

Kudelski Group
Annual report 2006



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Highlights 2006

Record results of the Group in 2006

Strong underlying growth in both Digital TV and Public Access

Strategic investments for the development of the digital TV ecosystem

The Kudelski Group becomes the leader in digital TV middleware and interactivity by acquiring a controlling share in OpenTV in January 2007

Success of the deployment of new solutions, including Nagra Mobile

Intensified Research & Development effort with focus on content protection, IP TV and mobile TV

Increase in Nagra Public Access profitability with the launch of innovative solutions and cost structure improvements

Message from the President

In 2006, our Group once again posted excellent results even though we had anticipated the past fiscal year to be a transitional year in which the effort made, both in terms of product lines and Group organization, would essentially deliver results as from 2007.

The Group's performance is primarily expressed in record figures: revenues increasing by 8.5% to CHF 756.2 million (including gain on the sale of Ticketcorner), EBIT growing by 24% and the best-ever net income reaching CHF 138.5 million, representing close to 60% increase from the previous year.

But figures alone are insufficient to describe the intensity of 2006. In parallel with our strong operational activity, the most significant part of our energy has focused on decisions and strategic developments impacting our business over the medium and the long term.

Convergence between the worlds of television, telecommunications and computer sciences is revealing exceptional opportunities. However, it requires particular effort on the part of those who want to play a key role in the media landscape that will emerge from this evolution.

Driven by the willingness to occupy a leading position, the Kudelski Group has refined its strategy with a view to having an influence on the digital television ecosystem. This ambition has led us to surpass our traditional objectives of creating and optimizing added value in order to become an actor capable of shaping the digital television market.

In the context of convergence involving all actors from all market segments, it is no longer possible to limit our action to only one activity sector such as conditional access. It is therefore essential to have a real influence on the strategic players, either through strong partnerships or through acquisitions such as the strategic investments we made in 2006 in OpenTV and in SmarDTV (Digital TV division of SCM).

Committed to promoting competitiveness of the digital TV ecosystem, we intend to develop our activities not only in conjunction with our conditional access solution suites, but also with third parties. The Nagravision, OpenTV, Lysis, Quative and/or SmarDTV solutions are used by most of the principal television operators throughout the world. This presence confers on the Kudelski Group a privileged place of actor and observer of digital television that will ensure it a central role in the development of this sector.

Additionally, strengthened by the complementary expertise of its companies, the Group envisages further intensifying internal synergies in order to propose flexible and modular integrated solutions, meeting the present and future needs of its clients.

The substantial increase of research and development investments, decided during the second half of 2005, has borne fruits beyond our expectations. The additional effort not only opened new sectors that are proving to be strong growth markets, but has also led to a faster than expected acceptance of these new technologies by the market, as shown by the success of Nagra Mobile DVB-H and Quative solutions recently introduced on the market.

The new product lines on which the Group focused during the last eighteen months, namely IPTV, mobile TV, Push VOD and digital TV access modules, should generate revenues of more than CHF 100 million as from 2007, almost double the corresponding amount in 2006.

This success confirms our policy of sustained investment in research and development, with the perspective of anticipating the needs of the market. It goes without saying that these new opportunities are exploited alongside the strategic investments carried out in the core business of our Group, namely conditional access. There too, we identified important development potential which forms an integral part of our current R&D programs.

Nagra Public Access also achieved an excellent fiscal year. The measures taken over the last few years boosted sales outside Europe and led to the launch of new technologies, resulting in strong revenue growth and improved profitability. Restructuring initiatives, both at management level and in production processes, have also contributed to the new dynamics of the division.

In order to ensure its future development, Nagra Public Access will continue to invest in innovation, open systems and interoperability to offer its clients value-added physical access control solutions.

Thanks to the good results of our Group in 2006 and to the gain on the sale of Ticketcorner, the Board of Directors of Kudelski SA has decided to propose to the General Meeting of Shareholders the payment of an exceptional dividend of CHF 0.30 per bearer share in supplement to the ordinary dividend of CHF 0.30 per bearer share, thus bringing the 2006 dividend to CHF 0.60 per bearer share. This corresponds to a dividend of CHF 0.06 per registered share.

The future of a company depends on the decisions taken yesterday and today. In this respect, we must develop what does not exist today while consolidating the base on which the success of our Group has rested until now.

With these dynamics, the Kudelski Group intends to pass the one billion Swiss Francs revenue mark by 2008.

This could not be done without the support and the confidence of our customers and shareholders, nor without the commitment of employees. Thanks to each of them, our Group has been able to progress, invest and position itself as a key player of a sector that is both highly competitive and rich in opportunities.

I address my most sincere thanks to them all.

André Kudelski



Figures alone are insufficient to describe the intensity of 2006 for our Group. In parallel with our strong operational activity, the most significant part of our energy has focused on decisions and strategic developments impacting our business over the medium and the long term.

Key figures

	2006	2005	2004	2003	2002	2001
in CHF'000						
Total revenues, gain on sale of subsidiary and other operating income	756 182	697 173	606 131	412 392	402 355	455 445
OIBDA ¹⁾	188 162	160 833	125 950	32 229	8 608	99 172
EBIT ²⁾	150 207	121 142	92 221	10 063	-32 022	82 973
Net income	138 530	86 772	93 500	33 167	10 031	72 086
Payroll ³⁾	1 692	1 618	1 439	1 400	1 220	1 173

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

²⁾ EBIT: operating income

³⁾ As of 31 December of each year. The 2005 figure includes Ticketcorner while the 2006 figure does not include Ticketcorner nor OpenTV.

2001, 2002 and 2003 figures are presented according to SWISS GAAP FER accounting standards. 2004, 2005 and 2006 figures are presented according to IFRS accounting standards.

Excellent 2006 results

In a context of strong increase in R&D effort, the Kudelski Group published excellent results. Total revenues, other operating income and net gain on sale of Ticketcorner amounted to CHF 756.2 million, increasing by 8.5% over the previous year. Adjusted pro forma Group revenues grew by 21.1% from 2005. The Kudelski Group posted record levels CHF 150.2 million EBIT (+24%) and CHF 138.5 million net income, 59.6% above previous year.

Public Access

A very strong second half drove Public Access to a best ever result, both in terms of growth and profitability. In the last two years, portfolio restructuring measures and an operational improvement program have allowed this division to accelerate growth from a low one digit rate to 14.7% and EBIT from a negative margin to 9% in 2006. Moreover, the partial exit from Ticketcorner has generated a CHF 59 million gain for the Kudelski Group.

Digital TV

For the first time, Digital TV broke the CHF 500 million revenue mark, with a particularly robust development in Europe, growing by 17% compared to the previous year. Within three years, the Kudelski Group has multiplied its European Digital TV revenues close to fivefold, by establishing the quality and performance standard for conditional access solutions for satellite and cable operators.

