Kudelski Group
Interim Report June 2004

2004 Interim Report Kudelski Group
Message to the Shareholders

Dear Madam,
Dear Sir,

Since the end of 2002 the Kudelski Group has profoundly reformed its internal structures and has helped to consolidate the Digital TV conditional access sector by acquiring the conditional access activities of Canal+ Technologies.

Rome was not built in a day. We are now beginning to see the first fruits of the many seeds that have been planted over the last few years for the future of the Group, both in the development of new activities and in the restructuring of our operations.

The results for the first half of 2004 speak for themselves: total revenues have reached a record level of CHF 275 M, increasing more than 55% compared to the first half of 2003, and operating income has reached an unprecedented CHF 35 M.

The Group delivered more than 11.5 million Digital TV smart cards in the first half of 2004, an all-time record already close to the total for the whole of 2003. In addition to the outstanding key figures for the first half of 2004, the following positive elements also deserve to be mentioned:

- More than half of the growth in digital television activities (75% for the first half of 2004) is organic in nature. Moreover, growth was strong across all continents.
- The seasonal fluctuations in Digital TV activities are less pronounced than in the past, partly due to the selective introduction of the new rental model. This also reduces earnings volatility should a market downturn occur.
- The first half figures do not yet include any revenue recognition for the EchoStar smart card swap-out. The results thus highlight the Group's earnings capacity purely from ongoing business.
- The Group achieved outstanding results despite the highly seasonal nature of public access activities.
- In spite of the difficult economic climate in this sector in Europe, public access activities saw a growth of 17% in the first half of 2004.

In addition to record level revenues and profitability, the Kudelski Group has also significantly improved its operating cash flow and substantially reduced its receivables. These achievements demonstrate that the implementation of new accounting and controlling procedures has enabled a substantial improvement in the Group's day-to-day management.

While the figures for the first half of 2004 provide a clear sign of the health of the Kudelski Group, we believe that it is fundamental for a business to prepare its future. Here the most important recent events are:

- Nagra France has introduced an ADSL content security solution for Canal Satellite. This new technology offers considerable development potential and will be deployed at other operators in the near future.
- Nagravision has signed an agreement for the supply of Digital Video Recorders to Premiere. This solution will allow subscribers to gain instant access to prerecorded content on their decoders.
- Nagravision has joined forces with CITIC Technologies, a member of the CITIC Group, to develop the Chinese market. The CITIC Group owns 23 cable TV networks covering a population of more than 200 million people, with over 10 million analog subscribers today. CITITEC will deploy Nagravision technology on all its networks, thus enabling Nagravision to accelerate the penetration of the Chinese market.
- Nagra Public Access has reached several agreements for the nation-wide distribution of electronic tickets, notably with the Swiss Federal Railways and the Swiss Post Office.

The efforts undertaken in the last two years have enabled the Kudelski Group to become a reference in the international conditional access market for Digital TV and to become a key player in the Public Access sector. The results of the first half of 2004 reflect these achievements for the first time. However, it is essential that we keep monitoring relevant industry trends daily and target our investments in promising technologies to ensure continued success. This is where it is vital to be able to act smartly.

André Kudelski

2004 Interim Report Kudelski Group
Key figures - first half-year 2004

in kCHF	January/June 2004 unaudited	January/June 2003 unaudited	in %
Total revenues	275 173	176 882	55.6%
Margin on goods and components sold	192 595	108 013	78.3%
Margin on goods and components sold in % of total revenues	70.0%	61.1%	
OIBDA (Operating income before depreciation and amortization)	51 519	3 634	
OIBDA in % of total revenues	18.7%	2.1%	
EBIT, operating income	35 084	-6 361	
EBIT in % of total revenues	12.7%	-3.6%	
Net income	22 783	4 480	
Earnings per share (in CHF)			
Basic earnings per share	0.44	0.09	

in kCHF	30.06.2004 unaudited	31.12.2003 audited	in %
Shareholders' equity including minority interest	230 293	205 853	11.9%
Cash and cash equivalents	233 466	638 871	-63.5%
Market capitalization	1 687 138	1 914 433	
Share price (in CHF)	36.00	40.85	

Activity in the first half of 2004

Introduction

The positive momentum of the worldwide digital TV market continued throughout the first half of 2004. In Europe, the addition of MediaGuard, the positive impact of the new rental-based revenue model and the underlying growth of large customers resulted in a 146% growth of sales in local currency. Europe has become our best region for Digital TV sales. On the American continent, strong gross subscriber additions led to a 60% increase of net sales in local currency, beating all previous records. The first half results confirm the strong momentum in Asia, with a 39% growth of sales in local currency and a higher quality of revenues due to a favorable shift in the revenue mix.

