'292	127'671
Intangible assets	16'041	15'866
Investments in associates	7'559	5'399
Deferred income taxes	27'255	21'026
Financial assets and other non-current assets	23'974	19'591
Total non-current assets	210'121	189'553
Current assets		
Inventories	51'424	76'114
Trade accounts receivable	172'608	168'446
Other current assets	48'456	38'819
Financial assets at fair value through profit or loss	9'822	9'242
Cash and cash equivalents	434'685	197'718
Total current assets	716'995	490'339
TOTAL ASSETS	927'116	679'892

Kudelski Group

Consolidated balance sheets at December 31, 2005 and 2004

(in CHF'000)

EQUITY AND LIABILITIES	31.12.2005	31.12.2004
Capital and reserves		
Share capital	516'829	515'596
Reserves	-153'364	-257'902
Treasury shares	-380	-380
Equity attributable to equity holders of the parent	363'085	257'314
Minority interest	27'408	22'545
Total equity	390'493	279'859
Non-current liabilities		
Long-term financial debt	314'458	4'944
Deferred income tax liabilities	2'899	1'792
Employee benefits liabilities	14'080	12'170
Provisions for other liabilities and charges	4'865	4'660
Other long-term liabilities	4'287	7'933
Total non-current liabilities	340'589	31'499
Current liabilities		
Short-term financial debt	18'534	213'978
Trade accounts payable	83'100	74'038
Other current liabilities	66'916	52'623
Current income taxes	8'393	4'369
Advances received from clients	15'261	5'128
Provisions for other liabilities and charges	2'070	16'334
Derivative financial instruments	1'760	2'064
Total current liabilities	196'034	368'534
Total liabilities	536'623	400'033
TOTAL EQUITY AND LIABILITIES	927'116	679'892

Kudelski Group

Consolidated cash flow statements for the years ended December 31, 2005 and 2004

(in CHF'000)

	2005	2004
Net income for the year attributable to equity holders of the company	78'853	83'785
Adjustments for:		
Current and deferred income tax	5'942	5'974
Interest expense and other finance income/(expense), net	14'299	-9'688
Allocation of the equity conversion component, transaction costs and reconstitution of redemption value of convertible bonds	7'897	8'778
Net loss on tender and cleanup of the 2002 convertible bond	6'512	-
Depreciation, amortization and impairment	39'691	33'729
Change in fair value of financial assets at fair value through profit or loss	162	-1'692
Net income associated companies	-2'663	-1'315
Dividend received from associated companies	502	911
Minority interest in net income	7'919	9'715
Non-cash employee benefits expenses	5'857	2'963
Other non cash income / expenses	395	-7'137
	165'366	126'023
Change in inventories	25'697	-28'529
Change in trade accounts receivable	-1'080	-17'640
Change in trade accounts payable	8'693	7'552
Change in other net current working capital headings	-3'668	-20'131
Interest paid	-4'398	-5'858
Interest received	5'479	4'097
Income tax paid	-6'814	-6'300
Cash flow from operating activities	189'275	59'214
Purchases of intangible fixed assets	-4'822	-5'651
Purchases of tangible fixed assets	-44'169	-60'060
Proceeds from sales of tangible fixed assets	1'227	5'818
Investment in financial fixed assets	-4'383	-21'055
Disposal of subsidiaries, cash inflow/outflow	3'275	-160
Cash flow used in investing activities	-48'872	-81'108
Change in bank overdrafts, long term loans and other non-current assets	-9'206	-14'492
Proceeds from employee share purchase programme	264	288
Tender and cleanup of the 2002 convertible bond	-225'169	-
Proceeds from issuance of convertible bond, net of issuance costs	343'663	-
Dividends paid to minority interests	-5'490	-2'264
Dividends paid to shareholders	-10'321	-
Cash flow used in / from financing activities	93'741	-16'468
Effect of foreign exchange rate changes on cash and cash equivalents	2'823	-707
Net increase (decrease) in cash and cash equivalents	236'967	-39'069
Cash and cash equivalents at the beginning of the year	197'718	236'787
Cash and cash equivalents at the end of the year	434'685	197'718
Net increase (decrease) in cash and cash equivalents	236'967	-39'069

Kudelski Group

Consolidated statement of changes in equity

(in CHF'000)