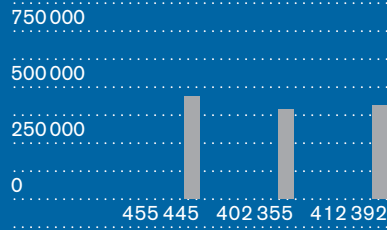
In addition to growing in the established business lines, the Kudelski Group now derives an increasing share of its revenues from new segments, such as the terrestrial, IPTV and mobile markets and from newly introduced product lines such as EPG (Electronic Programming Guides), Digital Video Recorder and Push Video on Demand solutions, advanced smart cards and Conditional Access Modules. In 2006, revenues from new lines doubled compared to the previous year.

in CHF'000

Revenues/gain on sale of subsidiary and other operating income

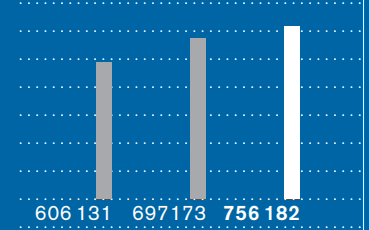
2001 2002 2003

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2004 2005 2006

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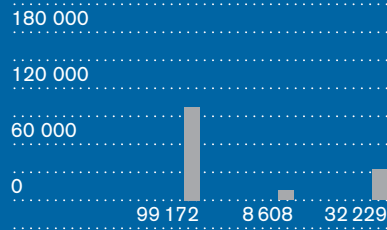


in CHF'000

OIBDA

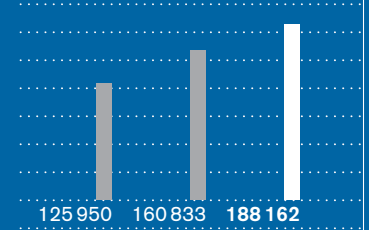
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2004 2005 2006

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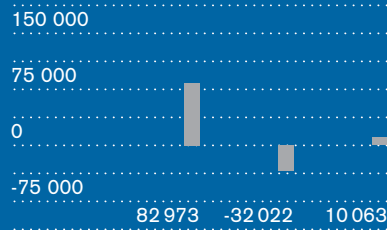


in CHF'000

EBIT

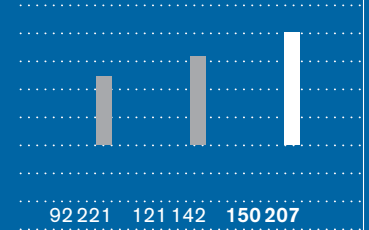
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2004 2005 2006

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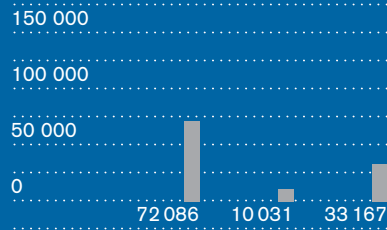


in CHF'000

Net income

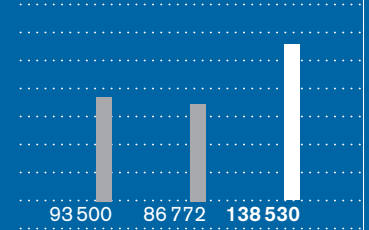
2001 2002 2003

SWISS GAAP FER



2004 2005 2006

IFRS



in million CHF

Revenue breakdown by sector and by region

	Europe	Americas	Asia/Pacific	2006
Digital TV	286.1	143.2	71.3	500.6
Public Access	162.7	16.0	15.0	193.7
Total				694.3

Revenues by sector

Digital TV
Public Access



Revenues by region

Europe
Americas
Asia/Pacific



Digital TV

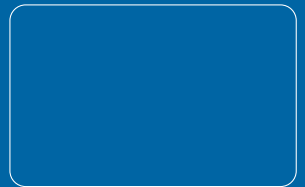
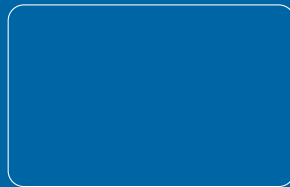
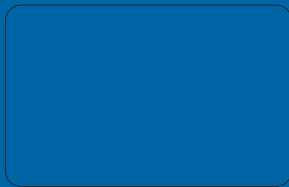
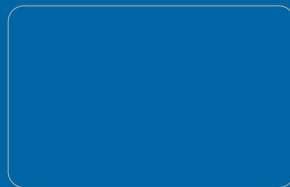
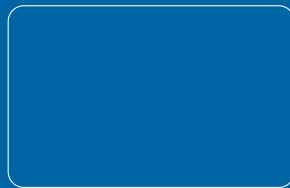
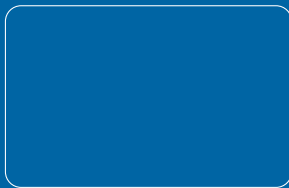
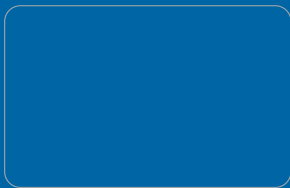
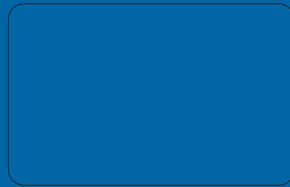


Public Access



Management of opportunities and risks

Long-term development driver



Management of opportunities and risks

The management of opportunities and risks forms an integral part of the development strategy of the Kudelski Group. This notion is closely linked to the firm's capacity for anticipation and reaction, as also its ability to capitalize on its assets. It is vital in a sector where evolutions are permanent and extremely rapid.

Development strategy

Independence: a fundamental value of the Group

The digital television industry has undergone significant consolidation and now comprises, in the different regions of the world, a relatively limited number of players. For many years, the principal operators have belonged mainly to large media and telecommunications groups possessing resources and structures corresponding to the economic stakes of the sector.

Historically, the suppliers of access control were subsidiaries of operators or decoder manufacturers; they were thus working in captive markets. Since its creation, the Kudelski Group has taken advantage of its independence, becoming the privileged partner of many operators. This status lies at the heart of the dynamics that have enabled the firm to improve its competitiveness and to gain a world leadership through the intrinsic value of its technologies, innovations and services as well as by the objectivity of its recommendations.

As one of the Group's core values, independence is expressed in a culture of openness from which the first to benefit is the development of customer-oriented solutions. These are distinguished by their agnostic character; in other words they can be integrated into any environment and any platform. This approach represents not only an important competitive advantage compared to proprietary solutions, but also becomes a significant selection criterion for operators.

Pushing back the know-how limits

The security business is the "core of the core business" of the Kudelski Group. Around this kernel, the firm is continually enlarging the field of its competences and strengthening its relations with long-established clients, by responding specifically to their evolving needs.

At the beginning of its pay television project in 1985, the Kudelski Group was essentially centered on encryption and conditional access systems. Today the Group's offer is much wider. It includes a broad range of technologies designed to not only secure content and transmissions but also manage interactivity between an operator and its subscribers in order to protect and secure revenues. It also extends to security solutions for physical access to public places and events.