Sales

Total revenues for the first half of 2004 have reached CHF 275.2 M, compared to CHF 176.9 M in 1H03, an increase of 55.6% on last year, the previous best first half-year. Both Digital TV and Public Access contributed to the Group growth.

Digital TV total revenues (including capitalized developments) increased from CHF 117.1 M to CHF 205.1 M, a 75.1% growth compared to the first half of last year, reflecting the consolidation of MediaGuard and the outstanding performance of our core business. Net of the MediaGuard acquisition, Digital TV achieved an organic growth close to 40% compared to the 1H03.

Public Access total revenues increased by 17.2% from CHF 59.8 M in the 1H03 to CHF 70.1 M, mainly due to strong first half-year sales at SkiData.

Profitability

Margin on goods and components sold increased from 61% in the 1H03 to 70%, revealing in particular a favorable shift of the revenue mix in the Digital TV unit.

Operating costs are up CHF 36.7 M to CHF 141.1 M, with the largest increase (+CHF 27.6 M) in Digital TV.

The main reason for this increase is the first time consolidation of MediaGuard, adding around 200 employees to the Group. In addition, the Digital TV unit strengthened selected growth areas, in particular through headcount additions in Asia and investments in selected R&D functions, including Digital Video Recording / Push VOD, Digital Rights Management and IP security. The increase of operating expenses related to these new projects more than compensated for the incremental savings from our cost reduction program.

Overall, this results in an OIBDA (Operating Income Before Depreciation and Amortization) of CHF 51.5 M, up by CHF 47.9 M from the CHF 3.6 M of the 1H03. EBIT is up CHF 41.4 M to CHF 35.1 M, reaching the highest level in the history of the Kudelski Group, up by 24% from the previous first half-year best. The Digital TV unit increased EBIT more than tenfold to CHF 53.4 M, while the Public Access first half loss almost doubled seasonally from CHF 7 M in the first half of last year to CHF 13.4 M. Corporate expenses were CHF 4.9 M.

The Group net result improved by over CHF 18 M to CHF 22.8 M. This first half-year, there is no material impact from exceptional events such as the partial convertible bond repurchasing.

Activity in the first half of 2004

Balance sheet

While the December 31, 2003 balance sheet included substantial changes compared to the previous year, due to both the introduction of a rental-based model in our Digital TV unit and the first time consolidation of the MediaGuard balance sheet, the June 30, 2004 balance sheet presents comparatively minor variations.

Fixed assets are up CHF 21.6 M compared to end-2003, mainly due to an increase of tangible fixed assets driven by the further roll-out of smart cards under the rental model and the purchasing of production equipment to cope with the need to more than double smart card production capacity.

The working capital situation continued to improve. In particular, we reduced accounts receivable by further CHF 26.6 M. The Digital TV unit continued to improve DSOs (Days Sales Outstanding) from 102 days at the end of last year to 75 days. As a reminder, Digital TV DSOs at the end of 2002 stood at 195 days. Inventory temporarily increased by CHF 20.6 M in line with the stock build-up for the upcoming EchoStar smart card swap-out.

On the liabilities side, we reduced bank overdraft by CHF 12.1 M mainly through a debt reimbursement at SkiData.

Cash flow

Net cash from operating activities in the first half was at CHF 53.3 M, in line with the strong operating result and the reduction of working capital. In the first half 2004, the Group already exceeds FY2003 record net cash from operating activities by 36%.

Outlook

For the second half of the year, we expect a confirmation of the positive first half-year momentum.

