

Kudelski Group
Annual report 2005

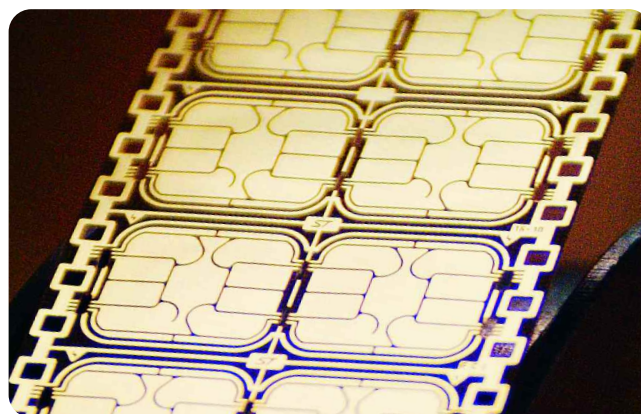


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The Kudelski Group today

The strategy of the Kudelski Group is to target first and foremost high-added-value mass markets. The Group favours Business-To-Business (BTB) type of marketing models rather than Business-To-Consumer (BTC).

For the past fifteen years, the Kudelski Group has chosen pay television, a domain that has gradually evolved into digital television, as its core business. The Group's added value to this business is a flexible combination of security and access management activities. The Group provides solutions for digital television operators distributing content (television) to millions of subscribers, the end-users of the Kudelski Group's products.

As an extension to its digital television activity, the Kudelski Group created a second sector: access control to public places. Synergies between the two main activities of the Kudelski Group are both strategic (convergence) and technological (security).

The Kudelski Group invests continuously in research and development in order to offer state-of-the-art solutions and technologies. Priority is given to projects with a significant potential of long-term economic profitability. Innovation is encouraged and the Group applies a proactive policy of intellectual property protection, particularly in the form of patent filing.

The recent evolution of the digital television industry has given rise to a series of new opportunities, such as television on the Internet (IPTV), television on mobile terminals (Mobile TV) and television in Push VOD mode. Although these new markets are expected to really take off in 2007 only, the Kudelski Group decided to invest massively so as to be a leader in these new sectors, even if this means a reduced short-term profitability for the Group.

Innovation is an essential value for the Kudelski Group. However, it does not stop at technology. It also involves a creative approach to marketing modes, for example through offers made to clients or through the tools that the Group places at its clients' disposal to enable them to better market their own services. Consistent with this approach, the Group's major digital television customers will be migrated to the rental model in 2006.

In the coming years, the Kudelski Group will concentrate primarily on strengthening its geographical footprint and on extending into areas of related activities so as to increase the value added per unit sold and to reinforce its position in sectors with strong potential. Organic growth remains the top priority, even though an active policy of acquisitions is envisaged in strategic sectors.

Strong growth in revenues and profitability for the Group

Strong organic growth for the Digital TV division

New strategic alliances with Canal+, UGC and Disney

Powerful penetration on the IPTV (Internet television) and mobile TV markets

Nagra Public Access (NPA) profitable again

New NPA structure and access to new markets outside Europe

New Nagra PMA – pyramid amplifier – receives international awards

Message from the President

In 2005, the Kudelski Group posted excellent results. Revenue growth and the favourable evolution of key figures are indicators of the positive trend observed during the past year. The record cash flow generated in 2005 was the result of the exertions of the last three years.

Meeting clients' expectations during 2005 was not easy. The teams had to show flexibility in a constantly changing environment and to deal with high levels of pressure and unrelenting challenges. At this point, I take the opportunity of thanking once again all the Kudelski Group teams which contributed to this effort, in particular those of production and customer support.

Beyond the activities which directly contributed to achieving the economic objectives in 2005, the Kudelski Group focused on investing in the future by exploring new markets and by launching new high potential projects.

Standing out among future-oriented projects are developments in the fields of digital television with prepaid cards, secure systems for television on Internet (IPTV), Push VOD systems and a new concept of conditional access for tomorrow's digital television.

Over the years, the digital television sector has evolved, without however experiencing any fundamental transformation. The end of 2005 on the contrary marks a real change in the way digital television is provided. A succession of new opportunities has arisen:

- The decision taken by several operators to deploy mass-market digital television with conditional access will generalize the use of security technologies for all televiewers, whether on cable or satellite. It is a major evolution which started in Germany and which doubtless will be reproduced in other countries.

- A new concept of terrestrial television with prepaid cards, which has already been successfully tried out at Mediaset, will revolutionize the way pay television is consumed and at the same time bring it to a larger public. International development of this new concept is on the agenda.
- Television by Internet (IPTV), which is becoming a new channel for distributing television programs through new players in this sector – the telecoms providers.
- Push VOD, which stands out as a delivery channel particularly well adapted to films with high added value, more in competition with the hiring of DVD or VHS than with traditional pay television.
- The DVR, Push VOD and IPTV technologies reveal new needs. A new generation of conditional access will make it possible to fully exploit these new operating models.
- Mobile television, which is becoming a new distribution channel intended for people who wish to view programs anytime, anywhere.

Whereas in the past, only a few of the identified opportunities rapidly led to concrete projects, the Kudelski Group must today respond to a real simultaneous demand for all the new projects launched during the second half of 2005.

This particular situation forces the Kudelski Group to make choices. However, choosing among these projects is all the more difficult since each of them has great potential in the medium and long term.

These projects must be undertaken rapidly in order to avoid missing the windows of opportunity. Thus we decided, and provided ourselves with the appropriate means, to carry out these projects in parallel in order to preserve our competitive advantage, especially with regard to mass-market digital television and mobile television.

Naturally, these new developments must be engaged without neglecting current business, even though projects with short-term profitability must sometimes be renounced. The logical consequence of this new situation is a substantial increase in Research and Development effort for 2006 whilst the income resulting from these new technologies will only be seen in 2007.

Parallel to the new opportunities identified, the Kudelski Group intends to transfer the majority of its important digital television customers to the rental model. Such a transition is particularly advantageous for the Kudelski Group in the long term, if its solutions continue to perform well, but with the proviso of a short-term reduction of earnings. In this perspective, we are at the beginning of a cycle similar to that initiated by the introduction of the rental model in Germany in 2003, with a substantial positive contribution as from 2004.

With regard to Public Access, the Kudelski Group will continue its geographical expansion outside Europe and its R&D efforts to confirm its technological leadership. The sale of a majority stake in Ticketcorner – which from now on will develop autonomously – will allow the Public Access unit to concentrate on its priority development strategies.

Thus on the Group level, the year 2006 will be resolutely one of transition; the effort expended will have positive repercussions in 2007 and beyond, whereas the major part of the costs will already be evident in 2006. It is a calculated bet, similar to those that in the past made it possible for the Kudelski Group to progress from a niche player to become a leader in the field of conditional access. In this new phase of transformation, the Kudelski Group envisages making selective acquisitions enabling it to reach its strategic objectives more rapidly and/or to capture a greater share of the added value chain.

Lastly, with an excellent year 2005, especially in terms of cash flow, the Board of Directors of Kudelski SA decided to increase the dividend by 50%, fixing it at CHF 30 centimes per bearer share (CHF 3 ct per registered share). Nevertheless, the Board of Directors intends to continue to invest massively in the development of new opportunities. That is where the major part of the profits of the Group is, and will be, reinvested during the coming years.

Finally, I wish to thank the shareholders of Kudelski SA who have given us their confidence and have enabled us to bring to fruition our development projects over the last twenty years, two decades that Kudelski has been listed on the stock exchange.

André Kudelski

The year 2005

Under the newly introduced IFRS accounting standards, total revenues and other operating income for the year 2005 amounted to CHF 697.2 million, an increase of 15% compared to the previous year. EBIT reached CHF 121.1 million, up 31.4% from 2004. Net profit at CHF 86.8 million includes one-off, non-cash adjustments due to the migration to IFRS.

The pro forma reconciliation to SWISS GAAP FER shows total revenues at CHF 703.1 million, EBIT at CHF 121.5 million and net income at CHF 105.2 million.

Cash generation capabilities in 2005 were exceptionally strong with cash flow from operating activities at CHF 189.3 million, a more than threefold increase compared to the previous year. At the end of the year, the Group had a cash balance of CHF 434.7 million.

Digital TV was the main driver of these record level results. Revenues increased by 18%, due to a strong recovery of the Asian business (+38%), a continued strong momentum in Europe (+23%) and a further growth from a high revenue base in the Americas (+7%).

Public Access also strongly improved its performance compared to 2004, achieving 8.5% growth and a 5.1% EBIT margin. With a 74% revenue growth in Americas and 44% revenue growth in Asia, Public Access also demonstrated its ability to extend its geographical footprint.

In early 2006, the closing of the sale of a controlling stake in Ticketcorner generated a material profit for the Kudelski Group, a reward for the substantial investments made in ticketing over the last few years. This profit will positively impact the Group's 2006 operating result. From 2006, Ticketcorner will no longer be consolidated.

The Group will reinvest a significant share of the proceeds from the Ticketcorner transaction to further grow new business areas such as, in particular, Quative IPTV solution suites, Disney/Nagra Push VOD, Nagra Mobile TV and an advanced, customizable next generation security architecture for securing the distribution and storage of electronic content.

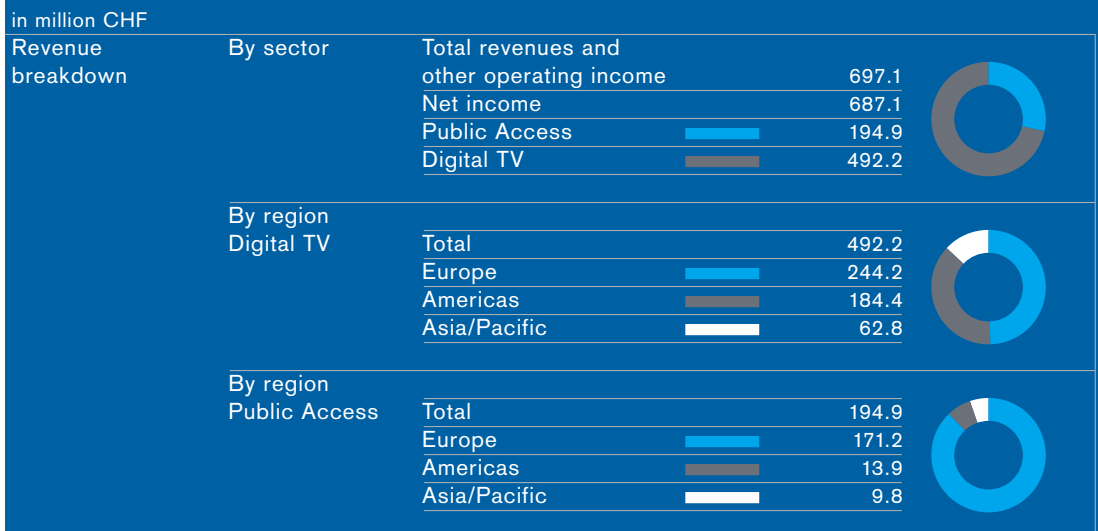
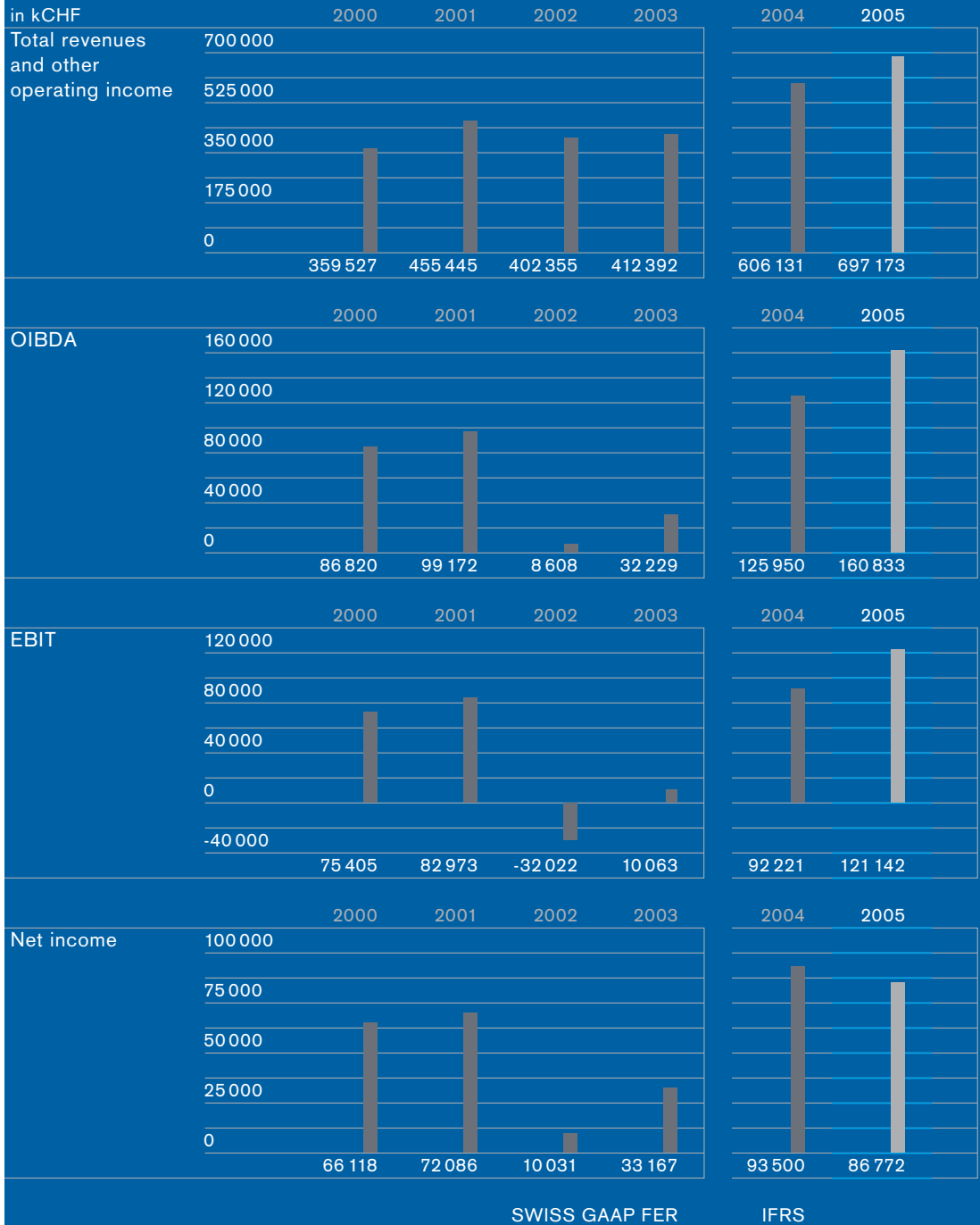
	2005	2004	2003	2002	2001	2000
in kCHF						
Total revenues and other operating income	697 173	606 131	412 392	402 355	455 445	359 527
OIBDA ¹⁾	160 833	125 950	32 229	8 608	99 172	86 820
EBIT ²⁾	121 142	92 221	10 063	-32 022	82 973	75 405
Net income	86 772	93 500	33 167	10 031	72 086	66 618
Payroll ³⁾	1 618	1 439	1 400	1 220	1 173	425

¹⁾ OIBDA: operating income before interest, taxes, depreciation and amortization.

²⁾ EBIT: operating income.

³⁾ Payroll: number of employees as of 31 December of each year.