The coherent development of know-how around the core business – taking into account the new technological market trends – represents the fundamental strategy of the Kudelski Group and its prime source of long-term growth.



Extending the spectrum of competences

In addition to organic growth and on the basis of strategic studies, the Kudelski Group makes targeted acquisitions. These aim to integrate certain additional key competences and to gain access to market segments identified as being very attractive. The company thus optimizes its potential.

The acquisition of a controlling interest in OpenTV in 2006 is a perfect illustration of this approach. This San Francisco based firm, a world leader in its field, brings to the Kudelski Group a complementary activity and know-how as well as a strong market presence, reinforcing it especially in the interactive advertising sector. It integrates perfectly into the Group's strategy and represents a new growth axis.

In the digital television sector, other acquisitions have already enabled the Kudelski Group to reach important stages of its development; these include Lysis and Livewire in 2001, MediaGuard in 2003, Abilis in 2005, and SmarDTV in 2006. The integration of these firms provided the Group with highly competent and perfectly complementary teams.



Overstepping the limits of traditional markets

While reinforcing its relations with traditional clients, the Kudelski Group is conquering new markets and accelerating its worldwide expansion. Since 1999, the firm has a foothold on all five continents and has never ceased developing.

Europe, a nearby market, now occupies the top position as regards the turnover. The Group has greatly expanded in this region in recent years as a result of contracts signed with major operators, particularly in France, Germany, Italy, Spain and the United Kingdom. It has also established a strong position in Eastern Europe, notably in Poland and Romania, which are strong growth markets.

America occupies the second place; the Group enjoys a long-established collaboration with the EchoStar group (USA). The acquisition of OpenTV has considerably enlarged the client base and created a favorable new dynamism in this market. In South America, the Kudelski Group has progressively fixed its roots principally in Brazil and Chile, thus building an excellent base to ensure its future growth.

The Kudelski Group is also very active in Asia, particularly in the important emerging markets of China, South Korea, Malaysia, Singapore and Taiwan. The success obtained in this zone with key operators gives a glimpse of the strong potential in the years to come, with growth in business driven by the strong economic development of this region.



Convergence: an opportunity to conquer new markets

Digital convergence is becoming a reality in the daily life of consumers, with an ever-growing interpenetration between the world of television, multimedia, telephony and the Internet. This evolution generated important changes and significantly impacted market structure and the whole value-creating chain.

Today, convergence offers the Kudelski Group very attractive opportunities, enabling it to capitalize on its know-how.

To quote only a few examples, the Kudelski Group has developed new fields of application such as mobile and Internet television. It has also invested massively in interactivity – now in the heart of most of the new functionalities brought by digital technology. Throughout its evolution, the Group has been consistently reinforcing and improving the relations between operators and subscribers.

The Kudelski Group anticipated these developments several years ago. It integrated them stage by stage into its strategy, which was fine-tuned accordingly. Kudelski's new concepts contributed to modifying the very manner in which content is consumed. New revenue sources could thus be generated for operators. New innovating business models could also be introduced which will modify the structure of the Group's revenues in the years to come and will constitute new growth drivers.

Innovation: for 55 years the Group's driving force

For more than half a century, the Kudelski Group's business development has been based on its capacity to innovate; especially innovation that has the power of changing the rules and customs of a sector and targets high value-added mass markets rather than niche markets.

The company's dynamism rests on the exploitation of creative ideas, the development of new concepts, new technologies and new processes that, placed in synergy, add value to solutions and services. This innovation and this dynamism are also based on a company culture that is not afraid to evolve and that fosters the contributions of all employees.

End of 2006, the Kudelski Group possessed a portfolio of over 2000 patents and trademarks protected throughout the world. This number is however only a very limited indicator of the creative force of the firm. A large number of inventions made by Kudelski Group engineers are protected by methods other than patents. In the security domain, the dynamic sharing of secrets and discretion remain the most effective forms of protection.

Furthermore, since 2006, the Group possesses the entire portfolio of encryption algorithms patents that was held by MediaCrypt, a joint venture whose activities were fully bought back during the year.

Substantial R&D investments

In order to ensure the future of the Group in the long-term, R&D activities were grouped together in specialized competence centers where substantial investments were made. R&D activities are now being performed at the Group's headquarters in Cheseaux-sur-Lausanne and at other premises in various countries, with the objective of maximizing local expertise and competences.

In the digital TV sector, the main development areas include:

- security solutions, which represent the core business, with three principal centers in Switzerland (Nagravision/ NagraCard), in France (Nagra France) and in the United States (NagraStar, Nagra USA);
- developments related to decoders with specialized competence centers in the United States (Livewire) and in China (STB Center in Shanghai);
- IPTV solutions with Quative in the United Kingdom.

Globally, R&D security activities focus mainly on content protection technologies and service to operators, in particular on the following:

- constant evolution of security solutions and software architecture;
- launch of new platforms and services such as pre-paid cards, basic encryption modules and Push VOD systems;
- anticipation of market trends and development of solutions capable of supporting emerging and future services such as hybrid platforms (terrestrial/IP or satellite/IP) and content transmission on mobile devices.

Additionally, the Group's innovation laboratory is evolving proactively in order to better understand the operators' specific needs and anticipate opportunities brought about by new technologies.

In 2006, the Kudelski Group increased its R&D investments by more than 28% compared with the previous year thus creating an ever stronger basis for its future development.

In the Public Access division, the R&D activities are located in Austria, France and Switzerland. They focus on innovative physical access control systems that are easily deployed and offer numerous functionalities intended to respond to the specific requirements of ski resorts, car parks, amusement parks, sport facilities, corporations and universities.



Group organization

Ongoing structure evolution

The governance and management structures established by the Kudelski Group take into account the demanding environment in which the firm operates.

The expertise of the Board of Directors provides the firm with all the resources necessary to support the major strategic orientations of the Group and to effect an informed supervision. Through its Board members, the Group benefits from proven international experience in the fields of strategy, new technologies, security, media, finance and law.

The Group's operational management favors a proactive, dynamic, client-oriented approach; the organization is hierarchically light and has direct decision lines. Key functions have been progressively strengthened over the last few years particularly in business and product development, security, human resources management, legal affairs and finance.

A multi-site structure close to markets

With the expansion of its competence centers worldwide and the objective to provide dedicated and specific solutions, the Kudelski Group has opted for partially decentralized management. As a result, the multi-center organization fosters the emergence of local talents, encourages responsibility and enhances creativity within a framework defined by the Group. The connected centers are organized as a network, with project supervision and coordination activities being handled out of the Group's headquarters in Switzerland. The Group favors a project-based approach to ensure that the project portfolio is streamlined and closely monitored at all stages, especially in terms of costs, specifications and deadlines.

Extension of the Cheseaux site

In 2006, the Kudelski Group inaugurated its new headquarters building in Cheseaux; the site now comprises three buildings accommodating some 600 employees out of the Group's 1700 staff at the end of 2006.