	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority Interest	Total equity
January 1, 2004	514'949	49'798	-399'405	-	-	-380	16'780	181'742
Adjustment in purchase consideration			5'087					5'087
Currency translation adjustment					992		-1'686	-694
Net profit			83'785				9'715	93'500
Total recognized income & expense for the year			88'872		992		8'029	97'893
Employees share purchase program	127	252	8					387
Employee stock option plan			659					659
Shares issued for employees	520	922						1'442
Dividends paid to Minority Interests							-2'264	-2'264
December 31, 2004	515'596	50'972	-309'866	-	992	-380	22'545	279'859
Currency translation adjustment					-442		2'595	2'153
Net profit			78'853				7'919	86'772
Total recognized income & expense for the year			78'853		-442		10'514	88'925
Minority interest disposed of							-161	-161
Employees share purchase program	105	249	7					361
Employee stock option plan			659					659
Shares issued for employees	1'128	2'063						3'191
Equity component convertible bond				33'470				33'470
Dividends paid to shareholders			-10'321					-10'321
Dividends paid to minority interests							-5'490	-5'490
December 31, 2005	516'829	53'284	-240'668	33'470	550	-380	27'408	390'493

Kudelski Group

Notes to the consolidated financial statements 2005

SEGMENT INFORMATION

Primary segments

A business segment is a group of assets and operations engaged in providing products and services that are 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 two divisions, Digital Television and Public Access. These divisions, which are also based on internal management structures, are best described as follows:

The Digital TV 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.

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.

Kudelski Group

Notes to the consolidated financial statements 2005

The primary segment information for 2005 and 2004 is as follows:

(in CHF'000)

	Operating divisions				Corporate		Eliminations		Total	
	Digital Television 2005	Digital Television 2004	Public Access 2005	Public Access 2004	2005	2004	2005	2004	2005	2004
Revenues										
External sales	492'162	417'826	194'940	179'727					687'102	597'553
Inter-segment sales	4'162	1'999	1'684	1'587			-5'846	-3'586	-	-
Total revenues	496'324	419'825	196'624	181'314			-5'846	-3'586	687'102	597'553
Result										
Operating income (EBIT)	125'432	107'731	9'971	-3'257	-14'261	-12'253			121'142	92'221
Interest expense and other Finance income / (expense), net									-31'091	5'937
Share of result of associates			2'663	1'315					2'663	1'315
Income before tax									92'714	99'473
Income tax expense									-5'942	-5'973
Net income for the year									86'772	93'500
Balance sheet										
Assets										
Segment assets	435'133	431'265	176'230	145'758	308'194	97'470			919'557	674'493
Investments in associates			7'559	5'399					7'559	5'399
	435'133	431'265	183'789	151'157	308'194	97'470			927'116	679'892
Liabilities										
Segment liabilities	108'495	96'659	113'367	108'657	314'761	194'717			536'623	400'033
Other information										
Capital expenditure	40'211	56'684	8'780	8'979		48			48'991	65'711
Depreciation and amortization	-31'897	-23'368	-7'759	-7'590	-35	-22			-39'691	-30'980
Impairment losses		-2'749							-	-2'749

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.

Kudelski Group

Notes to the consolidated financial statements 2005

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 TV		Public Access		Group	
	2005	2004	2005	2004	2005	2004
Europe	244'247	198'021	171'232	164'933	415'479	362'954
Americas	184'431	172'444	13'925	7'983	198'356	180'427
Asia,Oceania and Africa	63'484	47'361	9'783	6'811	73'267	54'172
	492'162	417'826	194'940	179'727	687'102	597'553

Sales are allocated based on where the client is located.

Other geographical information (in CHF'000)

	Europe	Others	Total
Total assets as of December 31,			
- 2005	861'346	65'770	927'116
- 2004	628'515	51'377	679'892
Capital expenditures for			
- 2005	47'950	1'041	48'991
- 2004	64'336	1'375	65'711

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

Kudelski Group

Notes to the consolidated financial statements 2005

TRANSITION TO IFRS

(A) Basis of transition to IFRS

The Group's financial statements for the year ended December 31, 2005 are the first annual financial statements that comply with IFRS. In preparing these financial statements in accordance with IFRS, the Group has applied the mandatory exceptions and certain of the exemptions from full retrospective application of IFRS.