2000, 2001, 2002 and 2003 figures are presented according to SWISS GAAP FER accounting standards. 2004 and 2005 figures are presented according to IFRS accounting standards. 2004 comparative figures have been restated to comply with IFRS.



Opportunities and risks

Integrated management

The Kudelski Group operates in a highly competitive and rapidly changing technological environment.

Anticipation and ability to react quickly are fundamental assets, both of which have led the Group to hold a strong market position.

Opportunity and risk management is a key element of the Group's growth. It is paramount throughout the company: internal organization, development strategy, core competencies, products and market environment.

Company internal organization

Flexibility and rigor

The Group's flexible organization encourages creativity and guarantees swift reaction times. Its horizontal structure allows for direct decision-making lines.

Since 2003, the Group has focused on operational and organizational issues. Key corporate areas such as business development, product development, accounting and controlling have been strengthened and appointed to experienced senior managers.

The Group operates according to a project-based management approach. The project portfolio has been streamlined in the course of the last few years to improve focus and meet market expectations.

Financial controlling

Financial controlling is an important aspect of risk management. By regularly updating its controlling processes, management can better identify economic, operational and business risks and assess their potential material impact on the company.

These processes have led to a better control of operational costs while driving revenue growth. They have also contributed to a better handling of foreign exchange exposure.

Development strategy

Building future growth

The growth of the Group depends to a large extent on the development of markets that are still at an early development stage. These markets include for example content protection solutions for IP networks, content protection solutions based on disposable cards, mobile TV and others. It is essential that the Group builds a diversified offer to seize new opportunities and address risks in an optimal manner.

Historically, the Group's growth has depended on a limited number of large digital operators. Although the Group continues to gain market share, it derives a significant portion of its current revenues from its historical customers.

New technologies, top quality service, state-of-the-art solutions and continued geographical expansion are all decisive factors that allow the Group to both strengthen relationships with its existing customers while avoiding dependence, and gain new deals.

"In the past, only a few of the identified opportunities led to concrete projects. Today, the Group must respond to a real simultaneous demand for all the new projects. We decided to carry them out in parallel in order to preserve our competitive advantage, especially with regard to mass-market digital TV and mobile TV."

André Kudelski



Opportunities and risks

Integrated management

State-of-the art solutions

In the digital television sector, the Kudelski Group develops and markets conditional access solutions, which rank amongst the most secure and reputable in the world.

In addition to these solutions, the Group provides digital TV operators with a whole range of innovative solutions effectively complementing its core offering and enabling new business models and functionalities.

Over the last fifteen years, the Group has always demonstrated its ability to explore new grounds and expand the scope of application of its technology.

The transition from analog to digital television, content protection solutions for IP (as well as broadcast) networks, mobile TV solutions, are just a few examples of the Group's ability to anticipate market needs and develop new technologies to meet them.

Geographical expansion

The Group enjoys a wide geographical presence which not only contributes to its revenue growth but also reduces exposure to single currency exchange rate fluctuations.

The Group is active on the five continents since 1999. Following the acquisition of **MediaGuard** and the establishment of contractual agreements with several major operators, including **Premiere**, **KDG** and **UPC**, the Group has substantially strengthened its position, in particular in Europe.

North America represents the second most important market for the Group. The United States, where NagraVision started its digital TV activities in 1995 with **EchoStar**, remains a key market.

Over the past few years, the Group has developed a strong position in the Asia/Pacific region, winning several new contracts with digital TV operators in markets such as Malaysia, Hong Kong, Singapore, South Korea, Taiwan and several others. Moreover, the Group works with several cable operators across China, having secured a strong market share in those Chinese cities with the highest GDP per capita, including Shanghai and Beijing.

Acquisitions

Selected acquisitions have complemented the Group's organic growth. They have contributed to consolidating the Group's position through enhanced product lines, additional know-how and expanded geographical presence. In digital TV, acquisitions include **Lysis** in 2001, **MediaGuard** in 2003 and **Abilis** in 2005.

Acquisitions in the Public Access sector (**SportAccess** and **SkiData** in 2000 and 2001 respectively) illustrated the expansion of the Group into a new sector. They were part of the Group's strategy to achieve convergence between digital television, Internet, mobile phones and physical access.

Resources management

Innovation – a fundamental value for the Group

From the first portable recorder to handsfree physical access solutions and advanced content protection solutions for digital television, the Kudelski Group has always built its success on innovation.

These technological and business innovations allowed the Group to accommodate new consumer and customer needs; furthermore, they revolutionized and reshaped the marketplace by providing end-users with simplified access to a variety of high quality and affordable services and by triggering original consumption behaviors.

R&D and competence centers

The Group operates three main digital television R&D centers located in Switzerland (**NagraVision/NagraCard**), France (**Nagra France**) and the U.S. (**NagraStar**). In the Public Access sector, the bulk of R&D is concentrated in Austria and in Switzerland.

In digital TV, R&D focuses mainly on content security technologies. In particular, R&D objectives are the following:

- Constant evolution of the existing security solutions and software architecture.
- Launch of new platforms and services such as pre-paid disposable cards, basic encryption modules and Push VOD architecture.
- Anticipation of market trends and development of solutions capable of supporting emerging and future services such as hybrid platforms (e.g. terrestrial/IP or satellite/IP) and content transmission on mobile devices.

Additionally, the Group has created specialized competence centers that concentrate on specific areas such as decoder technology ([Livewire](#) in the United States, [STB Center](#) in Shanghai, participation in [Acetel](#) in Korea) and new IPTV solutions ([Quative](#) in the United Kingdom).

The Public Access division also aims at fostering a competitive edge through R&D, focusing on the development of innovative access control products and ticketing solutions. It continues to produce easy-to-use and feature-rich access control solutions customized for specific market segments such as parking, ski, leisure parks or sport venues.

Smart cards under control

The Group handles in-house its own strategic processes and competences.

Smart cards are designed, developed and produced by [NagraCard](#) and [Nagra France](#). These companies have expertise in the design of secure software and hardware using secure embedded microprocessors that can be packaged into a smart card. All sensitive information is exclusively managed by specialized teams within these two entities, which operate their own production lines.

Smart cards for the Group's Digital TV units are assembled at [NagraID](#). Over the last year, [NagraID](#) has extended its field of activities to include the development and production of contactless modules (based on RFID technology) and the assembly of smart cards for the Group's Public Access unit. These modules and smart cards are designed to respond to the increasing demand for security systems allowing identification without physical contact.

Smart card production is in the hands of the Group itself and takes place on high-security premises, bringing more security to the overall solution development process. This approach also eliminates other risks related to the use of external suppliers in such a sensitive industry, in particular risks related to security and confidentiality.

Intellectual property management

At the end of 2005, the Kudelski Group holds a portfolio of more than 1 300 patents and trademarks all over the world.

In order to preserve efficiently this important asset, the Group has set up a protection program covering all aspects of intellectual property. [Leman Consulting](#) owned by the Kudelski Group is in charge of intellectual property issues, while [Nagra Thomson Licensing](#), a joint venture with Thomson, is committed to maximizing the patent portfolio generated by the [MediaGuard](#) acquisition. The Kudelski Group does not depend in any way on third party licenses and patents, thus avoiding risks related to such dependence.

In order to further reinforce this strategic asset, the Group hired Lucien Gani as General Counsel and Head of Legal Affairs, a new position in the Group's top management, effective 1st January 2006.

Quality assurance

The Group develops sophisticated, tailor-made solutions adapted to every customer's needs. It is therefore very important that each phase, from product development to production, on-site deployment and upgrading, be rigorously and systematically controlled in a harsh real-world-like environment.

The Quality Assurance department has established processes to ensure the quality of the products delivered and their conformity with the operators' needs and the quality control standards of the industry.

Potential product defects could result in severe damage for the customers and thus for the Group. Therefore, procedures are implemented throughout the product cycle to reduce such risks, identify possible defects and correct them as quickly as possible.

Smart cards are designed, developed and produced within the Kudelski Group.



Opportunities and risks

Integrated management

Training center

A new training center designed both for customers and employees was established in early 2005. Although training courses existed before, the infrastructure, the training calendar and the teachers' training program have been optimized. The center includes a laboratory room that strictly reproduces operators' configuration platforms, so that participants can learn and practice as if in a real-life situation.

Competitive advantages

Independence of the Group – a corporate value

Today, only a small number of companies supply access control systems to digital pay TV and broadband operators. The Kudelski Group is independent from operators as well as from decoder manufacturers, which represents a substantial competitive advantage vis-à-vis most of the operators.

Furthermore, the Group's independence allows its customers to select the best available technologies from the market when building their platform and reduce risks of conflicting interests with third parties.

Open architecture solutions

The Group's access control solutions are based on an open architecture. Kudelski has been working for many years with most of the technology providers, including suppliers of head-end infrastructure, interactive applications and content management systems. This ensures matching technologies with key partners. More than 60 suppliers of decoders are interfaced with Kudelski's technology. The Group also cooperates with most major manufacturers of consumer electronics.

Security algorithms

Since 1984, the Group has acquired a unique expertise in cryptography through the development and implementation of symmetrical and public key algorithms for conditional access and scrambling solutions.

Additionally, in 1999 the Group established MediaCrypt, a joint venture with Ascom Systec. MediaCrypt develops high security encryption algorithms for the transmission of sensitive data in the context of digital pay TV and broadband Internet applications, as well as copyright protection in the media industry.

MediaCrypt licenses the IDEA algorithm, recognized as one of the most secure on the market. IDEA has secured millions of transactions worldwide for over fourteen years.

The next generation IDEA NXT launched in 2005 delivers unique features to the market with additional flexibility and diversification capabilities.

At the beginning of 2006, MediaCrypt was awarded the Frost & Sullivan's 2005 Excellence in Technology Award.

Dynamic security management

Conditional access systems deployed by operators are unavoidably exposed to piracy. Any professional in the security industry must consider piracy attacks as part of his daily business.

The procedures implemented by the Kudelski Group guarantee a high level of protection and provide for appropriate measures in the case of a confirmed attack.

The Group's security solutions are subject to an ongoing monitoring process, aimed at identifying and qualifying technical and economic risks. The output is fed into a dynamic process of system security upgrade, resulting in the deployment of software countermeasures capable of dynamically modifying the security profile of smart cards.

In a secured TV operating environment, security features are hosted by the decoder, almost as much as by the smart card and the head-end. The Group has rolled out a security protocol that includes security specifications for decoder manufacturers. These specifications affect the architecture, the design and the manufacturing of the decoder and aim at fully controlling the access to components within the decoder that are of critical importance from a security point of view.

Digital TV
Strong development on all fronts



With record revenues and profitability in 2005, the **Digital TV** division continued its strong growth.

The PocketDISH™, a new line of portable media companions offered by DISH Network on which users can view their favorite programs. The content is secured by a solution provided by the Kudelski Group.



Digital TV

Strong development on all fronts

With record revenues and profitability in 2005, the Digital TV division continued its strong growth. It confirmed its world leadership in digital content security solutions on all types of networks: satellite, cable, terrestrial, mobile or IP. 2005 was a very intense year both on the technological and commercial fronts.

Nagravision's solutions serve more than 100 operators worldwide representing more than 60 million active smart cards/devices at the end of 2005.

Television on IP

IPTV (Internet Protocol Television) is a new technology used by television operators and suppliers of mobile services.

The IPTV market can be broken down into the following main segments:

- The traditional telephone service operators who broaden their phone offer to include video and data transmission and propose triple-play bundles with the three services (phone, high-speed Internet and video).
- Satellite and terrestrial TV operators who expand their broadcast offering with on-demand movies and programming.
- Cable operators who also want to offer a triple-play bundle at a reasonable expense, thanks to IP-based technology.

Content protection on broadband networks remains a real concern for both content providers and programmers. Nagravision's Conditional Access (CA) and Digital Rights Management (DRM) systems go much beyond offering content protection during distribution and storage; they also offer rights management and user authentication functionalities.

Nagravision entered the IPTV market more than two years ago with the launch of the **NagraIP** solutions, now used by several operators.

In 2005, a NagraIP solution was adopted by **neuf Telecom** in France to secure its TV service on DSL networks. neuf's acquisition of Cégétel significantly increased the target subscriber base. neuf's TV service plans to reach 200 000 subscribers in 2006.

In Spain, broadband operator **Jazztel** launched its DSL-based pay TV service Jazztelia TV, fully relying on NagraIP for content protection.

In Germany, **ish** is getting ready to deploy in early 2006 an IPTV-based video on demand solution over cable using a NagraIP system. Nagravision's solution will enable ish to offer the same VOD content on subscribers' television sets and on their computers.

In the United States, a contract was signed with **PanAmSat** for the delivery of an IPTV system including the NagraIP content protection solution and set top boxes for a high-definition MPEG4-based bouquet to be made available on a wholesale basis to cable and IPTV operators throughout the US. MPEG4 is a high-performance norm that enables new multimedia applications and HDTV.

In the Digital TV sector, the Kudelski Group runs three main Research & Development centers in Switzerland, France and the United States.



Digital TV

Strong development on all fronts

Creation of a new entity

The experience acquired by the Kudelski Group in the IPTV sector confirmed that there was a real opportunity for the Group to extend its know-how to adjacent sectors beyond conditional access. A new subsidiary was established in the United Kingdom, **Quative Ltd**, specially dedicated to IPTV.

Quative offers a new generation service delivery platform for IPTV including content protection, content management and distribution, and service delivery. The company relies on a core team with an established track record in the rollout of IPTV services.

In addition to its experienced management and engineering team, Quative benefits from NagraVision's security know-how and Lysis' content management expertise. The gathering of these competencies confers to the company a unique position on the market.

In line with the Group's philosophy, Quative's platform architecture is open, scalable and service-independent. It supports IP-only and hybrid DVB/IP solutions and includes IP EPG (Electronic Program Guide), video-on-demand, purchase transaction applications as well as OSS/BSS gateway functions.

Quative will deploy its first turnkey solutions during 2006 as part of Kudelski Group's strategic projects.

Mobile TV

More and more, mobile phones are becoming multimedia terminals incorporating a wide range of functions such as SMS, MMS, photo, music and Internet access. Today the industry is becoming increasingly interested in offering high value-added, revenue-generating services such as pay television and premium video content on mobile devices. This represents the next logical step.

The Kudelski Group has succeeded in positioning itself strongly on this emerging market, offering specially designed solutions such as **Nagra-Lysis Mobile DRM**.

Based on NagraVision's experience in securing pay TV content on all types of networks, Nagra-Lysis Mobile DRM offers end-to-end security with Nagra Mobile, a set of client and server side content protection solutions, and Lysis Mobile DRM, which supplies content aggregation and rights management solutions.

Its key assets are as follows:

- It is the first comprehensive mobile TV solution worldwide.
- It is compatible with devices from all the main mobile phone manufacturers.
- It offers a flexible set of business models to purchase broadcast content on-line and off-line.
- It enables synergies between different types of networks: 2.5G/3G and DVB-H (Digital Video Broadcasting on Handheld devices).
- It is compliant with multi-DRM environments including OMA v1, v2 (Open Mobile Alliance) and Microsoft DRM as well as DVB-CBMS (Digital Video Broadcasting – Convergence Broadcast Mobile Systems).

At the end of 2005, Kudelski was selected by **T-Mobile**, the world's fourth largest mobile network operator, to launch a pilot project in the Czech Republic combining for the first time TV broadcasting on DVB-H technology with customized add-ons allowing interactive broadcasting.