In our Digital TV business, the ongoing EchoStar smart card swap-out will add material revenues to our second half-year results. It should be noted that the first half-year results do not yet include any revenue from the EchoStar swap-out. While Digital TV revenues are expected to continue to increase in the second half-year, seasonal effects are likely to be lower than in previous years due to the volatility reduction from the rental model and the strong first half-year volumes in the American market.

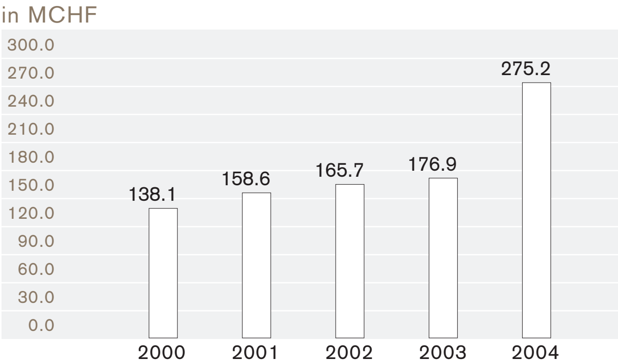
The customary seasonality in Public Access is expected to carry on this year, leading to a positive second half contribution margin.

In light of the strong pipeline from existing customers, including in particular a significant volume of swapped cards, and considering the promising expected impact from new contracts, the Kudelski Group expects the positive momentum of the first half of 2004 to continue with a positive impact for the whole of 2004 and for 2005.

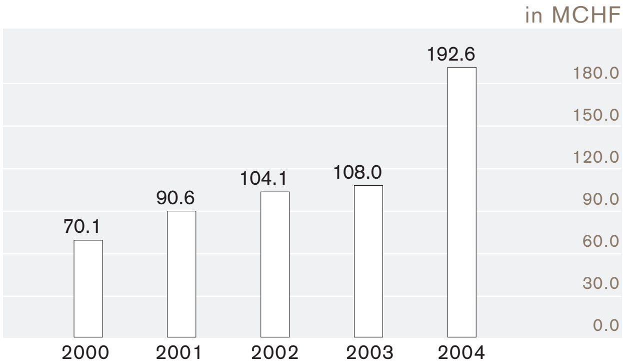
In 2006, we expect a material impact from the deployment of the new generation of products, which the Group started to develop at the beginning of 2004.