(B) Exemptions from full retrospective application elected by the Group

(a) Business combination exemptions

The Group has applied the business combination exemptions in IFRS 1. It has not restated business combinations that took place prior to January 1, 2004. The Group did not recognize goodwill in its IFRS balance sheet since in Swiss GAAP FER it was recognized as a deduction from equity. Adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration are recognized in retained earnings.

(b) Fair value as deemed cost

The Group has elected to measure an item of property at fair value as at January 1, 2004. The application of this exemption is detailed in note (a) to the reconciliation of equity and income statement.

(c) Employee benefits exemption

The Group has elected to recognize all cumulative actuarial gains and losses as at January 1, 2004. The application of this exemption is detailed in note (f) to the reconciliation of equity and income statement.

(d) Cumulative translation difference exemption

The Group has elected to set the previously accumulated translation differences to zero as at January 1, 2004.

(e) Designation of previously recognized financial instruments

The Group has designated certain existing financial assets as financial assets at fair value through profit or loss on January 1, 2004.

(C) Reconciliation of equity and income statement

The tables below detail the impact of the conversion of the financial statements from Swiss GAAP FER to IFRS. They reconcile the equity at January 1, 2004, at December 31, 2004 and the income statement for 2004.

Swiss GAAP FER balance sheet figures have been reclassified to be comparable with the IFRS balance sheet. Deferred income tax assets have been reclassified from current to non-current assets according to IAS 12 resulting in an increase of kCHF 11'586 for December 1, 2004 and of kCHF 13'193 for December 31, 2004 in non-current assets and a similar reduction in current assets compared to the financial statements approved by the 2004 general assembly. Furthermore the 2002 convertible bond has been reclassified from non-current liabilities to current liabilities resulting in an increase of kCHF 214'637 for January 1, 2004 and of kCHF 199'746 for December 31, 2004 in current liabilities and a similar decrease in non-current liabilities. This reclassification was necessary since the Group does not have an unconditional right to defer settlement of the liability from the cash settlement alternative.

Under Swiss GAAP FER, joint venture entities were fully integrated within the scope of consolidation. As not all control requirements for full consolidation were fulfilled under IFRS, the companies Mediacypt AG, Nagra-Futuris SA and Nagra Thomson Licensing SA are now consolidated using the proportionate consolidation. Using the proportionate consolidation for these companies impacts several balance sheet and income statement items. For clarity reasons, the impact of proportionate consolidation is disclosed as a separate column named "joint venture impact" in the reconciliations below.

Kudelski Group

Notes to the consolidated financial statements 2005

Reconciliation of equity at January 1, 2004

In CHF'000	Note	Effect of transition to IFRS			IFRS
		Swiss GAAP FER	Joint venture impact	Other changes	
Tangible fixed assets	a	104'848	-4	-1'443	103'401
Intangible assets	b	34'915	-	-20'005	14'910
Investments in associates		5'119	-	-	5'119
Deferred income taxes	g	11'586	-	5'818	17'404
Financial assets and other non-current assets		27'668	-200	-	27'468
Total non-current assets		184'136	-204	-15'630	168'302
Inventories		49'940	-	-	49'940
Trade accounts receivable	c	157'328	9	-2'680	154'657
Other current assets		37'517	-10	-	37'507
Financial assets at fair value through profit or loss	c	906	-	2'036	2'942
Cash and cash equivalents		236'201	-320	-	235'881
Total current assets		481'892	-321	-644	480'927
Total assets		666'028	-525	-16'274	649'229
Share capital		514'949	-	-	514'949
Reserves	i	-323'910	-	-25'697	-349'607
Treasury shares		-380	-	-	-380
Equity attributable to equity holders of the parent		190'659	-	-25'697	164'962
Minority interest	h	15'194	-746	2'332	16'780
Total equity		205'853	-746	-23'365	181'742
Long-term financial debt		7'035	-	-	7'035
Deferred income tax liabilities		1'569	-	-	1'569
Employee benefits liabilities	f	1'872	-	9'078	10'950
Provisions for other liabilities and charges		18'901	-	-	18'901
Other long-term liabilities		15'122	128	-	15'250
Total non-current liabilities		44'499	128	9'078	53'705
Short-term financial debt	d	261'941	-	-17'001	244'940
Trade accounts payable		68'448	158	-	68'606
Other current liabilities	f	62'139	-69	-1'337	60'733
Current income taxes		3'249	3	-	3'252
Advances received from clients		10'436	1	-	10'437
Provision for other liabilities and charges		9'463	-	-	9'463
Derivative financial instruments	e	0	-	16'351	16'351
Total current liabilities		415'676	93	-1'987	413'782
Total liabilities		460'175	221	7'091	467'487
Total equity and liabilities		666'028	-525	-16'274	649'229