The Nagra Mobile platform implemented for this project offers exceptional flexibility and allows the operator to develop new business models such as various combinations of subscription TV.

In Italy, the mobile phone operator **3 Italia**, which served more than 5.5 million customers at the end of 2005, selected the Nagra Mobile solution to secure its mobile TV service to be launched prior to the Football World Cup in June/July 2006. Football fans will be able to follow matches live on their mobile phones.

This will represent the world's first commercial deployment of a mobile TV service on DVB-H technology. Nagra Mobile, which will ensure the security of this platform, therefore positions itself as a pioneer in this market.

Abilis – reinforced Mobile TV competencies

In August 2005, the Kudelski Group acquired Geneva-based **Abilis Systems**. This company develops low-power, small surface (<90nm) integrated circuits that are particularly well adapted to mobile devices. The core of Abilis solutions is based on a multi-processor engine targeted at wireless broadband communication. Kudelski will combine Abilis' know-how with its security feature set to provide full-fledged solutions targeting the terrestrial and mobile TV markets.



MovieBeam – a catalog of movies in high definition accessed directly through the remote control.

Turnkey Push VOD and DVR solutions

In the still emerging market of Push VOD (video-on-demand) and DVR (digital video recorder) solutions, the Kudelski Group can already take pride in a few success stories, promising interesting business perspectives.

A partnership was concluded with **Walt Disney Television International** (WDTV-I) for the creation of a joint venture for the development and marketing of turnkey Push VOD and DVR services.

This solution is original in the sense that it includes the content as part of the offer: a catalog of movies, some of which in high definition, from Disney and other majors. The service will be deployed on satellite, cable, terrestrial and IP DVR decoders using standard hardware platforms.

MovieBeam, a venture financially backed by Disney, Cisco and Intel, re-launched in early 2006 its Nagravision-secured movies-on-demand service in 29 major metropolitan areas across the US reaching half of all US households. The MovieBeam movies-on-demand service provides instant access in high definition television to an ever-changing lineup of new releases and other popular favorites from virtually every major Hollywood studio. Disney will release its films through this service on the same day as they appear on DVD.

Nagra Push VOD

The Nagra Push VOD solution is designed for operators wishing to provide transaction-based content-on-demand on digital video recorders. Using the Nagra Push VOD system, content is encoded, encrypted, and transferred to the DVR hard-disk drive, and offered for rental or purchase to the subscriber. All rights associated to the stored content are managed by the Nagravision conditional access system. Content can be in various formats as file-based transfer is used to enable audio, video, data, games, etc. to be pushed by an operator to the subscribers' hard-disk drive.

The system delivered to Premiere is the only DVB solution using file-based content download rather than the streaming of videos. While such systems are typical in Internet Protocol networks, Nagravision provides the first implementation of a content-on-demand system using MPEG2 TS files that can be downloaded very quickly over DVB networks.

Digital TV

Strong development on all fronts

In Germany, Nagravision launched a Push VOD service over DVB with one of its large customers, **Premiere**.

Nagravision's end-to-end DVR Push VOD solution secures Premiere's new VOD service Premiere Direkt+, the Premiere home video rental store, which enables subscribers to get up to 30 top movies per week downloaded on the Premiere Digital Recorder. After the order via phone, SMS or Internet, the movies are downloaded onto the hard drive via a push video-on-demand system that operates via satellite. Movies are available for the viewer during 24 hours.

In the United States, **DISH Network (EchoStar)**, a Kudelski Group long-standing customer, launched its new Push VOD service on the mobile devices PocketDISH manufactured by Archos.

StarHub Cable Vision, Singapore's cable operator, announced in February 2006 the upcoming launch of SmartTV, a new service that enables users to record their favorite TV programs conveniently with their remote control. This new feature will be offered to subscribers through the deployment of Digital Video Recorders using Nagravision technology. This will be the first deployment of a DVR project in Asia. Nagravision acts as global integrator. The system will support VOD and Push VOD services.

ADB/OpenTV – a reference platform

In 2005, the Kudelski Group announced a collaboration with **OpenTV**, the leading provider of enabling technology for advanced digital television services, and **ADB** (Advanced Digital Broadcasting), a leading supplier of digital TV systems and software solutions for interactive television, to develop and market global solutions for Push VOD/DVR services in high definition.

Nagravision, OpenTV and ADB intend to pre-integrate solutions to provide an accelerated time-to-market for set-top box manufacturers and pay TV operators wishing to deploy secure, interactive digital video recorders with minimized risk.

The first target platform is anticipated to be a high definition MPEG4 AVC-capable digital video recorder loaded with a complete set of interactive applications including an electronic program guide and file-based Push VOD ability particularly suited to DVR.

New business models

The Kudelski Group innovates constantly both by developing new technologies and by creating new business models.

Rental model

Launched in 2003, the rental model is increasingly appreciated by operators as it enables them to deploy a conditional access platform against payment of monthly subscriber fees.

This model is attractive to operators as it transfers operational risks and piracy risks to Nagravision.

For the Kudelski Group, the rental mode ensures recurring revenues and enables the Kudelski Group to capitalize on the proven resilience of its solutions.

Pre-paid cards

Pre-paid cards are becoming increasingly successful. **Mediaset**, the Italian operator, was the first to introduce this model in 2004.

Initially launched to secure Mediaset's pay-per-view soccer offer, the pre-paid smart cards now provide access to new content such as movies, motor sports and reality shows.

Nagravision is to deploy the third release of the rechargeable smart card solution suite in 2006 following a highly successful rollout of the first phases in 2005. The new release will enable Mediaset to expand its offering to include new features such as pay-per-time and subscription services. The cards can be recharged via mobile phone, Internet or at the point of sale.

The concept attracted another Kudelski Group customer, EchoStar Communications in the United States, who announced its plan to launch its prepaid satellite TV service DishNOW™ in 2006.

The Group's flexible organization encourages creativity and guarantees swift reaction times.



Digital TV

Strong development on all fronts

New generation Nagravision conditional access system

Conditional access solutions are the Kudelski Group's core business. In parallel to the extension of its main product lines, the Group invests substantially in the enhancement of the security architecture of its conditional access system.

R&D teams are developing the next generation of advanced and customizable security architecture for securing content distribution.

This development integrates new distribution and security requirements related to the evolution of the digital television world: new broadcasting modes, business models and consumption habits. The new generation security architecture will also be particularly suited to the rental model.

In the course of 2005, a number of operators using the Nagravision conditional access solution have upgraded their system to new versions of the Nagravision system. Several operators have also swapped cards, generating important card delivery volumes.

Agreement with Microsoft

The Kudelski Group and Microsoft, the worldwide leader in software, services and solutions, announced in 2005 a joint commitment to enable technology solutions that help provide the secure reception of digital pay TV programs on personal computers and devices running Microsoft® Windows® operating systems.

The convergence of pay TV and personal computers brings new business opportunities for content owners, network operators, electronic device manufacturers, retailers and technology providers.

Digital cable

Europe

The Kudelski Group signed a cooperation agreement to provide conditional access and content protection systems to pan-European operator **UPC Broadband**, a subsidiary of the international cable operator UGC (UnitedGlobalCom, Inc.).

In the initial phase, Nagravision will support the rollout of digital television to UPC Broadband's analog cable subscribers in the Netherlands. Other developments are planned in Europe.

In Romania, **RCS & RDS**, the leading cable network and Internet service provider in the country, launched its digital DTH service in Romania and in Hungary. Similar deployments are planned in other countries in the near future. Additionally, this operator extended its analog cable platform to digital technology in Romania.

In Switzerland, **Naxoo** selected Nagravision to deliver and integrate an end-to-end solution including conditional access, smart cards, DVR, interactive applications and MHP middleware.

In Belgium, **Telenet** launched a digital cable TV service in October 2005 as part of its triple-play offer. The solution offers consumers interactive applications such as video-on-demand, electronic program guide and DVR. Nagravision acts as a global integrator.

In Spain, Nagravision was selected by the fiber optics telecommunications operator **R** for the deployment of a new digital television network. This contract is part of R's migration to digital technology. R is implementing a powerful fiber optics infrastructure involving over 300 000 km of cable and capable of transmitting video, voice and data signals simultaneously through a single cable line.

In the United Kingdom, Nagravision's long-standing customers **NTL** and **Telewest** announced in March 2006 the finalization of their merger. The merged platform totals more than 3.2 million subscribers; the global cable network reaches more than 12 million homes, representing approximately 50% of all UK homes.

Americas

Iowa Networks, a consortium of over 100 cable and telephone providers, continued to rollout its digital cable system using a Nagravision solution. In 2005, operators who adopted the Nagravision solution to upgrade their analog cable system to digital included Griswold Cable and Interstate Cablevision.

In Brazil, the two principal cable operators **Net Serviços** (Globo Group) and **TVA** (Abril Group), continued to grow using Nagravision technology: they expanded their digital TV services to new cities in Brazil and at the same time upgraded existing networks to all-digital.

In Peru, **Telefonica del Peru**, one of the largest telecom, Internet service and cable television providers in the country, selected Nagravision to supply a conditional access solution and Livewire OS software suite for its Cable Magico Digital TV network.

In Antigua and Barbuda in the Antilles Islands, **Communications Networks Systems (CNS)**, selected Nagravision to secure and enhance its new digital TV service. The upgrade of its analog terrestrial system provides subscribers with an all-digital solution.

Weststar Grand Cayman and **CBC Barbados**, who use the Nagravision conditional access system and Livewire OS suite, have adopted the digital technology across all their networks.

A solution specially designed for US cable
At the 2006 International Consumer Electronics Show (CES), Nagravision presented a conditional access solution in line with the new US cable DCAS (Downloadable Conditional Access System) concept. The demonstration was conducted with Comcast, leading cable operator in the US, on LG Electronics decoders.

Over the last two years, Nagravision has been a pioneer in collaborating with, namely, Comcast and STB vendors to develop a new generation of flexible and innovative interoperable client solutions specifically designed for the US cable, in which cable operators are free to manage CAS and Set-Top Box vendors in an independent way – an area where strong historical constraints prevail.

Asia

The Kudelski Group has a significant installed base in Asia, and in particular in the cable sector with, for example, **StarHub Cable Vision** in Singapore, **C&M** and **Qrix** in Korea and **Hong Kong Cable International** in Hong Kong.

In China specifically, one of the markets with the highest potential in the region, the Kudelski Group continued to enjoy strong progress.

The Beijing region cable operator **Beijing Gehua Cable TV**, a Kudelski Group customer, plans to have completed its digital migration before the Olympic Games.

The SARFT, the Chinese government's regulatory authority for television services, required all operators to migrate to digital.

Oriental Cable Network (previously Shanghai Cable Network), an important Kudelski Group customer, continues to develop well, using Nagravision systems.

The Kudelski Group benefits from a strong presence in China, supported by its strategic partnership with **CITIC Technologies** – a subsidiary of the leading CITIC Group – established in 2004. CITIC promotes the use of the Nagravision conditional access system for all digital programs distributed over its networks.

Nagravision and **SCM Microsystems**, leading manufacturer of electronic conditional access modules for digital television, concluded an agreement for the joint development of a smart card for the Korean cable market.

Nagravision and SCM developed and manufactured a secure module based on the OpenCable standard and worked together to integrate the Nagravision conditional access system into this module. The smart card resulting from this development is sold under the CableCard name.

Digital TV

Strong development on all fronts

Direct-to-home satellite television

Europe

In March 2006, the Kudelski Group announced that its Nagravision end-to-end turnkey conditional access solution had been selected by **SES ASTRA**, a SES GLOBAL company and the market-leading satellite operator in Europe, for the launch of the company's new digital TV infrastructure for the German market.

SES ASTRA's new infrastructure for digital TV and additional interactive services will be made available to all broadcasters on an open and non-discriminatory technological basis, which will facilitate the introduction and development of digital services. The offer will include services such as the encryption of program signals and smart card distribution and registration for access. With this offer, TV households will enjoy a flexible digital TV solution providing technical access to free TV, pay TV and interactive services.

Nagravision's conditional access solution provides outstanding broadcast security and enables SES ASTRA to offer the technical services for programming diversity and flexible business models especially tailored to broadcasters and consumer needs.

This solution will be scaled to support up to 10 million registered customers with the capability to increase the capacity as per the requirements of SES ASTRA.

In Poland, the satellite operator **Cyfrowy Polsat** registered a strong increase in the number of its subscribers, now reaching more than 700 000. This operator successfully migrated to Nagravision's rental mode solution in 2005.

In Spain, terrestrial operator **CANAL+**, a Kudelski Group customer since 1989, completed the switch-off of its analog subscribers, migrating most of them to digital satellite technology using the Nagravision conditional access system.

Also in Spain, **Digital+** completed the migration of its satellite subscribers to the Nagravision's conditional access system.

In Portugal, **TV Cabo**, the country's leading digital TV operator, migrated its 300 000 satellite subscribers using Nagravision's conditional access system; the operator also migrated close to 350 000 subscribers to its premium analog service to Nagravision's digital system.

Americas

The year 2005 was marked by important milestones for **EchoStar**, **DISH Network**, its satellite operator, and **EchoStar Technologies Corporation**, its set-top box manufacturer.

DISH Network passed the 11 million subscribers milestone in January 2005, and reached 12 million subscribers (with in most cases several cards per subscriber) before year's end.

Bell ExpressVu, an EchoStar affiliate and Canada's largest satellite TV operator, reached close to 1.7 million subscribers in 2005.

DISH Network's impressive subscriber base growth can be attributed to different factors.

Quality programming and technology offers:

- The number of digital video recorders (DVR) sold reached more than 3 million units.
- The first MPEG4 HD DVR was introduced with DISH Network's HD package, the largest in the US, featuring more than 23 high definition channels, a lineup that will continue to expand in 2006, through EchoStar's agreement with Rainbow Media and VOOOM.
- The number one international channel offering in the US featuring more than 118 channels from 25 countries in 28 languages.
- A local channel offering in more than 163 local markets, (out of 212), representing between 4 and 10 channels in each city.

New product launches:

- **PocketDISH™**, a new line of portable media companions offered by DISH Network on which users can view their favorite programs. The content is secured by a solution provided by the Kudelski Group.
- **DishNOW™**, a prepaid card solution designed for viewers who prefer to access DISH Network's channels on a prepaid basis rather than through a standard subscription. The Kudelski Group also provided the encryption technology.

DISH Network – a continuously growing infrastructure

- In 2005, the number of uplink facilities increased from 2 to 8.
- Available services grew from 2 300 in January 2005 to 2 670 in December 2005, with HD services added daily.
- EchoStar launched its 10th satellite in February 2006.
- DISH Network finished first among all pay-TV providers in the American Customer Satisfaction Index (ACSI) for the second year straight.

Globecast, the American satellite DTH operator, selected and began its migration to NagraVision's new generation of conditional access system for its WorldTV platform broadcasting international programs in the US.

In Brazil, **Globo TV** selected NagraVision conditional access system and Livewire OS product to deploy a satellite-based pay TV platform into Europe.

Digital terrestrial television (DTT)

In France, the **CANAL+ Group** selected once more the Kudelski Group conditional access solution to secure four pay TV channels (CANAL+, CANAL+ CINEMA, SPORT and Planète) over France's digital terrestrial television network. The project was deployed successfully in October 2005.

Kudelski and CANAL+ have been partners since 1989 when CANAL+ chose the Kudelski technologies to secure its analog television service offering.

The new agreement extends the relationship between the two companies while providing an opportunity for the Kudelski Group to further strengthen its presence on the European digital terrestrial television market.