5 years comparison January/June

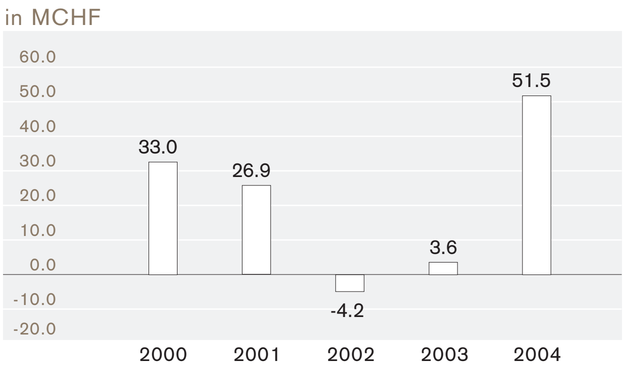
Total revenues



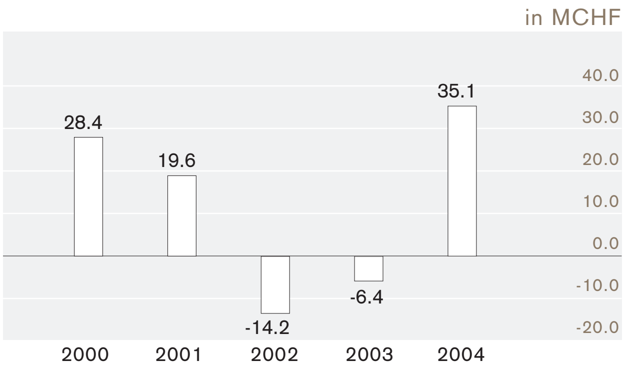
Margin on goods and components sold



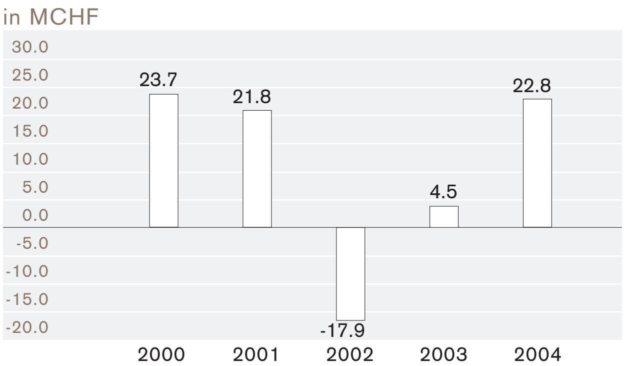
OIBDA



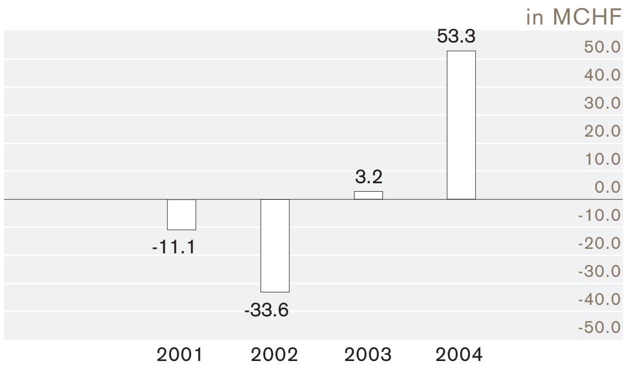
EBIT



Net income



Net cash from operating activities



Consolidated balance sheets

Assets

in KCHF	30.06.2004 unaudited	31.12.2003 audited	Variation	in %
Fixed assets				
Intangible fixed assets	40 179	34 915		
Financial fixed assets	36 923	32 787		
Tangible fixed assets				
Land and buildings	30 588	30 643		
Fixtures and fittings	86 526	74 205		
Total fixed assets	194 216	172 550	21 666	12.6%
Current assets				
Inventories	61 785	41 209		
Work in progress	5 246	8 731		
Trade account receivables	130 737	157 328		
Other receivables	44 782	49 103		
Cash and cash equivalents	233 466	237 107		
Total current assets	476 016	493 478	-17 462	-3.5%
Total assets	670 232	666 028	4 204	0.6%

Shareholders' equity and liabilities

Shareholders' equity				
Share capital	514 949	514 949		
Share premium and reserves	-304 835	-324 290		
Total shareholders' equity, Group's interest	210 114	190 659	19 455	10.2%
Minority interests	20 179	15 194		
Total shareholders' equity	230 293	205 853	24 440	11.9%
Long-term liabilities				
Convertible bond	218 495	214 637		
Provisions	16 395	22 342		
Other long-term debt	21 127	22 157		
Total long-term liabilities	256 017	259 136	-3 199	-1.2%
Current liabilities				
Bank overdrafts	21 523	33 579		
Trade account payables	73 617	68 448		
Advances received from clients	14 684	10 436		
Short-term provisions	6 616	9 465		
Accrued liabilities and other payables	67 482	79 111		
Total current liabilities	183 922	201 039	-17 117	-8.5%
Total Shareholders' equity and liabilities	670 232	666 028	4 204	0.6%

Consolidated income statements (unaudited)

in KCHF	January/June 2004	January/June 2003	Variation	in %
Sales	267 406	167 780		
Capitalized developments and installations	7 767	9 102		
Total revenues	275 173	176 882	98 291	55.6%
Cost of goods and components sold	-82 578	-68 869		
Margin on goods and components sold	192 595	108 013	84 582	78.3%
Salaries and wages	-84 829	-63 673		
Operating expenses	-22 137	-16 311		
Sales and administration costs	-32 512	-24 430		
Change in provisions	-1 598	35		
Operating income before depreciation and amortization (OIBDA)	51 519	3 634	47 885	
Depreciation and amortization	-16 435	-9 995		
Operating income (EBIT)	35 084	-6 361	41 445	
Financial income	4 711	37 383		
Financial expenses	-7 497	-22 206		
Extraordinary expenses	–	-3,158		
Net income before tax and minority interests	32 298	5 658	26 640	
Income tax	-3 791	-87		
Net income of the Group	28 507	5 571	22 936	
Minority interests	-5 724	-1 091		
Net Income	22 783	4 480	18 303	
As percentage of income				
Operating income	13%	-4%		
Net income	8%	3%		
Earnings per share (in CHF)				
- Basic	0.44	0.09		
- Diluted	0.44	0.09		