The "Grand Cheseaux" site, which has twice the surface of the initial site, houses the company's management, R&D, sales and production teams. The contemporary architecture of the new structure uses natural materials and possesses double-glazed façades favoring thermal insulation and a symbiosis with the natural surroundings. Numerous meeting spaces encourage exchanges and provide a peaceful and pleasant work environment.





Effective financial reporting

Financial management is an important aspect of risk control and management. The Group applies rigorous control and monitoring procedures, providing a clear and constantly updated view of business, particularly with regard to objectives and market evolution. The potential impacts of changes are periodically assessed through the analysis of various prospective scenarios to support the strategic and operational decision-making process. These procedures enable improved cost control, while they support the growth of business. They also result in a more systematic management of risk related to exchange rate fluctuations.



Human resources: key to future development

The success of the Kudelski Group throughout the world owes much to the skills of employees in every sector: management, technology, sales, services, support and production. The Group's business growth is reflected in the proportional and steady expansion of the internal pool of talents.

In 2006, the company placed special emphasis on human resources management. A new Executive Board level position was created and several additional HR professionals with international experience were recruited to further strengthen the HR support team. The objective of HR is to better identify and manage talents internationally, and offer employees attractive professional and personal development opportunities.

Formally established in 2005 and intended both for employees and customers, the Kudelski Training Center is a great success. In 2006, the Center ran a further series of training programs. The courses provide participants with an in-depth knowledge of the pay television market, the technological challenges associated with this market and the solutions offered by the Group. The Training Center's laboratory room reproduces operators' actual configurations so that trainees can experience real-life technical complexity.



The Group's operational management favors a proactive, dynamic, client-oriented approach; the organization is hierarchically light and has direct decision lines.

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Operational stakes

Content protection: a fast-changing world

Changes in the digital television sector have modified the conditions in which operators work and brought about fundamentally different security requirements. It is thus essential to monitor market trends and to be able to counter new forms of piracy attacks. The security solutions and technologies must also evolve. On these two fronts the Kudelski Group has deployed a multi-faceted strategy.

1. Security segmentation per product line

Kudelski has distinctive solutions according to the operator's platform and services, be it premium digital television or basic access digital television. Furthermore, each of the platforms – DTH (wide broadcasting, no return path required), Digital Terrestrial Television (local broadcasting, unidirectional), cable (interactive broadcasting), IP or mobile – benefits from specific solutions adapted to its particular context.

2. Segmentation of security technologies

Based on these product lines, each solution is optimized according to the specific local needs of each operator, in an ever more global environment.

3. Secure specifications for decoders

Complementary to the security ensured by a smart card or a security module, the Kudelski Group developed a series of technologies integrated into the decoders that fundamentally improve the level of protection against various forms of piracy. Having become with time mass-market products, decoders may no longer strictly meet the same security standards as in the past. The Nagra specifications, specially adapted to these new markets, make it possible to restore an optimal security balance.

4. A global approach to the anti-piracy combat

Each day the pirates become more international; the Group is gradually extending its anti-piracy fight based on a new and more global approach.

5. Dynamic monitoring of operators' processes and contents

Experts of the Group exercise a permanent monitoring of the systems in place at client operators throughout the world. Technical and economic risks are identified and qualified; observations issuing from this monitoring are integrated into a dynamic security systems development process leading to the deployment of software counter-measures and other corrective actions.

This security strategy in five stages is integrated into the Nagra security philosophy based on NASC (Nagra Advanced Security Concept) and NOCS (Nagra On Chipset Security) concepts. These concepts enable the Group to maintain a clear and transparent approach to security requirements with partners and, as a result, ensure maximum security to operators.

"Swiss made" quality

In the Kudelski Group, the notion of quality is a fundamental value. It represents a permanent process, intimately related to each stage of the content protection process: solution design, development, deployment and follow-up. The main purpose of quality control is client satisfaction but it is also an important component of effective mid and long-term cost management.

The Kudelski Group's Quality Assurance teams are located in Cheseaux, Denver and Paris. Independent of R&D, they operate transversally in the Group structure. They are responsible for defining the methodology, processes and tools that will ensure quality whilst applying industry standards. They manage the integration and validation test laboratories designed to proactively detect and correct problems throughout the cycle of a product running from development to delivery.

Quality Assurance works closely with key operators to define personalized control criteria and processes that may vary according to the operators' specific requirements and environment. This flexibility and reactivity represent one of the Group's strengths and enable it to establish long-term partnerships with key customers.

Smart card production centers are in charge of their own quality control system, adapted to hardware production lines and defined within the Group according to the most rigorous standards of the industry.

Production: a strategic aspect

The control of security throughout the production process requires special conditions; to protect industrial secrets, some of the production aspects cannot be entrusted to third parties. This control is one of the important aspects of the Group's capacity to guarantee operators content and service security over the long term.

The Group handles in-house its own strategic processes and competences. The security of access control systems, head ends and decoder components is managed by dedicated teams in a highly secure environment.

Smart card and system design is handled by NagraCard and Nagra France, whilst the physical manufacturing of smart cards is achieved by NagraID.