Kudelski Group

Notes to the consolidated financial statements 2005

Reconciliation of equity at December 31, 2004

In CHF'000	Note	Effect of transition to IFRS			IFRS
		Swiss GAAP FER	Joint venture impact	Other changes	
Tangible fixed assets	a	129'122	-8	-1'443	127'671
Intangible assets	b	41'105	-	-25'239	15'866
Investments in associates		5'399	-	-	5'399
Deferred income taxes	g	13'193	-	7'833	21'026
Financial assets and other non-current assets		19'586	5	-	19'591
Total non-current assets		208'405	-3	-18'849	189'553
Inventories		76'115	-1	-	76'114
Trade accounts receivable	c	170'044	-949	-649	168'446
Other current assets		39'135	-316	-	38'819
Financial assets at fair value through profit or loss	c	8'776	-	466	9'242
Cash and cash equivalents		198'897	-1'179	-	197'718
Total current assets		492'967	-2'445	-183	490'339
Total assets		701'372	-2'448	-19'032	679'892
Share capital		515'596	-	-	515'596
Reserves	i	-234'153	-	-23'749	-257'902
Treasury shares		-380	-	-	-380
Equity attributable to equity holders of the parent		281'063	-	-23'749	257'314
Minority interest	h	21'721	-4'319	5'143	22'545
Total equity		302'784	-4'319	-18'606	279'859
Long-term financial debt		4'944	-	-	4'944
Deferred income tax liabilities		1'792	-	-	1'792
Employee benefits liabilities	f	3'075	-	9'095	12'170
Provisions for other liabilities and charges		4'660	-	-	4'660
Other long-term liabilities		7'680	253	-	7'933
Total non-current liabilities		22'151	253	9'095	31'499
Short-term financial debt	d	224'936	-104	-10'854	213'978
Trade accounts payable		71'566	2'472	-	74'038
Other current liabilities	f	53'942	-588	-731	52'623
Current income taxes		4'395	-26	-	4'369
Advances received from clients		5'130	-2	-	5'128
Provision for other liabilities and charges		16'468	-134	-	16'334
Derivative financial instruments	e	-	-	2'064	2'064
Total current liabilities		376'437	1'618	-9'521	368'534
Total liabilities		398'588	1'871	-426	400'033
Total equity and liabilities		701'372	-2'448	-19'032	679'892

Kudelski Group

Notes to the consolidated financial statements 2005

Reconciliation of Income Statement for 2004

In CHF'000	Note	Effect of transition to IFRS			IFRS
		Swiss GAAP FER	Joint venture impact	Other changes	
Revenues	j	601'287	-41	-3'693	597'553
Other operating income	k	17'759	-	-9'181	8'578
Cost of material		-192'720	-1'077	-	-193'797
Employee benefits expense	l	-178'661	249	-1'765	-180'177
Other operating expenses		-106'528	321	-	-106'207
Operating income before interest, taxes, depreciation and amortization		141'137	-548	-14'639	125'950
Depreciation, amortization and impairment	b	-39'638	3	5'906	-33'729
Operating income (EBIT)		101'499	-545	-8'733	92'221
Interest expense	m	-8'820		-5'194	-14'015
Other finance income / (expense), net	n	-1'516	35	21'433	19'952
Share of results of associates		1'315	-	-	1'315
Income before tax		92'477	-510	7'506	99'473
Income tax expense	g	-8'017	24	2'020	-5'973
Net income for the year		84'460	-486	9'526	93'500
Attributable to:					
- Equity holders of the company		77'195	-	6'590	83'785
- Minority interest	h	7'265	-486	2'936	9'715
		84'460	-486	9'526	93'500

Notes to the reconciliation of equity at January 1, 2004, December 31, 2004 and Income Statement for 2004

- a) The change in connection with tangible fixed assets is due to a building measured at its fair value and used as deemed cost.