Consolidated cash flows statements (unaudited)

in KCHF	January/June 2004	January/June 2003
Net income, Group's interest	22 783	4 480
Financial income	-1 719	-11 530
Financial expenses	4 079	22 206
Income tax	-542	87
Profit on redemption of convertible bond	–	-25,853
Amortization of costs and redemption value of convertible bond	1 273	2 366
Depreciation and amortization	16 435	9 995
Change in long term provision	106	4 361
Change in deferred tax liabilities and tax assets	4 333	100
Use of lawsuit and restructuring provisions	-8 671	-3 319
Minority interests in net income	5 724	1 091
Dividends from associated companies	644	–
Cash flow	44 445	3 984
Change in inventories	-20 987	9 051
Change in trade account receivables	25 192	28 857
Change in other working capital headings	6 044	-33 976
Operating cash flow	54 694	7 916
Interest paid	-425	-4 490
Interest received	1 663	3 192
Tax paid	-2 654	-3 418
Net cash from operating activities	53 278	3 200
Net investment in intangible fixed assets	-9 749	-16 339
Net investment in tangible fixed assets	-24 719	-14 506
Net investment in financial fixed assets	-4 973	-11 098
Sale/acquisition of subsidiaries, cash inflow/outflow	–	-2
Net cash used in investing activities	-39 441	-41 945
Change in bank overdrafts	-11 589	-5 715
Change in long term loans	-937	-2 255
Redemption of convertible bond	–	-54 776
Interest paid on convertible bond	-2 462	-3 740
Dividends paid to minority interests	-2 264	–
Acquisition of treasury shares	–	-380
Net cash used in financing activities	-17 252	-66 866
Effect of exchange rate changes on cash and cash equivalents	-226	-8 600
Movement in cash and cash equivalents	-3 641	-114 211
Cash and cash equivalents at January 1	237 107	753 082
Cash and cash equivalents at June 30	233 466	638 871
Movement in cash and cash equivalents	-3 641	-114 211

Prior year cash flow statement figures have been restated for comparison purposes. The restatement concerns the presentation under financing activities of the bank overdrafts.

Consolidated statements of changes in Shareholders' equity (unaudited)

in kCHF	Share capital	Share premium	Other reserves	Treasury shares	Goodwill	Consolidated shareholders' equity, Group's interest	Minority interests	Total share-holders' equity
At January 1, 2003	513 599	49 798	206 230	–	-209 319	560 308	20 602	580 910
Shares issued for employees	746					746		746
Stock options plan for employees			2 720			2 720		2 720
Shares issued for acquisition of companies	604					604		604
Acquisition of treasury shares				-380		-380		-380
Dividends paid to minority interests						–	-3 982	-3 982
Change in scope of consolidation					-401 697	-401 697	1 096	-400 601
Currency translation adjustment			-11,059			-11 059	-1 352	-12 411
Transfer to income statement of write down of financial fixed assets			6 250			6 250		6 250
Net income			33 167			33 167	-1 170	31 997
At December 31, 2003	514 949	49 798	237 308	-380	-611 016	190 659	15 194	205 853
Dividends paid to minority interests						–	-2 264	-2 264
Currency translation adjustment			-3 328			-3 328	81	-3 247
Net income			22 783			22 783	5 724	28 507
Effect of deferred consideration in favour of a joint-venture company						–	1 444	1 444
At June 30, 2004	514 949	49 798	256 763	-380	-611 016	210 114	20 179	230 293

Notes to the consolidated financial statements (unaudited)

General comments and principles of consolidation

The unaudited interim consolidated financial statements are prepared in accordance with Swiss GAAP FER 12 and give a true and fair view of the financial position and results of the Group. The accounting conventions and accounting policies are the same as those applied in the year end 2003 consolidated financial statements.