Customer support

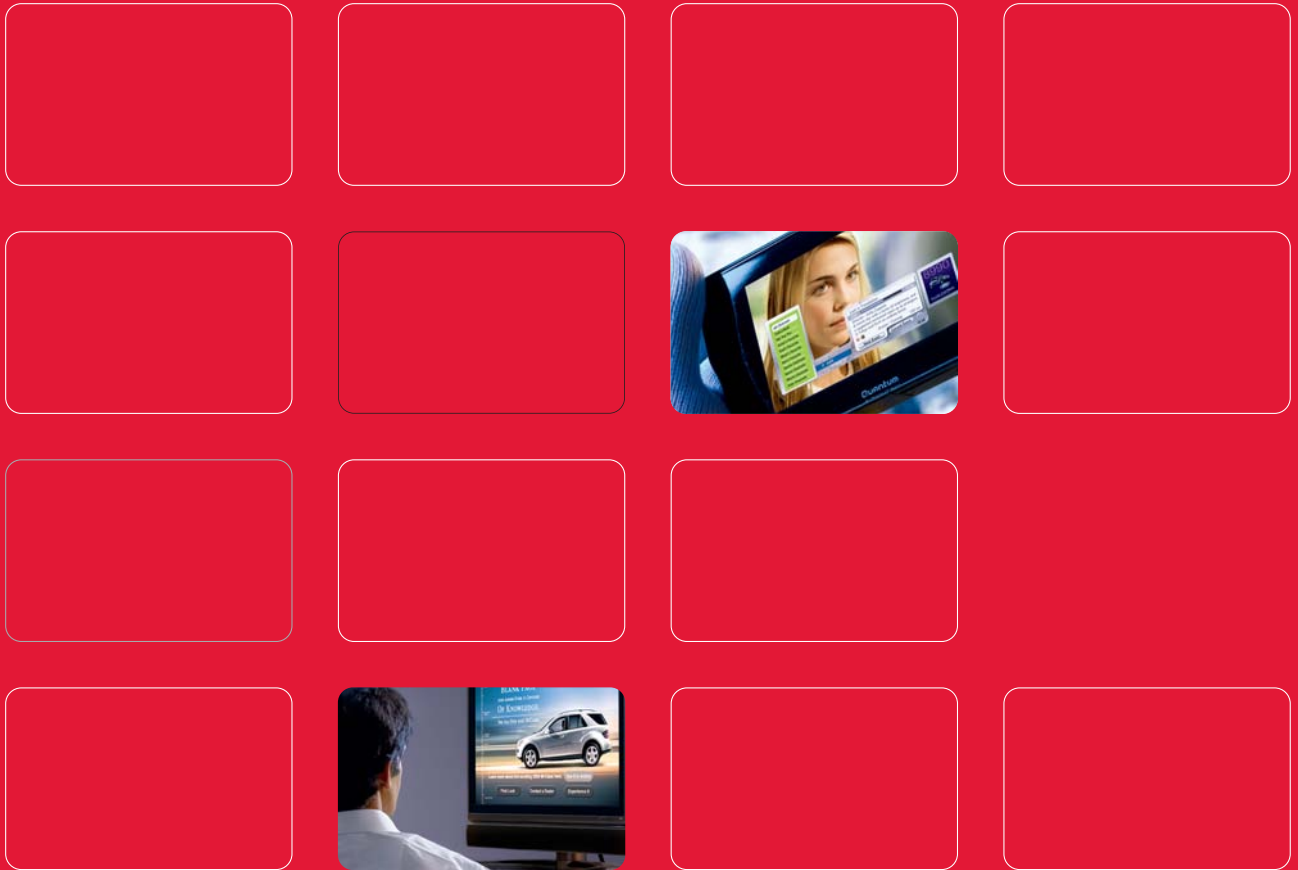
Customer support in general, but especially after-sales support to operators, has been significantly reinforced during these last years.

The Service unit, spread over six geographical areas, ensures optimal proximity to customers throughout the world. Its system engineers intervene directly on the sites of the operators. In addition, program managers take care of the systems delivery and ensure their conformity with contractual terms with regard to specifications, costs and delivery dates.

The Group has a worldwide, 24-hour, 7-day hotline support. Many problems are solved without requiring traveling thanks to the Remote Access Room (RAR) that enables Kudelski's engineers to remotely act on customers' systems out of the Group's premises in Cheseaux.

The feedback process that integrates data coming from the field proves particularly valuable and represents a very important source of information to improve the management of innovation. It further reinforces relations between the Group and the operators, enabling the latter to take part in the development of innovative solutions. The Kudelski Group uses this source to document its knowledge base and to provide input for a permanent process of self-analysis to improve its solutions and its organization. With this same aim, the Group regularly conducts client satisfaction studies establishing precise and measurable reference marks to identify potential further improvements.

Digital Television Convergence in action



Digital Television

The Kudelski Group is a key player in the digital revolution. Today, it has the broadest product offering in worldwide digital television industry.

Digital convergence

The advent of digital into consumers' everyday lives some ten years ago gradually led to important changes within the information technologies world, impacting television, telecommunications and the Internet. Today, the revolution is caused by the fact that previously unconnected sectors are converging, opening up a myriad of opportunities. The convergence of technologies, which has been much commented on by observers and actors of the sector, now becomes a reality on the market.

The transition from analog to digital radically changed the television sector. Using less bandwidth, digital technology enables operators to extend their offering by multiplying services and functionalities, with a substantially higher sound and image quality. Consumers therefore enjoy unequalled comfort and choice, and operators increased marketing power.

Today, digital technology is on the way to becoming the universal broadcasting mode for television. In Europe, the operators who have not yet migrated to digital are working to adapt their platforms in order to be ready to pull the plug on analog before 2012 – the limit fixed by the European Commission. In Asia, this change is also fully under way. Throughout the world, many operators have already been broadcasting in digital for several years.

New market opportunities

In the convergence process, digital television is expanding from its traditional model to take on new forms – mobile television, television over the Internet (IPTV), contents on demand, interactive services, etc.

The platforms are multiplying. To cable and satellite now are added terrestrial hertzian waves (digital terrestrial television – DTT), IP (Internet Protocol) and mobile networks. The digitalization of cable brings with it a whole array of new functionalities which operators are impatient to offer to their subscribers. The digitalization of terrestrial transmissions marks the advent of DTT and of a vast new quality offering, easily deployed.

Content no longer experiences frontiers. Today it includes a lot more than plain televised programs. While the choice is wider, ways of consuming content have also evolved to include on demand and interactive services, sound and images that can be viewed anytime, anywhere, on any digital receiver. The new offers are finding a vast public as testified by the successful rollout of new solutions such as television on mobiles in Italy in 2006.

Digital television is becoming a mass market; that is its real revolution.



Kudelski – digital since 1991

The Kudelski Group is a vanguard technological player in the field of digital television. Today, its technologies are in the heart of consumers' activities, bringing them ever more security, comfort and user-friendliness.

In 2006, the acquisition of OpenTV (finalized in January 2007) enabled the Group to supplement its offer by adding an important element: interactivity. Today, the Group has the most complete range of solutions of the digital television industry, including both security and enabling technologies for interactive applications.



Interactivity: the visible part of digital

Over the last two years, many digital television operators expressed the wish to have turnkey solutions including both conditional access and interactive platforms. The partnership with OpenTV allows the Group to be more responsive to operators who want to have only one supplier for both solutions.

Since 2003, the interactivity market has undergone fundamental change. First, market consolidation resulted in two major players dominating de facto the digital TV interactivity market. Second, the use of interactivity has been extended, even generalized, in particular in the emerging countries. Required by consumers, interactive applications are now a must for the "traditional" digital television operators, especially if they want to remain competitive vis-à-vis the new actors offering IPTV solutions designed to improve the digital TV user experience.

These market trends have led the Kudelski Group to enter the interactivity sector. A few years ago, the Group started by developing new solutions meeting the requirements of interactive platforms and concluding partnerships with the principal players of the sector, in particular with OpenTV.

However, Kudelski still lacked an important link in the chain, namely the interactivity platform itself and the associated portfolio of patents required to further develop the activity. This gap was filled with the acquisition of OpenTV.



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The new offers are finding a vast public as testified by the successful rollout of new solutions such as television on mobiles in Italy in 2006.

OpenTV – interactive television and advertising

Further strengthened competitiveness

The alliance with OpenTV enables the Group to propose a greater variety of business models to its customers, ranging from traditional pay-TV to combinations including standard pay-TV, advertising and interactivity.

Kudelski and OpenTV have complementary market positions. The partnership that links them allows their product lines to serve separately or jointly the needs of operators.