Following the successful rollouts in Italy (**Mediaset**) and the United Kingdom (**TopUp TV**), Kudelski positions itself as the reference supplier of conditional access solutions for DTT.

Freedom

Nagra Public Access
Gaining momentum



Reorganized, actively engaged in a margin improvement program, strengthened by the success of new products, the **Nagra Public Access** division substantially improved its performance compared to 2004, achieving 8.5% growth in 2005.

SkiData is a pioneer in handsfree access control systems for ski resorts since 1989.



Nagra Public Access Gaining momentum

Reorganized, actively engaged in a margin improvement program, strengthened by the success of new products, the Nagra Public Access division substantially improved its performance compared to 2004, achieving 8.5% growth in 2005.

Besides structural and organizational reinforcement, research and development efforts contributed strongly to the dynamism of this division. Nagra Public Access has a range of technologies and solutions placing it in the forefront of its sector at international level.

Sale of majority stake of Ticketcorner

The strategic orientation of the Public Access division, focusing on its core access control business, led the Kudelski Group to sell a controlling stake of Ticketcorner to a consortium consisting of Capvis, the leading private equity company in Switzerland, Ticketcorner's management and Phonak entrepreneur Andy Rihs.

The investors, attracted by Ticketcorner's potential, intend to accelerate the development of the company.

The Kudelski Group is retaining a 28% participation, reflecting its willingness to cooperate with the ticketing organization.

AccessArena integrated into SkiData

In 2005, the activities of Access Arena were integrated into SkiData (Suisse) AG. AccessArena offers integrated "destination management" solutions enabling visitors to a specific region to access a variety of services using a single smart card.

SportAccess becomes polyright

The restructuring of Nagra Public Access involved the review of existing brands and entities. SportAccess was renamed polyright to better reflect the company's activities.

The SkiData access control solutions enable thousands of football fans to access stadiums smoothly and efficiently.



SkiData

Development in all sectors

The two divisions of SkiData, "People Access" and "Car Access", reported good results in 2005. Newly developed products are expected to boost market shares in many segments.

People Access division

Market demand for contactless access control systems is growing continuously. It has greatly stimulated RFID card sales, which grew by 40% in 2005.

Ski segment

The contract won by SkiData in **France** for the delivery of an access control solution to the well-known resorts Les Trois Vallées and Les Sybelles represented one of the highlights of the year.

The operators of these resorts wished to offer their customers as much comfort as possible, both in buying their ski passes and in physically accessing the slopes.

The SkiData solution, which includes ticket pre-booking over the Internet, RFID access cards and the latest SkiData access gate technology, was the answer to a challenge that had been standing for a long time.

French operators also appreciated the advanced management features offered by the SkiData system, such as visitor flow analyses and sales statistics, which are particularly useful for optimizing operations.

At Les Trois Vallées, the networked access control system was installed at the beginning of the 2005/2006 winter season.

Two additional French resorts of Espace Killy, Val d'Isère and Tignes, will also be equipped with a SkiData solution. This region hosted the Winter Olympics in 1992 and will be the venue of the next World Ski Championships in 2009.

In **Austria**, a complete system update was ordered by Ski Amadé, a long-standing SkiData customer, which is also the country's largest alliance of winter sports operators.

In **Switzerland**, the ski resort of Andermatt ordered a SkiData system to update its installations. With this contract, SkiData has become the single access solution provider for the entire area, which groups the three famous resorts of Andermatt, Gemsstock and Sedrun.

Overall, SkiData was successful in Switzerland in 2005. Several major projects are foreseen to come through in the course of 2006.

In **Italy**, in February 2005, the World Ski Championships in Bormio used a SkiData solution for visitors' accreditations and access control.

The first successes achieved in **Japan** opened up interesting development perspectives for SkiData. The system installed at the renowned ski resort Niseko United in 2003, for example, generated interest from other major resorts in Japan and in Korea. Discussions are underway.

SkiData a principal member of the Near Field Communication (NFC) Forum

The NFC Forum was founded in 2004 by Nokia, Philips and Sony. It brings together the key industry players in the development of wireless communication equipment enabling contactless transactions.

NFC technology is supported by mobile devices of large manufacturers and is compatible with the millions of RFID cards in use in the world today.

SkiData is a principal member of the organization and plays an active role in the definition of future NFC standards and protocols relating to ticketing applications.



The Allianz Arena stadium in Munich uses a SkiData access solution.

Global platforms

SkiData technology is being developed around the concept of a global platform, which serves as the basis for a great variety of applications in different segments of activity.

For example, FREEMOTION is the universal platform for all ski applications.

In the Car Access sector, the new Coder Unlimited unit is the central platform for access card management and ticketing applications.

Applications designed using this base are amongst the fastest, most powerful and practical to maintain on the market.

Introduced in 2005, this innovative technology was very well received by operators, to the extent that, for certain pieces of equipment, demand exceeded expectations.

Stadium and leisure segment

SkiData is also very active in the stadium and leisure segment, stimulated by the forthcoming Football World Cup, which will take place in Germany.

In **Germany**, the Allianz Arena stadium selected SkiData to deliver a global stadium access and management solution. The stadium, home to the Bayern Munich FC and 1860 Munich clubs, is technically one of most advanced in the world. It will be one of the principal sites for the Football World Cup in 2006. The system allows modular access control, including individual access to VIP boxes, and a contactless card with electronic purse functionality to access the stadium and the car park and pay for purchases. Access to the stadium, which seats 69 000, proceeds through 242 control points.

In the **United Kingdom**, the Roots Hall stadium of Southend United FC in Essex has been equipped with a SkiData integrated ticketing and conditional access system, as well as with a CRM (Customer Relationship Management) data management system.

At the Celtic Park stadium in Glasgow, home of the Scottish first league club Celtic FC, SkiData was selected as partner for a group of suppliers contracted to implement an integrated turnkey solution on a Microsoft platform.

Nagra Public Access

Gaining momentum

In **China**, a prestigious and strategically important project was carried out for the Gong Ti Stadium (the "Peoples' Stadium") in Beijing. The success of this project represents a significant step in the recognition of SkiData as a prominent supplier for stadium solutions on the Chinese market and, by extension, in the Far East.

New projects were also achieved in the Leisure segment.

In the **United Kingdom**, SkiData has set up an access control Handshake solution using portable scanners at the spectacular London Eye, the world's largest Ferris wheel. Additionally, SkiData delivered a comprehensive Handshake™ access management solution for the world famous Ascot racecourse.

In **Dubai**, SkiData equipped one of the world's largest indoor ski facilities, Dubai Sunny Mountain Skidome, which was opened in September 2005, as well as the Wild Wadi Water Park.

In **China**, SkiData was selected to supply the access system for the brand new China Tennis Open. The first edition of this tournament was held at the Beijing Tennis Center.

Car Access division

The business of this division developed successfully in 2005, especially in the North-American and Asia/Pacific markets.

The share of the Car Park Operators segment reached 58% of the revenues of this division, that of Communities & Buildings 32%, and Airports 10%. SkiData is the world's leading provider of parking access solutions for large airports.

On the American continent, SkiData achieved good results in 2005 and met its growth objectives. The company made a successful entry into the **Mexican market** by winning an important contract for the delivery of a parking access solution to the Palacio de Hierro shopping centre at Monterrey.

In the **United States**, SkiData cooperated with ZipPark, a US leader in parking services and solutions, to develop a technology integrating the services offered and managed by the ZipPark system into the SkiData parking system.

In **Australia**, SkiData, together with its partner Wilson Parking, set up a car park management system at the Melbourne Exhibition and Convention Centre.

A commercial structure was set up in the **Middle East**. This market, where SkiData is already present, represents an important potential in the Parking segment for SkiData.

In spite of strong competition in **Europe**, SkiData won several important deals.

In **Italy**, SkiData set up a complete car park management system for Parco Leonardo, a new and prestigious commercial and residential complex located between Rome and the Fiumicino airport. This installation is one of SkiData's largest 2005 projects.

The installation for the Milan Fair car park – a project that was contracted in 2004 – was completed in 2005. This installation sets a new standard in real-time traffic management intelligence.



A SkiData parking solution was installed at the Melbourne Exhibition Center.

In the **Benelux** countries, SkiData equipped the car parks of the Belgian retail group Delhaize with the innovative SkiData Shop & Go solution. Further installations were also supplied to the Dirk van den Broek retail chain in Holland.

In Gothenburg, **Sweden**, SkiData was selected to update the existing parking access system for Nordstan, the country's largest shopping centre.

In **Switzerland**, soon after the car park installations of the Swiss Stadium in Bern were put into service, SkiData signed two new important contracts. The first was for a parking system for the Sihlcity shopping and leisure mall in Zurich, one of the city's largest construction projects to date, which is due to be opened in 2007. The second contract was related to the construction of Pilatusmarkt at the foot of the Pilatus Mountain in Krienz, close to Lucerne. This business and shopping complex will also be equipped with a SkiData parking system.

Airports segment

In **France**, a car park management system was installed at Lille International Airport.

In **Scotland**, SkiData delivered a parking system to Glasgow Prestwick Airport. The SkiData parking solution is already used at the Glasgow International Airport.

In the **United States**, SkiData installed a parking system at the Tri-Cities Airport, a regional airport serving the southeast of the state of Washington and the northeast of Oregon.

SkiData also equipped the Park' n' Fly network at the airports of New Orleans, Los Angeles, Atlanta and Cleveland.

In the **Asia/Pacific** region, negotiations are ongoing for the delivery of parking solutions at several major international hub airports.

Ticketcorner

Growth and strategic evolution

2005 was a good year for Ticketcorner. All markets contributed to the company's strong revenue growth.

New products were launched successfully, including the print@home system, Easy Outlet for on-line point-of-sale ticketing, Easy Access for organizers' access management and Easy Tix, an autonomous ticketing system for organizers wishing to have their own reservation system.

Switzerland

The reopening of the renovated Hallenstadion in Zurich had a substantial impact on ticketing activities. This stadium is the largest in Switzerland and hosts a multitude of events.

Collaboration with PostFinance

After a successful pilot test, 1 000 post offices will have a Ticketcorner point of sale in 2006. Based on RFID technology, PostFinance's Postcards can be used as entry tickets to access events sold by Ticketcorner.

Germany

Ticketcorner concluded a contract for the sale of tickets for the 2007 World Handball Championships, which are the most important upcoming sports event in Germany after the Football World Cup in 2006.

Austria

The signing of a contract with the Raiffeisen group of banks of the Lower Austria/Vienna region opens interesting prospects on the Austrian market. This group has been one of the main organizations of ticket pre-sale in the region for a long time. It has entrusted this service to Ticketcorner, with a view to developing it even further.

Set for international growth

The new shareholding structure and the positive developments of 2005 provide Ticketcorner with strong assets to accelerate its European growth strategy.

Multifunction smart card solutions

Annual meeting of the World Economic Forum

The Kudelski Group has been a strategic partner of the World Economic Forum for many years. The ongoing relationship between the two organizations has deepened over the years. The physical access solution provided by the Kudelski Group for the Annual Meeting of the World Economic Forum held in Davos offers new features every year.

The secure badge system provides the participants with a higher level of security and enhanced services, whilst providing the organizer with a particularly effective management tool. The system manages registration as well as access to the sessions and to the Web-based information platform.

polyright

Through its company polyright, Nagra Public Access offers access systems based on multifunction smart cards.

This technology is very well adapted to the needs of institutions in the health sector (hospitals, private clinics), in the education sector (schools, universities) and in the business sector (corporations). But it is also used for congresses and special events such as the Montreux Jazz Festival.

Contract signed with the Swiss Federal Institute of Technology of Lausanne – EPFL

polyright was selected by the Swiss Federal Institute of Technology (Ecole Polytechnique Fédérale de Lausanne) in Lausanne to deliver a new smart card solution based on the RFID (contactless) technology to manage the various types of access on the campus.

The system will handle a variety of applications such as physical access to buildings and rooms, payment at the restaurants and cafeterias, account management for photocopies and printouts as well as car park access.

These multifunction cards will be used by more than 10 000 students and staff. polyright's technology will protect access to more than 600 access points, some of which will be controlled by biometric systems such as fingerprints and iris control.

Montreux Jazz Festival

polyright has been a partner of the Montreux Jazz Festival since 2003.

For the 2005 edition of this prestigious event, polyright provided a contactless accreditation and payment badge solution. Digital checkouts were installed for this purpose at all the bars located inside the Montreux Congress Center. Integrated chips enabled contactless communication between the badges and the check-outs, providing speed and flexibility of use. The system also offered a powerful real-time bar management tool for the Festival organizers.

The badge solution was used by more than 1 500 members of staff as well as by the Festival sponsors and their guests.

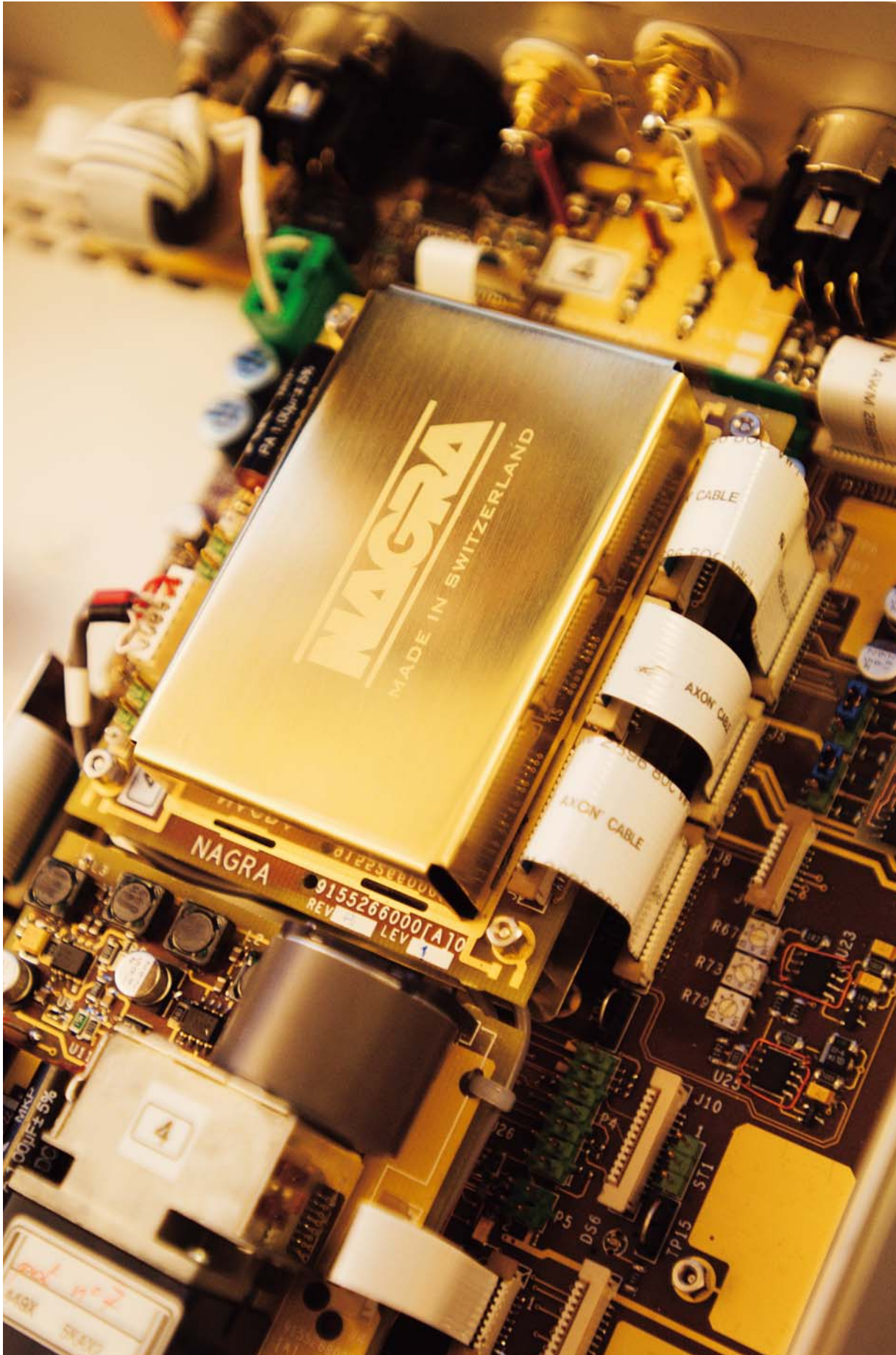
Excellence

Nagra Audio
A special place in the world of sound



The **Nagra** brand continues to feed the legend and contributes to the prestige of the company throughout the world.