Change in scope of consolidation

During the first half 2004, the scope of consolidation of the Kudelski Group has changed as follows:

The companies

Nagravision Asia Pte Ltd, Singapore
Kudelski Malaysia SDN. BHD, Kuala Lumpur,
and Ticket Corner Holding AG, Rümlang

were added to the scope of consolidation. These companies have been set up organically and are 100% held;

Furthermore, Labitzke Schaffner AG, Adliswil and SkiData (Schweiz) AG, Diepoldsau have been merged.
Lysis Trading SA, Cheseaux and Nagravision SA, Cheseaux were merged as well. Both mergers were effective as of January 1st, 2004;

Systems Ticketsysteme Vertiebs GmbH, Kaufbeuren (D) left the scope of consolidation followings its liquidation;

In 2003, the scope of consolidation has changed to include the following entities:

Canal+ Technologies *	F – Paris	50%
Nagra France Holding SAS	F – Paris	100%
Labitzke Schaffner AG	CH – Adliswil	100%
TouristDataShop SA	CH – Ollon	50%

* Joint-venture for Intellectual Property rights management

Furthermore the Group also acquired in 2003 the remaining balance of the minority interests in the following companies/groups:

Logiways Group	100%
SportAccess Group	100%

The Group also increased its share in AccessArena AG, Rümlang bringing it to 90 %.

The partner in the company e-prica AG, Lyss, bought the Group's share with effect on January 1, 2003.

The companies Lepanto Technologies AG, Gartenau, Political Rights SA (Polirights) in liquidation and Systems Produktion AG left the scope of consolidation on December 31, 2003 following their liquidation.

Notes to the consolidated financial statements (unaudited)

Convertible bond

	2004 in kUSD	2004 kCHF	2003 kCHF
At January 1st	172 928	214 431	323 388
Redemption and partial cancellation	–	–	-80 629
Exchange rate effects	–	2 593	-28 328
Convertible bond on June 30th / December 31st	172 928	217 024	214 431
Allocated issuing costs	-2 181	-2 737	-3 280
Reconstitution of the redemption value	3 353	4 208	3 486
At June 30th / at December 31st	174 100	218 495	214 637

The convertible bond is quoted at the Luxembourg stock exchange, the ISIN value is XS0140968842.

Legal and arbitration proceedings

The Group is subject to two lawsuits – relating to the alleged infringement of intellectual property rights – before American and German courts. The necessary provisions for legal proceedings are recorded according to the best management estimate of risk.

The IPPV Enterprise lawsuit was settled in early 2004 without any impact on the 2004 income statement.

Notes to the consolidated financial statements (unaudited)

Segmental analysis

The allocation by geographical areas and by business sectors of sales is as follows for the first half 2004 and first half 2003:

January/June 2004

in kCHF	Europe	America	Asia and Oceania	Africa	Total
Digital TV	87 935	81 503	28 028	1 066	198 532
Physical access control and data access	63 487	3 120	2 227	40	68 874
	151 422	84 623	30 255	1 106	267 406

and for the financial year 2003:

January/June 2003

in kCHF	Europe	America	Asia and Oceania	Africa	Total
Digital TV	34 546	52 652	21 198	250	108 646
Physical access control and data access	54 287	3 461	1 386	–	59 134
	88 833	56 113	22 584	250	167 780

Principal exchange rates

CHF for	1 USD	1 EUR	1 GBP	1 SGD
Average January / June 2004	1.2656	1.5529	2.3067	0.7452
Average January / June 2003	1.3500	1.4900	2.1800	0.7700
Rates for end of June 2004	1.2550	1.5250	2.2700	0.7300
Rates for end of December 2003	1.2400	1.5600	2.2100	0.7300
Rates for end of June 2003	1.3600	1.5500	2.2400	0.7700

Agenda 2005

Release of 2004 financial results	28 February 2005
Annual general meeting	10 May 2005

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