Putting in synergy the two suites of solutions will enable each firm to extend its activities to other areas and to accelerate penetration of new markets. For example, the alliance will increase the joint market opportunity in retail, IPTV, Mobile TV, PCTV and other emerging segments of the digital TV sector.

Together, OpenTV and Kudelski are more competitive in the market with the ability to:

- create a totally evolutionary and flexible ecosystem of products;
- integrate solutions that are quickly deployed;
- combine strength in system engineering and integration services;
- leverage their worldwide, comprehensive expertise in digital television;
- provide unparalleled service levels to customers.

Pre-integrated solutions

With the new interactivity offering, the Kudelski Group technologies are entering the every-day life of TV viewers, contributing to a richer, more exciting user experience thanks to interactive and participative functionalities and also thanks to the sophisticated and personalized graphic design of its interfaces.

In addition, the Kudelski/OpenTV pre-integrated solution including interactivity and conditional access is designed for all digital television market segments including satellite, cable and terrestrial television, IPTV and mobile television. A growing number of operators distribute content over multiple platforms; thus the Kudelski/OpenTV solution addresses a real market demand.

Complementary product lines

OpenTV is a leading supplier of decoder middleware. Its solutions are integrated in more than 81 million digital set-top boxes and digital televisions around the world over cable, satellite and IPTV platforms. Its software enables the delivery of digital and interactive television with a wide array of functionality, including enhanced television, a rich set of applications and enhanced content, interactive and addressable advertising, games and gaming, personal video recording, and a variety of consumer care and communication applications. OpenTV's middleware has been ported across multiple vendor solutions and has been proven best in class for scalability and adaptability.

OpenTV's Advanced Digital Television product offering extends to all the "classical" broadcast networks as well as mobile and wireless networks.

– OpenTV Core: middleware solutions

Enable network operators to manage the creation and delivery of advanced television services to their subscribers across multiple set-top boxes and within numerous network infrastructures.

– OpenTV PVR

Advanced management platform that enables network operators to deliver services to their subscribers allowing them to record, time-shift and locally manage pay TV content. OpenTV PVR (Personal Video Recorder) operates in a single or multiple-room environment and integrates with home networks to create a unified media experience.

– Advanced Advertising and Participation Television

Solutions that allow network operators to manage the trafficking and billing of their commercials, provide targeted and addressable advertising solutions and enable viewers to engage in commerce transactions, retrieve information such as weather reports and sports updates, and other interactive services.

– Engineering and consulting services

OpenTV can manage entire digital television launch projects or simply provide assistance with integration projects or development activities.



Mobile television

The Kudelski Group has gained the leadership of the conditional access market for DVB-H (Digital Video Broadcasting – Handheld) mobile TV thanks to large-scale commercial deployments of the first integrated systems with various mobile phone technology partners and suppliers.

Television on mobile phones is an emerging market but its recent successful take-off shows its strong development potential in particular thanks to the DVB-H standard which, together with 2G or 3G services, delivers much better performance than UMTS (Universal Mobile Telecommunications System) technology alone.

DVB-H standard

DVB-H is a European Telecommunication Standards Institute (ETSI) standard for the broadcast of digital terrestrial television services to portable telephones and receivers. DVB-H broadcasting technology is based on the terrestrial DVB spectrum. The quality of the signal and of sound and images delivered through this technology bears no comparison to the UMTS technology still used for broadcasting television images to portable devices through cellular networks.

Nagra Mobile – first commercial deployment in DVB-H

Launched in 2005, Nagra Mobile solutions are gaining momentum within the mobile industry, emerging as the preferred solution of top tier mobile network operators and technology partners.

The Group has completed the integration of its conditional access with DVB-H mobile phone suppliers, unconnected device suppliers and SIM card suppliers, providing already at this early market development stage an open platform supporting a great variety of devices.

In June 2006, the pioneer mobile network operator, 3 Italia, launched the world's first DVB-H commercial service just in time for the World Football Cup. 3 Italia offers top Italian content from Mediaset, SKY Italia and RAI and has broadcast all 64 World Cup matches to Italian mobile consumers. After six weeks of service, 250 000 customers had subscribed.

Also in 2006, Telecom Italia TIM, the largest mobile network operator in Italy, selected Nagra Mobile for its DVB-H mobile TV service. Targeting TIM's 26 million Italian subscribers, the TIM service secured by Nagra Mobile was sold as from autumn 2006 on a subscription basis.

At the beginning of 2007, Nagra Mobile was selected by Vodafone Italy to protect the content rights of its DVB-H mobile TV service, Vodafone SKY TV. Vodafone Italy, the country's second largest mobile operator, also uses Nagra Mobile TV to protect access to 9 television channels including Fox 1, Sky Sports and Disney Channel – and to the premium service that broadcasts A-series football matches. The solution enables Vodafone to propose a wide variety of business models ranging from subscription to pay-per-view and pay-per-time.

Vodafone is the third operator to deploy a mobile TV solution. To date, the first three mobile television operators – all in Italy – have chosen the Nagra Mobile solution to protect access to their DVB-H services. Italy has become the flagship DVB-H mobile TV market, setting the benchmark for the rest of the industry.

In Spain, the Kudelski Group has successfully collaborated with abertis telecom to integrate its conditional access technology into the operator's DVB-H platform for mobile TV technical tests.

In the Czech Republic, the mobile network operator T-Mobile began in October 2006 its Mobile TV test in partnership with leading mobile industry players. The service is secured by Nagra Mobile.

In Asia, Maxis Communications Bhd, Malaysia's largest cellular operator, selected the Nagra Mobile TV solution for a three-month DVB-H trial to test wireless television services. Full mobile TV commercial launch is expected at the end of 2007.

In the United States, Nagra Mobile was selected by Hiwire LLC, a division of Aloha Partners (the largest 700MHz spectrum owner in the United States) to secure the deployment of its DVB-H multimedia platform delivery system.

CNN/Turner/Time Warner, one of the world's leading US content providers, has purchased an end-to-end DVB-H Nagra Mobile solution for the development of its mobile TV offering.

Abilis Systems

Abilis Systems, which joined Kudelski in 2005, strengthens the Group's expertise in mobile TV.

Abilis Systems specializes in the design of low-power, small surface (<90 nanometres) integrated circuits that are particularly well adapted to mobile devices, especially mobile phones, but also portable digital video players, portable DVD players and portable computers.

Abilis is the first semiconductor fabless company to propose a single-chip mobile TV solution, integrating both the RF tuner and the demodulator.

In July 2006, Abilis Systems announced a manufacturing agreement for its chips with IBM Microelectronics, enabling Abilis Systems to meet its customers needs in terms of quality, volume and continuity of supply.

In addition, at the beginning of 2007, Abilis entered into a partnership with CyberLink Corp., a world leader in digital solutions, for the joint development of a secure end-to-end mobile TV solution integrating the Nagra Mobile TV conditional access system.