The Nagra family now includes a high-end CD player.



Nagra Audio

A special place in the world of sound

Nagra Audio is the Kudelski Group's historical sector. Today, it represents a relatively small part of the Group's revenues, but the importance of Nagra Audio goes beyond numbers.

The Nagra brand continues to feed the legend and contributes to the prestige of the company throughout the world.

Already rewarded by many distinctions, including three Oscars and one Emmy Award, Nagra received two very coveted prizes in 2005: the Grand Prix 2005 conferred by the much respected magazine Stereo Sound in Japan and the Innovation Award 2006 awarded by the Consumer Electronic Association during the Consumer Electronic Show in Las Vegas in January 2006.

These two distinctions were awarded to a product of the Hi-Fi range, the **Nagra PMA** amplifier of pyramidal shape, an attractive and original design sheltering state-of-the-art technology.

Professional range

Costs per unit reduced, volumes increased

Legendary and much sought-after by collectors throughout the world, the Nagra analog tape recorders were replaced in the 1990s by equipment using digital technology.

In 1994, Nagra reinvented the recorder by replacing the magnetic tape by a memory card. These cards are used today in the majority of digital cameras. The memory card has enabled recorder mechanics to be greatly simplified, while offering enhanced technical specifications through computer technology.

Mechanical simplification made it possible to significantly reduce costs per unit. A digital recorder today has a selling price that is approximately six times lower than that of a traditional tape machine.

The launch of new products and persistent marketing efforts resulted in increased sales volume in 2004 and 2005, compensating for the reduction of the cost per unit sold.

Ares-M for a new market segment

Outside large media groups and organizations, there is a vast market of professional users who invest in cheap equipment, such as the Mini-Disc® or the R-DAT® digital recorders. Both formats are out-of-date today and the ground is open for a substitute offering top performance at an attractive price.

The new **Nagra Ares-M** (Miniature) recorder was designed to target this market segment. Developed in Switzerland, this machine is based on the **Nagra Ares-P** (Pocket) whilst presenting a more compact case. Its functions are simplified and there is only one version, with no options.

The first Ares-M recorders were delivered at the end of 2005 and the demand surpassed forecasts. The device will also be made available to the public through new distribution channels. Its price and its simplicity are likely to raise interest among private recording fans as well as individuals using a recording device in their work such as doctors, lawyers and professionals in the security industry.

Digital miniature recorder Nagra Ares-M.



Nagra Audio

A special place in the world of sound

Hi-Fi range

Nagra entered the high-fidelity mass market in 1997. The international reputation of the brand helped towards immediate conquering of the high-end segment.

The range grew over the years and today comprises two preamplifiers, the **Nagra PL-L** and **PL-P**, the digital-to-analog converter **Nagra DAC** and four amplifiers, **Nagra VPA**, **MPA**, **PMA** and **PSA**. Several new projects are in progress.

The Hi-Fi sector represents a promising opening for Nagra's unique know-how. It accounts for more than a quarter of Nagra Audio total revenues.

Successful launch of the PMA and PSA amplifiers

Launched in January 2005, the pyramid-shaped amplifiers Nagra PMA (mono) and PSA (stereo) created a sensation in the audiophile market.

In addition to the prestigious prizes they had already received, these equipments were classified among the best of today's achievements by the international specialized press, a unanimous appreciation auguring well for their future commercial success.

The Nagra PMA and PSA amplifiers innovate by their design and make use of several original components, such as the patented PFC – Power Factor Corrector – circuit that ensures that the power used by the unit is free from any deformation.

The Nagra family now includes a high-end CD player

With no source within its range, Nagra decided to develop a CD player. The new device will be launched during the fall of 2006.

The mechanical part of the player is of exceptional quality and robustness, in the pure tradition of Nagra equipment. The electronics are based on the latest digital recorder technology.

A prototype was presented at the Consumer Electronic Show in Las Vegas, where it received an excellent reception.

New distribution structure in the US

The United States are one of world's key Hi-Fi markets. They are also Nagra's principal customer just before Japan.

As a marketplace, the United States are very demanding with regard to sales processes and after-sales service. Therefore, it was decided that Nagra itself should handle the distribution of its products in this country. Today, Hi-Fi sales (as well as sales of professional range products) are managed by a team within the subsidiary company Nagra USA.

Partner of the Montreux Jazz Festival

For many years, the Festival has used Nagra recorders to capture its concerts. Since 2004, it also relies on Nagra to develop the "Montreux Jazz on Film" concept, which consists of screenings of concerts selected from the extensive archives of the Festival.

In 2005, a projection room was installed in the Montreux Palace. The Nagra equipment managed to re-create sound conditions close to reality. Several daily screenings enabled nearly 2000 participants to relive Festival concerts.

The "Montreux Jazz on Film" concept was also used outside Switzerland in the framework of the "Worldwide Festivals" organized throughout the world including the United States (Atlanta) and Singapore.

Nagra Hi-Fi: an exceptional range of products in the high-end segment.



Nagra PL-L Preamplifier



Nagra PL-P Preamplifier



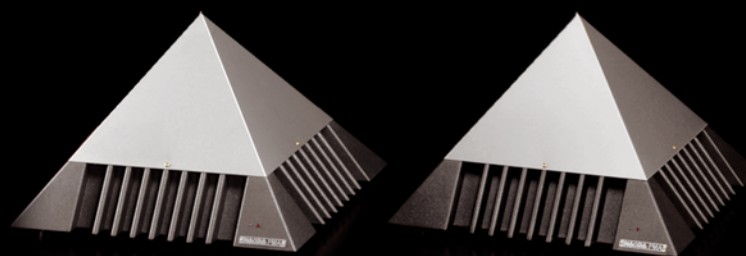
Nagra MPA Amplifier



Nagra DAC Digital-to-Analog Converter



Nagra VPA Amplifier



Nagra PMA Amplifier

Kudelski Group
Corporate governance



This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which entered into force on July 1, 2002. Unless otherwise mentioned, the information given in this report reflects the situation as of December 31, 2005.

The Kudelski Group headquarters in Cheseaux-sur-Lausanne:
a balance of tradition, innovation and modernity, with transparency
as the final touch.



1. Group structure and shareholders

1.1 Group structure

Kudelski SA is registered in Cheseaux-sur-Lausanne.

The company has been structured as a holding company since 1999. Its shares have been listed on the SWX Swiss Exchange since August 2, 1999 and the company has been part of the SMI (Swiss Market Index) since October 1, 2000.

From an operational point of view, the activities of the Group are divided into two sectors: Digital Television and Public Access.

The Kudelski Group is organized and managed as shown on the organization chart on the following page. The shareholdings in the Digital Television sector are held directly by Kudelski SA, while the principal shareholdings in the Public Access sector are held by Nagra Public Access AG, which in turn is fully owned by Kudelski SA.

1.1.1 Operational structure of the Group

Please refer to next page.

1.1.2 Listed companies included in the scope of consolidation

Kudelski SA, which is registered in Cheseaux-sur-Lausanne, Switzerland, is a Swiss holding company listed on the SWX Swiss Exchange (val No 001226836/ISIN CH0012268360) with market capitalization at December 31, 2005 of CHF 1 837 416 292. Only Kudelski SA bearer shares are listed on the SWX Swiss Exchange.

With the exception of Kudelski SA, the companies included in the scope of consolidation are not listed.

1.1.3 Unlisted companies included in the scope of consolidation

Please refer to pages 52 and 58 of the Kudelski Group 2005 Financial Statements.

1.2 Significant shareholders

The principal shareholder of Kudelski SA is the Kudelski family pool including Mr Stefan Kudelski and Mr André Kudelski.

No other shareholder holds more than 5% of the capital and there are no shareholders' agreements between the family pool and other shareholders.

	31.12.2005
Kudelski family pool	
Listed bearer shares	6 658 619
Unlisted registered shares	46 300 000
Voting rights	56.73%
Share capital held	21.84%

This shareholding structure, and in particular the control given to the family pool over the company warrants the independence of the Group vis-à-vis the main digital TV operators and protects the Group's customers from take over.

1.3 Cross-shareholdings

There are no cross-shareholdings.

Kudelski SA

Digital TV

Nagravision	100%
NagraCard	100%
Nagra France	100%
NagraStar	50%
Nagra Plus	50%
Quative	100%
Abilis Systems	100%
NagraID	100%
Leman Consulting	100%
MediaCrypt	50%
Nagra Thomson Licensing	50%

Nagra Public Access

SkiData	100%
Ticketcorner*	100%
polyright	100%

The Nagra Audio activity is an integral part of Nagravision SA. It is under the operational direction of Charles Egli, Executive Vice President.

* On December 5, 2005, the Group, until then 100% holder of Ticketcorner, announced the sale of a majority stake of Ticketcorner to Capvis, the management of Ticketcorner, and Mr. Andy Rihs. The Group keeps a 28% minority shareholding. The sale was completed in February 2006.

		Digital TV	Public Access	Nagra Audio	
International presence	Europe	Switzerland			
		France			
		Austria			
		Germany			
		Spain			
		Italy			
		The Netherlands			
		Sweden			
		United Kingdom			
		Rep. of Ireland			
	Americas	USA			
		Brazil			
	Asia	Singapore			
		China			
		Japan			

Head offices
 Regional headquarters
 Subsidiaries/offices

2. Capital structure

2.1 Amount of the ordinary, authorized and conditional capital

2.2 Authorized and conditional capital in particular

Ordinary capital

The share capital amounts to CHF 516 829 140. It is divided into 47 052 914 bearer shares with a nominal value of CHF 10 and 46 300 000 registered shares with a nominal value of CHF 1. Each share confers the right to one vote. All the shares are fully paid up.

Authorized capital

The Board of Directors is authorized to increase the share capital in one or more stages, until May 26, 2006, by a maximum total of CHF 40 881 640 through the issue of 3 768 164 bearer shares with a nominal value of CHF 10 and of 3 200 000 registered shares with a nominal value of CHF 1, to be fully paid-up.

The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring corporations or parts of corporations or in order to finance the whole or partial acquisition of other companies in Switzerland or elsewhere.

Conditional capital

The conditional capital amounts to CHF 114 608 420 and is structured as follows:

- A maximum amount of CHF 14 608 420 through the issue of a maximum of 1 460 842 bearer shares with a nominal value of CHF 10, to be fully paid up, as and when the option rights or the share subscription rights which will be granted to employees of the company and of affiliated companies are exercised.
- A maximum amount of CHF 100 000 000 through the issue of a maximum of 10 000 000 bearer shares with a nominal value of CHF 10, to be fully paid up, as and when the conversion rights linked to the convertible bonds of the company or its subsidiaries are exercised. Preferential subscription rights for shareholders are excluded.

2.3 Changes of capital over the last three financial years

	31.12.05	31.12.04	31.12.03
in kCHF			
Registered share capital	46 300	46 300	46 300
Bearer share capital	470 529	469 296	468 649
Legal reserve	63 039	60 692	59 380
Net profit	35 182	723	2 732
Total available earnings	187 449	162 622	162 036
Total shareholders' equity	767 317	738 910	736 365

Information relating to changes in capital having taken place in 2005, 2004 and 2003 are shown in the Group's corresponding financial statements.

2.4 Shares and participation certificates

The capital of Kudelski SA on December 31, 2005 was made up of 46 300 000 registered shares with a nominal value of CHF 1 and 47 052 914 bearer shares with a nominal value of CHF 10. Each share confers the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the share of whatever kind.

2.5 Profit sharing certificates

Kudelski SA does not have profit sharing certificates.

2.6 Limitations on transferability and nominees registration

As per the Articles of Incorporation of Kudelski SA, the registered shares may be transferred by presentation of the endorsed stock and subject to the approval of the Board of Directors. The latter may refuse to approve the transfer of registered shares in one or other of the following cases:

a) If there exists good cause within the meaning of Article 685 b (2) of the Swiss Code of Obligations, i.e. if admission of the acquirer of the stocks into the shareholder group is incompatible with the object of the company or is capable of compromising the economic independence of the company. This would in particular be the case if the acquirer is capable of prejudicing the company directly or indirectly and if transfer of the stock could jeopardize the existing majorities.

b) If the company makes an offer to the vendor to take over the shares for its own account, for the account of other shareholders or of third parties at their actual value at the time of the request.

c) If the acquirer has not expressly declared that he was taking over the shares on his own behalf and for his own account. If the shares were acquired by right of succession, estate distribution, marital agreement or judicial execution proceedings, the company may only refuse consent if it offers to take over the shares from the acquirer at their actual value.

In the case of dispute, the actual value provided for under this article will be determined by the courts of the domicile of the company. The company will bear the costs of valuation.

If the acquirer does not reject the purchase offer within one month of becoming aware of the actual value, the offer will be deemed accepted.

Kudelski SA has no regulations concerning nominee registration.

2.7 Convertible bonds and options

Convertible bond

At the end of January 2002, Kudelski Financial Services Holding S.C.A., a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of USD 325 million. The conversion price was initially fixed at CHF 127.50 per ordinary bearer share of Kudelski SA and was changed on July 31, 2003 to the corresponding amount of CHF 100 (on the basis of a USD exchange rate of 1.6396) in conformity with the provisions of the bond public offering prospectus. Kudelski SA unconditionally and irrevocably guarantees this issuance.

The annual coupon is 2.25% calculated on the nominal amount of the bonds and payable semi-annually (on January 31 and July 31) from July 31, 2002.

As of January 31, 2009, the maturity date, the issuer will redeem the bonds at 105.79% of their nominal amount. Bonds may be redeemed at any time after January 31, 2005 and before January 31, 2007.

The convertible bond was listed on the Luxembourg stock exchange under reference number ISIN XS0140968842.

During the year 2005, the holders of convertible bonds were offered to redeem in cash the totality of the bond at a price of USD 1 020 for USD 1 000 of nominal value. The total of USD 149 297 000 was redeemed further to this offer with a remainder of USD 8 631 000 of nominal value still circulating. At the end of 2005 the issuer exercised its right of early reimbursement and bought the remainder at a price of USD 1 030.41 for USD 1 000 of nominal value. During 2005, the convertible bond was totally redeemed and cancelled and is no longer in the accounts as of December 31, 2005.