	01.01.2004 CHF'000	31.12.2004 CHF'000
Initial fair value adjustment through reserves	-1'443	-1'443

Notes to the consolidated financial statements 2005

- b) Intangible assets under Swiss GAAP FER included kCHF 20'005 for capitalized developments of new products that are transferred to retained earnings since they do not qualify for recognition as intangible asset under IFRS.

	01.01.2004 CHF'000	31.12.2004 CHF'000
Initial net balance not recognized	-20'005	-25'239
Of which adjusted through:		
Retained earnings	-20'005	-20'005
Currency translation adjustment		-18
Net income:		
- 2004 capitalized development under Swiss GAAP FER (note k)		-13'618
- 2004 depreciation recognized under Swiss GAAP FER		5'906
- Carrying value of capitalized developments of a disposed of company (note k)		2'496
	-20'005	-25'239

The Group has disposed of affiliates in 2004, which had capitalized development in its Swiss GAAP FER balance sheet. As developments were not recognized in the opening balance sheet, the carrying value of these developments has been reclassified in the income statement as a gain on sale of subsidiary.

- c) Under Swiss GAAP FER, hedge accounting was applied to derivative instruments hedging accounts receivable. These derivatives do not qualify for hedge accounting under IFRS since they are not effective during the whole life of the coverage. They are classified as financial asset through profit and loss and valued at fair value under IFRS.

	01.01.2004 CHF'000	31.12.2004 CHF'000
Hedge value disclosed under trade accounts receivable under Swiss GAAP FER	-2'680	-649
Fair value of the derivative financial instruments	2'036	466
	-644	-183
Of which adjusted through:		
Retained earnings	-644	-644
Net income: "revenues" (note j)	-	461
	-644	-183

- d) Under Swiss GAAP FER, the 2002 convertible bond was treated as a debt instrument. Under IFRS, it is treated as a compound financial instrument in compliance with IAS 39.

	01.01.2004 CHF'000	31.12.2004 CHF'000
Value adjustment of the liability component of the 2002 convertible bond	-17'001	-10'854
Of which adjusted through:		
Retained earnings	-17'001	-17'001
Interest expense – allocation of the equity conversion component and transaction costs (note m)		5'194
Other finance income / (expense), net – exchange difference (note n)		953
	-17'001	-10'854

The difference includes the equity portion of the convertible bond at January 1 respectively December 31, 2004 under IFRS as well as the corresponding allocation of the issuance costs.

- e) The 2002 convertible bond has a cash alternative settlement option. IAS 32 prescribes that the conversion option be classified as a fair value instrument through profit or loss and disclosed as a liability.

	01.01.2004 CHF'000	31.12.2004 CHF'000
Fair value of the conversion option	16'351	2'064
Of which adjusted through:		
Retained earnings	16'351	16'351
Other finance income / (expense), net – fair value adjustment (note n)		-14'105
Other finance income / (expense), net – exchange difference (note n)		-182
	16'351	2'064

- f) Under IFRS, employee benefits liabilities are adjusted as follows:

	01.01.2004 CHF'000	31.12.2004 CHF'000
Employee benefits according to IAS 19	10'950	12'170
less:		
Liability according to Swiss GAAP RPC 16 included in:		
- employee benefits obligations	-1'872	-3'075
- other current liabilities	-1'337	-731
	7'741	8'364
Of which adjusted through:		
Retained earnings	7'741	7'741
Reversal of modification of purchase accounting under Swiss GAAP FER		-476
Currency translation impact		-6
Employee benefits expenses – additional IAS 19 expense (note l)		1'105
	7'741	8'364

- g) The above changes increase the deferred tax asset as follows:

	01.01.2004 CHF'000	31.12.2004 CHF'000
Intangible assets (note b)	3'647	5'624
Derivative financial instruments (note c)	120	20
Employee benefits IAS 19 (note f)	2'051	2'194
Currency Translation		-5
	5'818	7'833
Of which adjusted through:		
Retained earnings	5'818	5'818
Currency translation		-5
Income tax expense	-	2'020
	5'818	7'833

Kudelski Group

Notes to the consolidated financial statements 2005

- h) Under Swiss GAAP FER, the Group applied the entity concept method to determine the minority interest. Under this method, the Group recognized minority interest on the elimination of an internal profit in joint venture companies. A difference of kCHF 2'332 results from the cancellation of internal profit on inventory in IFRS. Minority interests reconciles as follows:

	01.01.2004 CHF'000	31.12.2004 CHF'000
Initial net balance not recognized	-2'332	-2'332
Impact 2004		-2'936
Currency translation		125
	<u>-2'332</u>	<u>-5'143</u>

- i) Adjustments to retained earnings / equity as of January 1, and December 31, 2004 are as follows:

	Equity adjustments	Income statement impact	Retained earnings impact	Currency translation impact	Total equity adjustment
	01.01.2004 CHF'000	2004 CHF'000	2004 CHF'000	2004 CHF'000	31.12.2004 CHF'000
Tangible fixed assets (note a)	-1'443	-	-	-	-1'443
Intangible assets (note b)	-20'005	-5'216	-	-18	-25'239
Derivative financial instruments (note c)	-644	461	-	-	-183
Convertible bond (note d)	17'001	-6'147	-	-	10'854
Conversion option (note e)	-16'351	14'287	-	-	-2'064
Employee benefits – IAS 19 (note f)	-7'741	-1'105	476	6	-8'364
Deferred tax asset (note g)	5'818	2'020	-	-5	7'833
Stock option plan expense (note l)	-	-659	659	-	-
Impact of Goodwill not recycled (note n)	-	3'466	-3'466	-	-
Impact of change in functional currency (note n)	-	2'419	-	-2'419	-
Adjustments to equity attributable to equity holders of the parent	-23'365	9'526	-2'331	-2'436	-18'606
Minority interest (note h)	-2'332	-2'936	-	125	-5'143
Adjustments to total equity	-25'697	6'590	-2'331	-2'311	-23'749

- j) Under IFRS, revenues are adjusted as follows:

	2004 CHF'000
Change in fair value of derivative financial instruments (note c)	461
Reclassification to other finance income / (expense), net (note n)	-4'154
	<u>-3'693</u>

As derivative financial instruments did not qualify for hedge accounting under IFRS, they are reclassified in other finance income / (expense), net. Furthermore, derivative financial instruments are valued at their fair value and the difference impacting the profit and loss account is shown in note c.

- k) Under IFRS, other operating income is adjusted reflecting a different accounting of the developments of new products:

	2004 CHF'000
Change in connection with intangible assets (note b)	-13'618
Carrying value of development of a sold company under Swiss GAAP FER (note b)	2'496
Reclassification of the remaining profit on the sale of subsidiaries (note n)	1'941
	<u>-9'181</u>

Kudelski Group

Notes to the consolidated financial statements 2005

l) Under IFRS, employee benefits are adjusted as follows:

	2004 CHF'000
IAS 19 impact (note f)	-1'105
Stock option plan expense	-659
	<u>-1'765</u>

Stock option expenses were fully recognized at grant date in 2003 under Swiss GAAP FER. However, under IFRS stock option expenses are recognized pro rata over the vesting period. Hence, the charge of kCHF 659 corresponds to this pro rata allocation of expenses.

m) Under IFRS, interest expense is adjusted as follows:

	2004 CHF'000
Impact of the convertible bond treated as a compound financial instrument (note d)	-5'194

n) Under IFRS, other finance income / (expense), net is adjusted as follows:

	2004 CHF'000
Reclassification of derivative financial instrument (note j)	4'154
Fair value change of conversion option (note e)	14'105
Goodwill on sale proceeds not recycled through income statement	3'466
Reclassification of the remaining profit on the sale of subsidiaries under other operating income (note k)	-1'941
Impact of change in functional currency - Exchange difference (note e)	182
Impact of change in functional currency - Exchange difference (note d)	-953
Impact of change in functional currency - Currency translation impact	2'419
	<u>21'433</u>

Functional currencies of two companies were changed to meet IAS 21 requirements. Thus, translation differences impact the income statement in IFRS as opposed to the currency translation adjustment reserve as in Swiss GAAP FER.

In Swiss GAAP FER, goodwill of a company disposed of was recycled in the income statement. Using the business combination exemption of IFRS 1, it is no longer deducted from the income statement.

Reconciliation of material adjustments to the cash flow statement for 2004

kCHF 4'824 of interest paid on the 2002 convertible bond have been reclassified from financing to operating activities. Developments costs of kCHF 13'618 have been reclassified from investing to operating activities (note b). There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under Swiss GAAP FER.