The Abilis chip – a complete TV receiver

- The Abilis chip is a complete TV receiver that fits into a 9x9 mm case.
- It employs a 90-nanometre CMOS (Complementary Metal Oxyd Semi-conductor) manufacturing process. Given that a hair has a diameter of one micron, each element of the chip (a transistor) has the size of one tenth of that of a hair.
- The chip contains 40 million transistors and as many electrical copper connections on 8 vertical layers, shared amongst 4 embarked processors.
- The chip receives the analog signal directly from the antenna and converts it into a digital video stream that can be read by a television receiver, a decoder or a PC, but also, thanks to its low consumption, by portable devices such as telephones, USB keys, multimedia players or other navigation systems.
- It supports all the TV frequency bands available in the world. Unlike other suppliers' solutions, it can be reprogrammed, particularly to support new standards.



The Kudelski Group has gained the leadership of the conditional access market for DVB-H mobile TV.

Launched in 2005, Nagra Mobile solutions are gaining momentum within the mobile industry, emerging as the preferred solution of top tier mobile network operators and technology partners.

IP television

IPTV (Internet Protocol Television) is the delivery of video programs via a high-speed network using the telephone line. This technology is meeting with ever more success because, based on existing infrastructure, it saves operators the need to make costly installations.

At present, there are between 4 and 5 million IPTV subscribers with different operators throughout the world. The entry barriers to the IPTV market are lower than in the traditional broadcasting sector since the technological infrastructure is simpler to deploy. Consequently, this market is developing in a very fragmented way.

NagraIP and Quative IPTV Service Platform

The Kudelski Group has been present on the IPTV market for more than three years with NagraIP access control solutions already used by important operators in Europe and the United States. In order to strengthen its competence in this sector, the Group created in 2005 Quative Limited, based in the United Kingdom. Bringing together some 20 pioneering IPTV experts, Quative develops and markets the next generation IPTV service delivery platform and provides integration services for end-to-end IPTV solutions.

In March 2006 at the NAB, Quative demonstrated the first release of its Quative IPTV Service Platform (QSP). This platform enables operators and service providers to deliver IPTV services to subscribers' decoders keeping control of every aspect of their offering, from graphic design and navigation to applications. QSP comes pre-integrated with the Nagravision Lysis content management and DRM (Digital Rights Management) system and the NagraIP content protection solution. Open and modular, it is independent of decoder manufacturers and infrastructure suppliers.

In parallel, Quative launched the Quative Reference Application Suite which provides a comprehensive set of base IPTV applications. These include an Electronic Program Guide with DVR and TV-on-demand, video-on-demand, parental control, messaging and e-mail. These applications enjoy high quality and sophisticated graphic design.

In order to provide the best service to its clients and to prepare for its future development, Quative will open at the beginning of 2007 a customer service center near Cardiff. The company's headquarters are located close to London's Heathrow airport.

Commercial success of IPTV solutions

After systems installed at neuf Telecom (France), Jazztel (Spain), ish (Germany) and PanAmSat (United States), other operators placed their confidence in the Kudelski Group IPTV solutions during 2006.

In Germany, HanseNet, a subsidiary of Telecom Italia and one of the fastest growing telecom operators in Germany, selected Nagravision to secure its broadband Pay-TV bouquet "Alice" as well as its VOD offering. NagraIP offers HanseNet a secure platform for its more than one hundred free digital television and premium Pay-TV channels broadcast to consumers over broadband DSL. These services were introduced prior to the 2006 World Football Cup. This is the first commercial IPTV roll-out in Germany, confirming Nagravision's strong foothold on this market.

The Lysis Content Management System, which is used in mobile TV solutions, is also integrated into IPTV platforms. For example, Club Internet, IPTV market leader in France, chose this system for its new video-on-demand service.

In the United States, the Group signed a new contract with IPTV Americas for the launch of the first IPTV service on MPEG-4 AVC of Latin America. IPTV Americas will provide a headend platform intended for telecom operators and supporting telephone, Internet and television services. This platform uses the vast optical-fiber network deployed by the operator throughout Latin America.



MENU
ESC

- All Channels
- Subscribed
- My Top Ten
- Anne's Favorite
- Dad's Favorite
- Mom's Favorite
- Ben's Favorite
- Sports Channels
- News Channels
- Movie Channels
- Kids Channels

- 8 ABC
- 9 AXN
- 10 CINEMAX

Lost in Translation
Director: Sofia Coppola
A movie star with a sense of emptiness, and a neglected newlywed meet up as strangers in Tokyo and form an unlikely bond.
Drama / Comedy 120 min
Next Event 10:30

8990
Honda Ford Fiesta

Quantum

SmarDTV

Following the acquisition of the DTV (Digital Television) division of SCM Microsystems announced in April 2006, the Kudelski Group founded SmarDTV, a fully-owned entity that provides removable security solutions for digital devices. SmarDTV products enable the highly secure delivery of a wide range of PayTV contents to fixed or mobile receivers.

SmarDTV has nearly 60 employees. Its headquarters are located in Cheseaux-sur-Lausanne and it has subsidiary companies in France, in Germany and in Singapore.

SmarDTV's main product line consists of Conditional Access Modules (CAM) based on the DVB-CI (Digital Video Broadcasting – Common Interface) and OpenCable CableCards standards. The second product line includes ASICS (Application Specific Integrated Circuits) intended for digital television equipment requiring standardized pay TV access extensions. And the third product line provides technology suppliers with tools to test conformity with the standards used in the other product lines.

These solutions strengthen the Kudelski Group's ability to deliver optimal technological solutions intended for the digital television mass market.

Conditional Access Modules

SmarDTV develops and markets removable DVB-CI (Europe) and CableCard (US and Korea) modules intended mainly for digital television sets. The Kudelski Group stands as a world leader of this activity, which is complementary to the access control solutions.

SmarDTV produces highly secure modules supporting conditional access systems from all suppliers. The company also delivers CIMaX chip equipments enabling the control of the Common Interface slot and managing access to CableCard and DVB products.

In 2007, SmarDTV is planning to introduce on the market a new product line addressed specifically to PC platforms. These secure removable modules will allow the reception of pay-content on computers. SmarDTV collaborates with the principal digital television operators in order to extend the secure access to pay-TV services over personal computers. Computers are becoming increasingly attractive fixed and portable media consumption terminals but many challenges must still be met in terms of content protection.

An active part in international consortia

International consortia composed of major industry players have been in place for several years to support the growth of the digital TV industry. One of the objectives of these initiatives is to promote the use of standards in the manufacturing of TV receivers in order to simplify consumers lives. To date, the most significant achievements in open architecture standards for digital TV have come from the European Digital Video Broadcasting and US OpenCable initiatives.

SmarDTV is actively involved in the development and adoption of removable security modules to support open digital receivers and decoders worldwide. SmarDTV is a co-author of the US OpenCable standard for removable security and has contributed to the development of the DVB-CI standard.