On October 5, 2005, Kudelski Financial Services Holding S.C.A., a 100% subsidiary of Kudelski SA, issued a new non-subordinated convertible bond of CHF 350 million in order to pursue the aim of the Kudelski Group to actively manage its assets, in particular by optimizing the financing costs and by improving the duration of its financial debt instruments. The proceeds of the issuance were used mainly for the redemption of the convertible bond described above and the remainder will be used for potential acquisitions or any other aims corresponding to the general interest of the Group outside Switzerland.

The annual coupon amounts to 1.625% computed on the nominal amount of the bonds and payable annually as of October 5, 2006. The conversion price was fixed at CHF 67.76 per ordinary bearer share of Kudelski SA.

The repayment price of the bonds is at par on October 5, 2012. Early repayment can take place after October 5, 2010. Kudelski SA unconditionally and irrevocably guarantees this issuance.

The convertible bond is listed on the SWX Swiss Exchange under reference no. ISIN CH 0022692609.

The offering circulars for the convertible bonds are available upon request at the Kudelski Group headquarters or by e-mail at info@nagra.com.

Options

In 2003, the Kudelski Group implemented a stock option plan for certain employees.

The following options were distributed at 31 December 2005:

Number of options	Vesting	Expiration	Ratio	Exercise price
125 000	01.04.2006	01.04.2007	1-for-1	CHF 20
126 000	01.04.2007	01.04.2008	1-for-1	CHF 20
126 000	01.04.2008	01.04.2009	1-for-1	CHF 20

For more information on the stock option plan, please refer to the Kudelski Group's financial statements.

Share purchase plan

In 2004, the Kudelski Group introduced a share purchase plan for employees of certain companies in the Group, enabling those employees to buy Kudelski SA bearer shares at preferential conditions. Each participant can subscribe each year to this plan for a maximum amount of 7.7% of his/her gross annual salary.

The share purchase price is the SWX Swiss Exchange closing price the day of the subscription, with up to 42% discount. However, shares under this plan have a three-year blocking period starting from the date of purchase.

This plan may be extended to other companies in the Group in the future.

A chart relating to employees' participation in this plan for the year 2005 is available in the Kudelski Group Financial Statements page 39.

3. Board of Directors

The Board of Directors is the highest decision-making body within the company and is responsible for monitoring the decisions taken at management level. At present, it is made up of eight members elected by the General Meeting of shareholders. The Board of Directors has an Audit Committee, a Strategy Committee and a Remuneration and Nomination Committee.

Membership is as follows:

André Kudelski

Chairman of the Board and Chief Executive Officer (CEO)

Claude Smadja

Deputy Chairman of the Board and Lead Director

Norbert Bucher

Laurent Dassault

Patrick Fœtisch

Stefan Kudelski

Pierre Lescure

Gérard Limat

Secretary to the Board:

Nicolas Gœtschmann

Corporate Secretary (not member)

3.1 Members of the Board of Directors

3.2 Other activities and vested interests

These points are addressed in the individual CVs of the members of the Board of Directors provided on the following pages.

	Year of birth	Position on the Board	Nationality	Executive/Non-executive
André Kudelski	1960	Chairman and Chief Executive Officer	Swiss	Executive
Claude Smadja	1945	Deputy Chairman and Lead Director	Swiss	Non-executive
Norbert Bucher	1931	Member	Swiss	Non-executive
Laurent Dassault	1953	Member	French	Non-executive
Patrick Fœtisch	1933	Member	Swiss	Non-executive
Stefan Kudelski	1929	Member	Swiss	Non-executive
Pierre Lescure	1945	Member	French	Non-executive
Gérard Limat	1940	Member	Swiss	Non-executive



André Kudelski



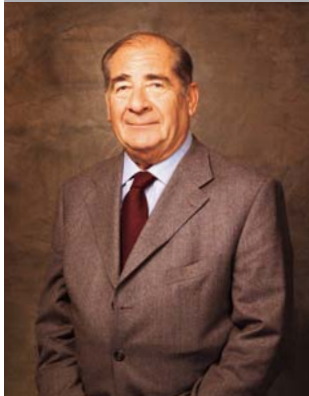
Claude Smadja



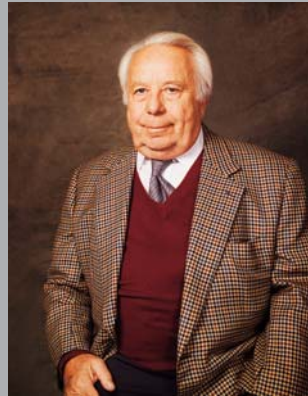
Norbert Bucher



Laurent Dassault



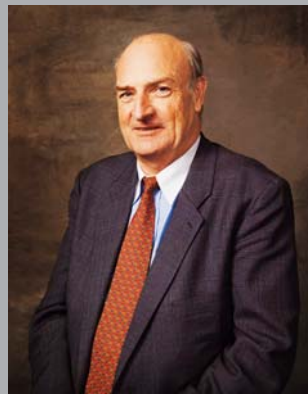
Patrick Føetisch



Stefan Kudelski



Pierre Lescure



Gérard Limat

Kudelski Group
Corporate governance

André Kudelski

André Kudelski obtained a degree in physical engineering from the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology) in 1984. He then held the position of R&D Engineer at Kudelski SA and in Silicon Valley, before becoming Pay TV Product Manager and then Director of Nagravision, the Pay TV division of Kudelski SA. In 1991, André Kudelski succeeded his father Stefan Kudelski to the position of Chairman and Chief Executive Officer of Kudelski SA. He has been on Kudelski SA's Board of Directors since 1987.

André Kudelski sits on the Boards of the Edipresse Group, of Nestlé and of Dassault Systèmes (France), among others. He is also a member of the Advisory Board of Credit Suisse, of the Swiss American Chamber of Commerce and of the Board of *economiesuisse*.

André Kudelski presides over the Strategy Committee of the Kudelski SA Board of Directors.

He also holds positions on the Boards of several Kudelski Group companies: Nagravision (Chief Executive Officer), NagraCard (Chief Executive Officer), Nagra Plus (President and Chief Executive Officer) and MediaCrypt (President).

André Kudelski is also a member of the Supervisory Board of SkiData.

Claude Smadja

Claude Smadja is a politics graduate from the University of Lausanne. After a number of years as Deputy Editor of the Information Department at Télévision Suisse Romande (TSR), the TV channel for French-speaking Switzerland, in 1987 he joined the management of the World Economic Forum, a position that he was to hold until 1992. He then returned to TSR as Information Director until 1996, when he was appointed Managing Director of the World Economic Forum. In 2001, Claude Smadja set up his own strategy consultancy, Smadja & Associates, Strategic Advisory.

Claude Smadja sits on the Boards of the Edipresse Group, Infotech and Infosys, where he also holds the position of Chairman of the Nomination Committee. In addition, he is member of the International Board of Overseers of the Illinois Institute of Technology.

Claude Smadja sits on the Kudelski SA Board of Directors since 1999. He has been Deputy Chairman of the Board since 2002 and, since 2003, Lead Director in the sense of the "Swiss Code of Good Practice in Corporate Governance" issued by *economiesuisse*.

He is also Chairman of the Audit Committee and a member of the Strategy Committee and of the Remuneration and Nomination Committee of the Kudelski SA Board of Directors.

Norbert Bucher

Norbert Bucher obtained a doctorate in technical sciences at the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology). He also studied on post-graduate management programs at the New York University, at the Harvard Business School in Boston and at the IMEDE (IMD Lausanne).

Norbert Bucher began his professional career with Sulzer, in Winterthur and New York, continuing it with Syska & Hennessy Inc, Consulting Engineers in New York. He then joined Philip Morris Europe SA as Deputy Director. After eleven years as Deputy Managing Director at Interfood SA in Lausanne, he held the position of Senior Vice President of Jacobs Suchard in Zurich for seven years.

A member of the Kudelski SA Board of Directors since 1992, he is also a member of the Board's Audit Committee.

Norbert Bucher is also a member of the Board of Nagra Plus and Chairman of the Board of Directors of Ticketcorner.

Laurent Dassault

A business law graduate, Laurent Dassault also holds a degree from the Paris ESLSCA (School of Applied Commercial Sciences).

In 1977, he began his career at Banque Vernes in the "France – exploitation" department (from 1977 to 1982) and became Director of the banking department at Banque Industrielle et Commerciale du Marais (1983 – 1989), taking over Banque Parisienne Internationale with Paribas in 1990. He held the position of Administrator of "General Management and Shareholders" at the Banque Parisienne Internationale.

In 1992, he joined the Groupe Industriel Marcel Dassault (GIMD), where he now holds important positions within its various French and foreign structures.

He thus occupied the following positions (as from date in brackets): Chairman and Managing Director of Dassault Belgique Aviation (1992), Managing Director of Immobilière Dassault SA (2003), member of the Board of GIMD (1992), SVE, Dassault Systèmes (1992), SOGITEC Industries SA (1992) and IPS (Industrial Procurement Services) (1992). He was also Chairman of Midway Aircraft (1992).

Laurent Dassault sits on the Board of Terramaris SA in Fribourg, Switzerland, of the Power Corporation in Montreal, Canada and of Assicurazioni Generali SPA in Italy (2004).

He is also a member of the Advisory Board of 21 Central Partners (Benetton Group) in Paris (2003) and of the Advisory Committee of Sagard Private Equity Partners in Paris (2003).

Patrick Føetisch

Patrick Føetisch graduated from the University of Lausanne as a Doctor of Law.

He manages his own law office.

He sits on the Board of Directors of Renault Finance SA, Lausanne.

A member of the Kudelski SA Board of Directors since 1992, he is also Chairman of the Board's Remuneration and Nomination Committee.

Patrick Føetisch acts as legal counsel to the Group as and when required.

He holds positions on the Board of the following Kudelski Group companies: Nagravisio (President), NagraCard (President), Nagra Plus (member of the Board), NagraID (President) and polyright (member of the Board).

He is also a member of the Supervisory Board of SkiData.

Stefan Kudelski

Stefan Kudelski studied at Florimont (Geneva). Self-taught in electronics, from 1948 he studied to be a physical engineer at the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology).

In 1951, he created the Kudelski firm with the first Nagra, a self-contained tape recorder designed for radio reporters. Within a few years, having expanded into new, enhanced models, the Nagra range became a standard tool in the cinema and television industry.

In 1991, a project for diversification into the field of encryption for pay TV provided the firm with a new direction. At this point, Stefan Kudelski handed over the reins of management to his son, André Kudelski.

Stefan Kudelski has received many awards during his career: Academy Awards (Oscars) in 1965, 1977, 1978 and 1983, two Emmy Awards and Gold Medals from L. Warner, AES (Audio Engineering Society), Lyra and Eurotechnica.

He is also an honorary member of AES, of SMPTE (Society of Motion Picture Television Engineers), of BKSTS (British Kinematograph Sound and Television Society), of SVIA (Schweizerischer Verein für Informatik in der Ausbildung), of IEEE (Institute of Electrical and Electronics Engineers) and of AMPS (Association of Motion Picture Sound). In addition, he possesses an honorary doctorate from the Ecole Polytechnique Fédérale de Lausanne.

Pierre Lescure

After taking a university degree in literature and journalism and graduating from the Centre de Formation des Journalistes in 1965, Pierre Lescure started his career working with various radio stations (RTL, RMC, Europe1) and then turned to the television industry. He worked at Antenne 2 as a news presenter from 1972. He then returned to the radio industry and became co-editor-in-chief of Europe1 in 1974 and director of programs of RMC in 1979. In 1982-1983, he was editor-in-chief at Antenne 2 and, in 1984, worked with André Rousselet at the launch of the pay TV channel Canal+. In 1988, he was appointed Chief Executive Officer of Canal+ and, in 1993, President and Chief Executive Officer of Canal+.

From 2000 to 2002, he was co-Chief Executive Officer of Vivendi Universal.

Pierre Lescure is member of the Supervisor Board of the Lagardère group and of the newspaper Le Monde. He is also member of the Board of Directors of Thomson and of Havas.

Gérard Limat

Gérard Limat started his professional career with Feldschlösschen in 1957; he worked in this company until 1965 when he obtained the Federal Accounting Diploma.

He worked as accountant at Garage Janneret in Geneva from 1965 to 1967 and then for six months at the Geneva Bankruptcy Office. He started his career in the Dassault Group in 1968 as an accountant.

He is currently the manager of Terramaris International SA in Meinier-Genève (a company belonging to the Dassault Group).

Gérard Limat is also Chairman of the Board of Directors of Société Financière Terramaris SA in Fribourg, Sita SA in Fribourg and Dasnair SA in Meinier-Genève. In addition, he sits on the Board of Cendres et Métaux in Bienne.

He is a member of the three Committees within Kudelski SA's Board of Directors.

Gérard Limat is also a member of the Board of Ticketcorner, Nagra Public Access and polyright.

3.3 Cross-involvements

André Kudelski and Claude Smadja sit on the Board of Edipresse.

André Kudelski and Laurent Dassault sit on the Board of Dassault Systèmes.

3.4 Elections and terms of office

The members of the Board are appointed by the General Meeting for a term of one year. They may be re-elected. The term of office ends on the day of the Ordinary General Meeting. The Board of Directors establishes itself by appointing a Chairman and a Deputy Chairman. The Secretary may be chosen from outside the Board of Directors. He or she is not a member of the Board.

	1 st election to the Board	Last election	Expiry date of the appointment
André Kudelski	1987	10.05.2005	02.05.2006
Claude Smadja	1999	10.05.2005	02.05.2006
Norbert Bucher	1992	10.05.2005	02.05.2006
Laurent Dassault	1995	10.05.2005	02.05.2006
Patrick Fœtisch	1992	10.05.2005	02.05.2006
Stefan Kudelski	1968	10.05.2005	02.05.2006
Pierre Lescure	2004	10.05.2005	02.05.2006
Gérard Limat	1995	10.05.2005	02.05.2006

3.5 Internal organizational structure

3.5.1. Allocation of tasks within the Board of Directors

With the support of its three Committees, the Board of Directors exercises inalienable and non-transferable functions established by the law (Art. 716 CO).

The Chairman is responsible for conducting discussion at the General Meeting, meetings of the Board, the task of informing the members of the Board of the development of business and the biannual accounts as well as representing the company in respect of administrative and judicial authorities.

The Board of Directors today is made up of eight members, seven of whom are non-executive. It meets at least four times a year, but as often as the good conduct of business requires.

In the absence of contrary provision of law, management of the company is delegated to the Chief Executive Officer.

In his management activities, the CEO acts on the basis of directives issued by the Board of Directors, and safeguards the interests of the company.

He presents the accounts of the company to the members of the Board of Directors every six months. He also presents a report covering the substantive aspects of business development.

The Lead Director convenes and manages autonomously a meeting of the independent members of the Board of Directors if the interest of the company requires such independent discussion. He ensures a performance appraisal process for the Chairman and Chief Executive Officer of the Board of Directors.

The Lead Director sees to the independence of the Board of Directors vis-à-vis the Chairman and Chief Executive Officer, as well as vis-à-vis the company; he chairs the Board of Directors in case of conflict of interests of the Chairman and Chief Executive Officer.

In the current Group structure, the functions of Chairman and Chief Executive Officer are exercised by the same person. This situation is an asset because of the rapid evolution of the Kudelski Group's activity sector which requires a very fast decision-making process both operationally and strategically. Control mechanisms exist, inter alia the Lead Director function, in order to balance this situation. This situation is very frequent in companies operating in the Kudelski Group's activity sector.

3.5.2. Members list, tasks and area of responsibility for each Committee

Each Committee is governed by a charter defining its purpose, its obligations and its composition. The Committees of the Board also meet as often as is necessary and report regularly to the Chairman of the Board of Directors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee oversees the remuneration policy implemented by the company. It likewise examines, together with the Chairman of the Board of Directors, the remuneration of the members of the Board of Directors and of the top management of the company.

It ensures that remunerations are aligned to the level of similar companies active in the same sector, as well as regions where employees and executives carry out their work.

It also ensures that remunerations encompass an important variable part for executives having significant influence on the business.

It submits to the General Meeting of shareholders proposals for appointment of members of the Board of Directors.

It reviews, at the Chairman of the Board of Directors' request, the applications for management positions and may therefore receive the necessary documents and meet with the candidates.

This Committee may consult outside experts in the preparation of its recommendations and decisions.

It is composed of at least two non-executive members of the Board of Directors.

Audit Committee

The Audit Committee provides effective and regular supervision for the financial reporting processes of the company in order to satisfy itself of their integrity, transparency and quality. It ensures the compliance of the accounting methods with applicable regulations on the subject and also sees to the constant updating and provision of financial information to the company.

This Committee supervises the internal reporting processes and the work of the external auditors. It ensures that the recommendations of the latter are followed up and safeguards their independence.

It supplies regular recommendations and reports to the Board of Directors on the adequacy, efficacy and truthfulness of the accounting processes.

The Audit Committee meets four times a year in principle. It reports to the Board of Directors on its activities. The Committee may call on independent experts and consultants as it deems fit in the accomplishment of its tasks.

The Committee is made up of at least three members who are non-executive members of the Board of Directors. At least one of the members of the Committee must have proven experience in the field of accounting. All members must have knowledge or practical experience of financial management. The members are appointed by the Board of Directors.

Strategy Committee

The task of this Committee is to constantly review and define the strategy of the Group. It drafts strategic development options with the goal of ensuring the long-term enhancement of the competitive position of the Group and its shareholder value.

To this end, the Strategy Committee monitors the development of the markets and the competitive position of the Group, drafts future development models and safeguards the development of the Group by means of investments, disinvestments and reorganization.

In order to define strategic choices, the strategic committee relies upon information gathered from the management, the Board of Directors, and, if needed, external counsels.

The Strategy Committee periodically reviews the adequacy between the Group's objectives, its structure and the organisation in order to meet the strategic objectives.

The Strategy Committee submits proposals to the Board of Directors, which remains the decisional organ for strategic matters.

The Strategy Committee is made up of three members of the Board of Directors, including the Chairman and Deputy Chairman. It meets at least twice a year.

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
André Kudelski		■	
Claude Smadja	■	■	■
Norbert Bucher	■		
Patrick Fœtisch			■
Gérard Limat	■	■	■

■ Chairman
■ Member

3.5.3 Work methods of the Board of Directors and its Committees

In 2005, the Board and its Committees met as follows:

Board of Directors	6 times
Strategy Committee	3 times
Audit Committee	4 times
Remuneration and Nomination Committee	3 times

Average attendance at Board meetings, excluding absences for health reasons, was more than 90%. The Board reserved one full day for the discussion of strategic questions. With the exception of this one-day meeting, most meetings lasted between 3 and 4 hours.

3.6 Definition of areas of responsibility

The Board of Directors has delegated co-ordination of the day-to-day operations of the Group's companies to the Chief Executive Officer. The internal organizational structure and the definition of the fields of responsibility of the Board of Directors and the Committees of the Board are established in the By-laws. This document is available on request from the General Secretariat of the Kudelski Group.

3.7 Information and control instruments vis-à-vis the Group management

The Group has defined and implemented a risk management process enabling the systematic identification of key business risks, their potential impact and proposed measures. The risk management process addresses reasonably likely events and developments with a material economic impact on the Group and covers market, strategic, operational and financial risks.

The Controlling Unit provides ad hoc financial and operational audits targeted at identifying relevant risks along the value chain and devising opportunities for improvement. A segregation of duties between Controlling and Accounting ensures that appropriate controls are in place. In specific core areas, ad hoc units are in charge of ensuring appropriate internal controls: thus, for example, the Chief Security Officer and a Security Committee provide appropriate controls of the Group's core security activities.

The Audit Committee can request more detailed risk assessments in specific areas of interest.

The Group is developing its Information Management System, further enhancing the detail level and efficiency of its reporting by combining financial information and numeric information whilst taking into account the various stages of the sales process. This allows to have a permanent vision of revenues by unit for the upcoming quarters.

In this perspective, an expert team within the Controlling Unit is dedicated to analyzing the Group's performance and implementing and delivering an analytical service platform designed for the Group management and the operational units.

Key performance indicators are defined for all operational activities on the value chain and are automatically available from the information system.

The Project Controlling Office provides specific project-based indicators for the Digital Television activity based on the analytical platform. The project portfolio, approved and managed by the Group management, is managed according to acknowledged project portfolio management principles. Management of this portfolio enables monitoring of the use of available resources by the operational managers as well as by the Group management.

4. Group management

4.1. Group executive management members

4.2 Other activities and vested interests

This information is provided in the individual CVs of the members of the Group management in the following pages. It reflects the situation on January 1st, 2006. At December 31st, 2005, Lucien Gani was not a member of the Group management.

Group management consists of the following:

André Kudelski
Chairman and Chief Executive Officer (CEO)

Pierre Roy
Chief Operating Officer (COO), Digital TV
Executive Vice President

Charles Egli
Chief Executive Officer (CEO), Nagra Public Access
Executive Vice President

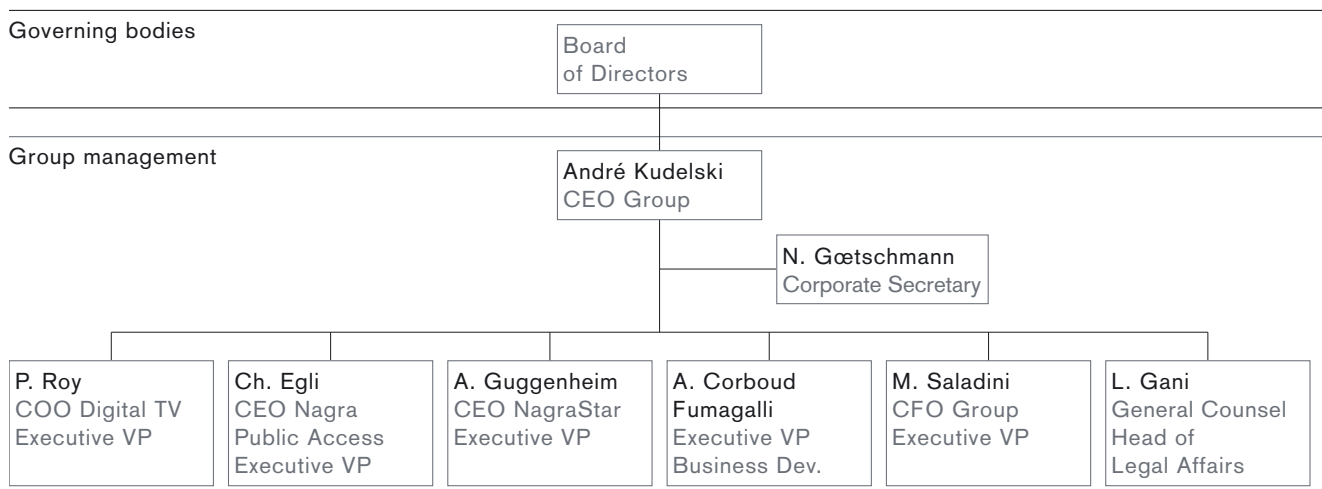
Alan Guggenheim
Chief Executive Officer (CEO) of NagraStar
Executive Vice President

Adrienne Corboud Fumagalli
Executive Vice President
Business Development

Mauro Saladini
Executive Vice President
Chief Financial Officer (CFO)

Lucien Gani
General Counsel
Head of Legal Affairs

Nicolas Goetschmann
Corporate Secretary
Director of Group Administration





André Kudelski



Mauro Saladini



Pierre Roy



Charles Egli



Alan Guggenheim



Adrienne Corboud Fumagalli



Lucien Gani



Nicolas Goetschmann

Kudelski Group
Corporate governance

André Kudelski (1960)
Chairman and Chief Executive Officer (CEO)
Swiss nationality

André Kudelski obtained a degree in physical engineering from the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology) in 1984. He then held the position of R&D Engineer at Kudelski SA and in Silicon Valley, before becoming Pay TV Product Manager and then Director of Nagravision, the Pay TV division of Kudelski SA. In 1991, André Kudelski succeeded his father Stefan Kudelski to the position of Chairman and Chief Executive Officer of Kudelski SA. He has been on Kudelski SA's Board of Directors since 1987.

André Kudelski sits on the Boards of the Edipresse Group, Nestlé and Dassault Systèmes (France), among others. He is also a member of the Advisory Board of Credit Suisse, of the Swiss American Chamber of Commerce and of the Board of *economiesuisse*.

André Kudelski presides over the Strategy Committee of the Kudelski SA Board of Directors.

He also holds positions on the Boards of several Kudelski Group companies: Nagravision (Chief Executive Officer), NagraCard (Chief Executive Officer), Nagra Plus (President and Chief Executive Officer) and MediaCrypt (President).

André Kudelski is also a member of the Supervisory Board of SkiData.

Pierre Roy (1952)
Executive Vice President
Chief Operating Officer (COO) Digital TV
Swiss nationality

After obtaining a degree in business management from HEC, the business administration school of the University of Lausanne, in 1975, Pierre Roy began his professional career as a financial analyst with Procter & Gamble. Building on this initial experience, in 1977 he joined IBM as a commercial engineer. In 1979, he began his international career with Digital Equipment Corporation, where he held various management positions both within the European center in Geneva as well as abroad in the finance & administration and marketing & business management departments.

In 1992 he joined Kudelski SA as Managing Director of Nagra Audio, Business Development Director Nagravision and Managing Director of Précel SA (then a company belonging to the Kudelski Group).

Since 1999, he has managed his own business consultancy company and has worked in the telecommunications sector while continuing to contribute to strategic projects for Nagravision.

On January 17, 2003 he was appointed Chief Operating Officer for the Digital TV entity of the Kudelski Group and Executive Vice President.

Pierre Roy is a member of the Board of Nagravision, NagraCard, NagraID and Nagra Thomson Licensing.

Charles Egli (1948)
Executive Vice President
Chief Executive Officer (CEO) Nagra Public Access
Swiss nationality

Charles Egli has a degree in electronic engineering from the ETS technical college. He worked at Studer Revox in Zurich as an R&D engineer and then as a project manager until 1989, the year in which he joined Nagravision as project manager. He was appointed Chief Operating Officer of Kudelski SA in 1992, then on January 17, 2003 President and Chief Executive Officer of Nagra Public Access and Executive Vice President of the Kudelski Group. Charles Egli is also CEO of SkiData since September 2004.

He sits on the Board of the following Kudelski Group companies: Nagravision, NagraCard, NagraID, Ticketcorner, polyright, SkiData (Schweiz), SkiData France.

Alan Guggenheim (1950)
Executive Vice President
Chief Executive Officer (CEO) NagraStar
French nationality
American nationality since 1991

Alan Guggenheim is an engineering graduate from the ESTP (France) and a graduate of the French Command and General Staff Reserve College. After serving as an engineer for Société Routière Colas in Paris and in the Antilles from 1976 to 1978, he was appointed Executive Director of the Conseil Régional du Patronat de la Guadeloupe (local representative of the CNPF and the CGPME). Until 1981 he was a member of the Board of several organizations (Social Security, Retirement, Unemployment Compensation).

Having moved to California, he founded San Joaquin Software Systems, then CIS, Inc., of which he has been Chairman and CEO since 1986, representing and developing the activities of the Dassault Group in the United States in the field of communication, banking and multimedia from 1993 to 1998, and those of Nagravision since 1996. Alan Guggenheim was a Board member of SUCMANU in Paris between 1982 and 1986 and a founding member of the Board of the Pacific State Bank in Stockton, CA, from 1985 until 1987.

Since 2000, Alan Guggenheim has been Chief Executive Officer of NagraStar LLC and Chairman of Nagra USA, Inc. He was appointed Executive Vice President of the Kudelski Group on January 17, 2003.

Adrienne Corboud Fumagalli (1958)
Executive Vice President Business Development
Swiss nationality
Italian nationality since 1993

A doctor of economics and social sciences and graduate of the University of Fribourg, Adrienne Corboud Fumagalli has for several years been a researcher, lecturer and consultant in the field of media and information technology policies for various institutions (University of Fribourg, DAMS Bologna, CNRS Paris and McGill University, Montreal).

Between 1997 and 2000, she held various positions with Swisscom in Berne, in particular as Business Development Manager and then Marketing Director.

She joined the Kudelski Group as Corporate Secretary in November 2000. In January 2004, she was appointed Executive Vice President in charge of Business Development.

Adrienne Corboud Fumagalli is a member of the Board of Nagrad.

Mauro Saladini (1966)
Executive Vice President
Chief Financial Officer of the Group (CFO)
Swiss nationality

Mauro Saladini has a degree in electrical engineering from the ETHZ (Swiss Federal Institute of Technology Zurich) as well as an MBA from INSEAD, Fontainebleau, France.

After five years as a financial services consultant for Accenture, he joined Thema Consulting. He set up that company's Zurich branch and managed its activities in the cash flow and risk management sectors.

In 1997 he joined McKinsey & Co., where he became a partner in 2001. A major part of his work focused on corporate finance and strategy projects involving various industries, in particular media and telecommunications. In addition, Mauro Saladini was in charge of the Swiss Media Practice and joint head of the European Media Practice.

Mauro Saladini is Board member of Airesis in Clarens/ Montreux in Switzerland.

He joined the Kudelski Group as Chief Financial Officer and Executive Vice President on February 1, 2003.

Mauro Saladini is a member of the Supervisory Board of SkiData.

Lucien Gani (1948)
General Counsel
Head of Legal Affairs
Swiss nationality

Lucien Gani studied at the University of Lausanne. After obtaining a degree in commercial studies in 1971 and a Law degree in 1972, he obtained a PhD in Law in 1987 and was admitted to the Bar of Canton de Vaud in 1989.

He started his professional career in 1972 as a lawyer with the Federal Tax Administration in Bern; he then became Manager of the Administrative Services at "Compagnie Vaudoise d'Electricité" in Lausanne from 1974 to 1976. Between 1977 and 1983, he was a trader for "La Commerciale SA" in Lausanne. He started writing his doctorate thesis in 1984 and started his Bar practice training in 1987. He has worked as independent lawyer and partner in a law firm in Lausanne since 1990.

Lucien Gani took his function as General Counsel and Head of Legal Affairs within the Kudelski Group management on January 1st, 2006. Before that date, he contributed as an independent lawyer for several years to the Kudelski Group legal activity, particularly by drafting and negotiating strategic contracts.

Nicolas Goetschmann (1960)
Corporate Secretary
Director of Administration
Swiss nationality

Nicolas Goetschmann is an economics graduate from the University of Fribourg. Between 1986 and 1989 he held the position of Private Client Executive for Credit Suisse in Geneva, before becoming a Fund Manager for Kestrel SA in Neuchâtel. In 1990 he joined the Kudelski Group as Director of Finance and Administration. At the beginning of 2004 he became Corporate Secretary to the Kudelski Group while still Director of the Group administration.

Nicolas Goetschmann is a member of the Board of Leman Consulting, a Kudelski Group company.

4.3 Management contracts

There were no management contracts in place at Kudelski SA on December 31, 2005.

5. Compensations, shareholdings and loans

5.1 Content and method of determining the compensation and shareholding programs

The Remuneration and Nomination Committee controls and approves the remuneration policy established by the company. It also has responsibility for determining the remunerations of members of the Board of Directors as well as the members of Group management.

In general, the remuneration policy of the Kudelski Group is based on the performance of the business units and of the persons individually.

Members of the Board of Directors

Overall remuneration of non-executive members of the Board of Directors includes fixed annual fees as well as an allowance for the costs and other expenses incurred in connection with the performance of their duties. This remuneration is given in cash. A variable element can also be allocated in options.

The specific services rendered by members of the Board of Directors of Kudelski SA or of one of the companies in the Group are remunerated on the basis of fees, with the amount of the benefits corresponding to the going market rate for this type of services.

Members of Group management

The global annual remuneration of members of the Group management includes a salary and a variable element based on the individual's performance and achievement of financial, operational and qualitative objectives. The variable element may be payable in cash or in the form of Kudelski SA bearer shares.

Shares and/or stock options may be attributed by the Remuneration and Nomination Committee to members of Group management and/or to staff members in order to give them an interest in the long term objectives of the company.

Group management members can also participate in the share purchase plan implemented by the company in 2004.

5.2 Compensation for acting members of governing bodies

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2005 to members of the Board of Directors and/or members of the Group management amounted to CHF 8 404 689.

This sum breaks down as CHF 7 951 189 for the executive member of the Board of Directors and for members of the Group management and CHF 453 500 for non-executive members of the Board of Directors.

These figures include the cash bonuses paid in relation to the financial year in question, even if they were paid at a later date.

No severance payments were made to persons leaving positions on the governing bodies during the financial year 2005.

5.3 Compensation for former members of governing bodies

A total of CHF 205 020 was paid to a former member of Group management in 2005.

5.4 Share allotment in the year under review

During the financial year 2005, a total of 129 254 bearer shares of a nominal value of CHF 10 each was allotted to the executive member of the Board of Directors and members of Group management. No shares were allotted to non-executive members of the Board of Directors.

5.5 Share ownership

The number of Kudelski SA shares held on December 31, 2005 by the entirety of the executive members of the Board of Directors and by members of the Group management of Kudelski SA as well as the entirety of the parties closely linked to such persons (including members of the Kudelski family who do not belong to the family pool) was 12 670 771 bearer shares and 46 300 000 registered shares.

Excluding the Kudelski family, the number of Kudelski SA shares held on December 31, 2005 by the entirety of the other members of the Board of Directors as well as the entirety of the parties closely linked to such persons was 1 196 050 bearer shares.

5.6 Options

The Kudelski Group implemented an option plan in 2003. The situation on December 31, 2005 is as follows:

Executive member of the Board of Directors and members of Group management and parties closely linked to such persons:

Year of grant: 2003

Number of options	Vesting	Maturity	Ratio	Exercise price
46 162	01.04.2006	01.04.2007	1-for-1	CHF 20
46 162	01.04.2007	01.04.2008	1-for-1	CHF 20
46 162	01.04.2008	01.04.2009	1-for-1	CHF 20

Non-executive members of the Board of Directors and parties closely linked to such persons:

Year of grant: 2003

Number of options	Vesting	Expiration	Ratio	Exercise price
6 000	01.04.2006	01.04.2007	1-for-1	CHF 20
6 000	01.04.2007	01.04.2008	1-for-1	CHF 20
6 000	01.04.2008	01.04.2009	1-for-1	CHF 20

Year of grant: 2005

Number of options	Vesting	Expiration	Ratio	Exercise price
1 000	01.04.2007	01.04.2008	1-for-1	CHF 20
1 000	01.04.2008	01.04.2009	1-for-1	CHF 20

5.7 Additional fees and remunerations

The additional fees (including consulting fees and fees relating to other contracts/agreements) and other remunerations paid by the Kudelski Group for services rendered during the financial year 2005 to members of the Board of Directors and to parties closely linked to them were as follows: CHF 463 128 to Mr. Patrick Fœtisch – for himself and the lawyers appointed by him – as legal advisor for the various requests of the Kudelski Group.

5.8 Loans granted to governing bodies

At December 31, 2005, Kudelski SA had no guarantees, loans, advances or borrowings in favor of members of the Board of Directors and members of the Group management or parties closely linked to such persons.

5.9. Highest total compensation

For the member of the Board of Directors upon whom the highest total compensation was conferred during 2005, the elements are as follows:

- compensation: CHF 4 750 166 (cash)
- share allotment: 105 000 (subject to restrictions)

6. Shareholder participation

The provisions of the Articles of Incorporation of Kudelski SA dealing with the participation rights of shareholders are in compliance with the law as laid down in the Swiss Code of Obligations. The Articles of Incorporation are available on the Kudelski Group website under the following link: http://www.nagra.com/ar/statuts_Kudelski.pdf.

6.1 Voting rights and representation restrictions

As per the Articles of Incorporation, there exist no restrictions on voting rights and no statutory group clauses and rules on granting exceptions.

6.2 Statutory quorums

The Kudelski SA Articles of Incorporation do not provide for any statutory quorums.

6.3 Convocation of the general meeting of shareholders

The statutory rules on convening of the General Meeting of shareholders do not differ from applicable legal provisions. The General Meeting of shareholders is convened at least 20 days before the date of the meeting. The convocation is published in the Swiss Official Gazette of Commerce.

6.4 Agenda

Items on the agenda are published in the convocation.

Regarding rules for adding items to the agenda of the General Meeting of shareholders, the Kudelski SA Articles of Incorporation do not contain provisions that differ from the Code of Obligations, namely Art. 699 CO, "Shareholders who represent shares totaling a nominal value of CHF one million (*) may require the addition of an item on the agenda. The convocation and the addition of an item on the agenda must be required in writing and indicate the topics for discussion and the propositions".

(*) This represents 0.2% of the capital of Kudelski SA.

6.5 Inscription into the share register

Kudelski SA shares that can be traded on the SWX Swiss Stock Exchange are bearer shares; therefore no share register exists for this type of share.

7. Changes of control and defense measures

7.1 Duty to make an offer

Kudelski SA has no provision on opting out or opting up in its Articles of Incorporation. Thus the provisions regarding the legally prescribed threshold of 33 1/3% of the voting rights for making a public takeover offer set out in Article 32 of the Stock Exchange Act are applicable.

7.2 Clauses on changes of control

No such clauses exist.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

The auditors of Kudelski SA are PricewaterhouseCoopers SA. Some affiliated companies of the Group are audited by other auditors. The auditors were reappointed for a statutory period of one year by the General Meeting of shareholders of Kudelski SA on May 10, 2005.

The mandate of PricewaterhouseCoopers SA began in 1985 and has been under the responsibility of Mr Felix Roth since January 1, 2003.

8.2 Auditing fees

The Kudelski Group paid the sum of CHF 967 904 to PricewaterhouseCoopers for auditing services for the year 2005.

Auditing services are understood to mean the work required each year to examine the consolidated accounts of the Group and its subsidiaries and to prepare the reports required under the laws of each particular country, performed by PricewaterhouseCoopers. In addition, some audit assignments were placed with other auditors.

8.3 Additional fees

The Kudelski Group paid the sum of CHF 557 384 to PricewaterhouseCoopers for additional services for the year 2005.

Additional services are understood to mean in particular services such as the auditing of occasional transactions, the implementation of new or modified accounting methods and other services such as advice offered before mergers, acquisitions and sales of companies. They also include services relating to the monitoring of international laws on corporations as well as advice concerning tax and the management of risk.

8.4 Supervisory and control instruments pertaining to the audit

The objective of the Audit Committee of the Board of Directors is to provide effective and regular supervision of the financial reporting processes of the company in order to ensure their integrity, transparency and quality. To this end, and under its terms of reference, it is responsible for monitoring the work of the external auditors.

Representatives from the Group's external audit firm, including the chief partner, are regularly invited to take part in the meetings of the Audit Committee as external participants.

For more information on the Audit Committee, please refer to points 3.5.2 and 3.5.3 of this report.

9. Information policy

The Kudelski Group keeps investors regularly informed of the following developments:

- progress of business, major new contracts
- changes occurring in the management of the Group
- acquisitions or sales of companies
- half-yearly and annual financial results

Press releases are issued in compliance with the rules in force on the Swiss Stock Exchange concerning factual publicity and are available on the Group's web site simultaneously with their publication. Information and a link on the home page of the site allow direct access to news. The Group communicates as often as necessary in this manner. The press releases are generally published in French and in English. In certain specific cases a German version is likewise provided. They are available in these different languages on the website.

Persons who would like to receive the Kudelski Group press releases are invited to subscribe on-line to a mailing list, using a form published on the Kudelski website.

Information relating to each member of the Group is published independently by that company in accordance with the publishing regulations of the Swiss Stock Exchange. All press releases from the Kudelski Group sister companies are distributed to the Group corporate distribution list.

The financial results are presented to investors and financial analysts in a press conference held twice a year. The persons invited are also able to follow the conference by telephone.

The Group's web site is a permanent source of information. The Investor Relations section contains in particular a list of the principal dates of the institutional calendar (publication of results, General Meeting) as well as the main publications of the Group (annual report, half-year report).

Internet links

Kudelski corporate website:
www.nagra.com

Investor Relations:
www.nagra.com/investor.php

Key dates:
www.nagra.com/investorCalendar.php

Financial documentation:
www.nagra.com/investorDoc.php

Press releases:
www.nagra.com/press.php

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Media relations:
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Group profile

The Kudelski Group (www.nagra.com) is a world leader in the field of digital security. Its technologies are used in a broad range of applications requiring conditional access and rights management, either for ensuring secure data transfer (digital television, broadband Internet, video-on-demand, interactive applications, etc.) or for the control of access to sites and events by persons and vehicles.

Kudelski SA is headquartered in Cheseaux-sur-Lausanne, in Switzerland. Its stock is listed on the SWX, traded on virt-x and included in the Swiss Market Index.

Founded in 1951, the Group currently has more than 1 600 employees worldwide.

The Kudelski Group has built a new building as an extension to its headquarters in Cheseaux-sur-Lausanne. More than 500 employees work on the Cheseaux site.

Digital TV



Nagravision

Integrated software security solutions for digital television operators and content providers.



Nagra France

MediaGuard integrated conditional access solution for digital television; Digital TV development center.



NagraStar

Conditional access and smart cards used by EchoStar's DISH Network American satellite television system and companies affiliated to EchoStar. Joint venture with EchoStar (USA).



Nagra Plus

Security systems for analog pay television. Joint venture with Canal+ (F).



NagraCard

Smart card security technology for digital television and other applications such as physical access.



Quative

Last generation turnkey IPTV platform including content protection, management and distribution.



NagraID

Development and production of modules and smart cards for contact and contactless identification systems.



Abilis Systems

Integrated circuits for digital television, wireless communications and mobile phones.



MediaCrypt

MediaCrypt

Fundamental encryption technology. Joint venture with Ascom (CH).



LEMAN CONSULTING S.A.

Intellectual Property Rights

Leman Consulting

Patent and intellectual property management.

Nagra Thomson Licensing

Joint venture with Thomson (F) whose role is to manage the patents portfolio resulting from the MediaGuard acquisition.

Nagra Public Access



access unlimited

SkiData

Integrated access and management solutions for car parks, ski lifts as well as sports, cultural, entertainment and exhibition facilities.



Ticketcorner

One of the principal ticketing organizations in Europe.



polyright

Open-ended rights and services management solutions for hospitals, universities and corporations.

Nagra Audio



Nagra Audio

Portable digital recorders for professionals; products in the high-end Hi-Fi sector.

Historical overview

1951

Birth of the first portable recorder, the Nagra I.

1958

Release of the Nagra III, the legendary cinema recorder.

1965

First Nagra SN (Série Noire), the miniature device for secret agents.

1984

First portable professional video recorder, the Nagra VPR-5.

1986

The company is listed on the stock market.

1989

Canal+ adopts Kudelski's access control system for pay television.

1991

André Kudelski succeeds Stefan Kudelski as Chairman and CEO of the Kudelski Group.

First million analog decoders sold.

Conditional access television systems become Kudelski's core business.

1992

Creation of Nagra+, a joint venture with Canal+.

Launch of the Nagra-D, the first portable professional 4-track digital recorder.

1995

First order (from EchoStar) for a Nagravision digital system, marking the arrival of Nagravision on the North American market.

1996

85% of revenues are achieved in the conditional access television sector.

Full conversion of the convertible bond (1986-1996) as part of a PEO.

1997

Nagravision breaks through in Europe.

Digital pay television becomes the company's core business sector, in place of analog.

Nagra Audio launches a range of high-end Hi-Fi products.

1998

Nagravision conquers the British cable market.

Creation of NagraStar, a joint venture with EchoStar, and of NagraCard.

First systems offering mixed pay TV/Internet solutions.

Capital increase and 1st indirect split of the Kudelski share (5+1).

1999

First encryption systems designed for broadband networks.

Creation of MediaCrypt and investment in NagraID.

The company becomes a holding company.

Kudelski stock is listed on the principal market of the SWX Swiss Exchange.

2000

Investment in SportAccess (now polyright).

The Group continues to expand in the field of the secure distribution of digital content over broadband networks.

Capital increase and 2nd indirect split (10+2).

Introduction of Kudelski on the SMI (Swiss Market Index) and MSCI (Morgan Stanley Capital International).

2001

The Group makes several acquisitions in the public access sector (SkiData, AccessArena, Ticketcorner) and in digital television (Lysis, Livewire).

The Kudelski share is split by 10.

Launch of a convertible bond of USD 325 million. The operation is heavily over-subscribed.

2002

A difficult year for Kudelski, which suffers from the impact of the crisis in the television market, particularly in Europe, and of unfavourable developments in the foreign exchange markets.

After a ten-year period of uninterrupted growth, the Kudelski Group issues the first profit warning in its history.

The company carries out an in-depth review of its structure.

Creation of the holding company Nagra Public Access (grouping together SkiData, Ticketcorner and SportAccess).

2003

Recovery of the digital television market. The company signs numerous contracts.

The digital television division is reinforced with the acquisition of MediaGuard from Canal+ Technologies (Nagra France).

The Kudelski Group becomes the world leader in the field of conditional access solutions for digital television.

2004

The Group publishes record results.

It deploys its security technologies into new sectors such as television on mobile phones.

Success of new business models such as cards with pre-determined access rights giving access to premium content on a temporary basis.

Excellent progress on the markets: the Group triples its digital TV revenues in Europe and almost doubles them in America.

2005

The Group announces strong growth in revenues and profitability for fiscal year 2005.

Early redemption of the USD 325 million convertible bond and issuance of a new convertible bond of CHF 350 million.

Strong penetration of the IPTV and mobile TV markets. Creation of Quative Ltd in the IPTV sector.

New Nagra Public Access structure and introduction of several new solutions. NPA figures are positive again.

Sale of a majority stake of Ticketcorner.

The Nagra PMA amplifier of pyramidal shape receives two prestigious awards in Japan and the United States.

Project management

Corporate Communications, Kudelski Group

Support, coordination

Desrochers Communication

Design

messi & schmidt

Printing

Imprimeries Réunies Lausannoises, Renens, Switzerland

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Nagra Audio

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