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Traditional broadcast Conditional Access System

In parallel with the development of new technologies and new product lines, the Group continued to work intensively on the next generation of advanced and personalized solutions for the secure distribution of electronic content. In 2006, the Group continued to invest substantially in research and development in order to further improve the architecture of its conditional access system in particular in the field of security.

Various cases of hacking of DRM and CAS systems suffered by security players testify once more to the need for having state-of-the-art technology. During the last fifteen years, the Group delivered security solutions that have established records of resistance in time. In its continued effort to improve its solutions, the Group has made important investments both at the technology level and in the reinforcement of its teams.

Today, these efforts are bearing fruit. NagraVision has developed several new generation conditional access systems which include a series of new functionalities further widening the possibilities of the system and giving the operators more flexibility.

These solutions are equipped with a technology based on a new series of concepts of individualizable security developed by the Group. The security concepts are independent of the product line: while the new version of the conditional access solution incorporates the new security features, these can also be introduced into existing product lines.

Push VOD/DVR solutions

The Kudelski Group deployed successfully its first Nagra Push VOD solutions as from 2005 on the MovieBeam platform in the United States and for the German operator Premiere.

This solution was developed and improved in the course of 2006. The Group is now able to offer operators a comprehensive turnkey solution including the following elements:

- NagraGuide – a suite of interactive applications developed by NagraVision on OpenTV's middleware platform integrating digital TV and Push VOD applications;
- Lysis, NagraVision and OpenTV VOD features;
- A new high definition-ready decoder.

NagraGuide

Developed by NagraVision in 2006, NagraGuide is a middleware-based application suite that represents the next level of interactive TV user experience. NagraGuide combines an interactive portal, a video mosaic, an interactive program guide packaged together into one advanced application set fully integrated with the latest NagraVision Conditional Access System.

NagraGuide is included in OpenTV's middleware platform and therefore deployed by many television operators.

High-definition (HD) television

The year 2006 was marked by the acceleration of high-definition TV deployments. With HD broadcasting, content security requirements are even higher, particularly with stored content. The NagraVision solutions are designed to protect DVR and VOD content. NagraVision also develops EPG and interactive applications tailored to high-definition television.

Digital cable

Europe

With digital penetration in the cable sector being relatively low, digital cable has a strong development potential. In Europe, lower investment costs, in particular of decoders, is accelerating the migration to "all digital" of cable operators who are eager to offer more TV programs and above all more services and more interactivity to their subscribers. Only digital technology enables high-definition broadcasting and video-on-demand applications.

Early 2007, YPSO/Numéricâble, the leading broadband cable operator in France, Belgium and Luxemburg, selected the Kudelski Group technology for the rollout of its video-on-demand and interactive TV services. Kudelski will leverage its entire suite of digital television products to seamlessly introduce VOD into YPSO/Numéricâble's existing cable infrastructure.

In Germany, Kabel Deutschland GmbH (KDG) launched its new basic encryption digital cable service in April 2006. Attractive options (both in terms of variety and cost) offered to analog subscribers should encourage them to subscribe to the new digital offer. At the end of 2006, KDG's digital pay TV service had 500 000 subscribers. KDG's analog network has close to 10 million connected homes.

Controlled access mass digital TV

The rollout of basic encryption services by KDG shows the emergence of controlled access mass digital TV, alongside the development of premium digital TV. This is a significant evolution transforming digital TV from a niche to a mass market business concerning all TV viewers. This sector is expected to become an important growth driver for the Kudelski Group in the future.

In the United Kingdom, ntl Incorporated and Telewest Global, Inc., both Kudelski Group customers, finalized their merger in March 2006. The merged platform is the leading triple-play service provider in the United Kingdom. With the acquisition of Virgin Mobile in July 2006, ntl:Telewest became UK's first operator to offer quadruple play services including digital TV, internet access as well as fixed and mobile telephony.

Pan-European operator UPC Broadband, a subsidiary of the international operator UGC (UnitedGlobalCom, Inc.), successfully started the digital conversion of its Dutch analog cable network using the Nagravision conditional access and content protection technology. UPC acquired Swiss cable operator Cablecom as well as Irish operators NTL Ireland and Chorus, all using Nagravision's conditional access technology to secure their digital pay TV services.

On the Swiss domestic market, Naxoo selected Nagravision to deliver a comprehensive turnkey solution to broadcast its all digital bouquets including more than 190 TV channels (and the Canal+ bouquet), as well as exclusive movie releases and sporting events. The platform met with great success.

Cablecom, another Kudelski Group customer, had a successful year 2006, in particular thanks to its new digital TV offering. The operator offers triple-play services including high speed internet access, digital cable phone and digital TV services. The number of its digital subscribers increased by 26% in 2006. Cablecom passes 73% of Swiss households.

In Belgium, Telenet launched digital cable services secured by Nagravision as part of its triple-play offer. Telenet continues to develop at a steady pace with currently more than 250 000 subscribers, a positive result taking into account that Telenet only operates in the Flanders region.

Early 2007, INDI, the digital TV platform of the four Flemish public cable providers (Interlectra, Integan, PBE and WVEM) selected Nagravision to provide a complete integrated conditional access platform to secure its services which will soon include HDTV channels and DVR services. INDI reaches one-third of the Flemish TV market or 800 000 households in Belgium.

In Portugal, TV Cabo, a Kudelski Group long-standing customer, launched a digital migration program of its analog cable subscribers.

Asia

The Kudelski Group achieved strong growth in the Asia/Pacific region in 2006, managing its important customer base in the region out of its Singapore headquarters and regional offices in Hong Kong, Shanghai and Beijing.

In China, spurred by Government incentives, cable operators are accelerating their digital transition. Kudelski Group customers Beijing Gehua CA TV Network Co Ltd (BGCTV) and Oriental Cable Network (OCN, Shanghai region) started mass deployments of smart cards, resulting in a record year for the Kudelski Group in terms of card sales.

Technologically, the industry showed strong interest in Nagravision's Basic Access product. This technology is integrated in decoders and enables access to a basic digital package while being able to upgrade to premium pay TV content.

In Korea, Kudelski Group customers C&M Co. Ltd and Qrix Communications, Inc. started large-scale deployments of SmarDTV's CableCard modules based on the OpenCable standard developed specifically for the Korean market. Large volumes of cards are expected to be delivered to Korea in 2007.

In Singapore, multimedia operator StarHub Cable Vision continued to grow with record conversion to digital. StarHub is Singapore's only operator to offer communication, entertainment and information services on fixed, mobile, cable and Internet networks. In 2006, StarHub launched the first DVR solution in Asia and the first High-Definition broadcasts to coincide with the Football World Cup.

Latin America

GTD, a telecommunications operator in Chile, selected Nagravision turnkey solution, including the Nagravision conditional access and user interface as well as Livewire middleware. Like other operators in this region, GTD chose Nagravision because of its ability to deliver a pre-integrated, proven solution suite enabling a fast and reliable deployment.

In Brazil, Kudelski Group customer TVA (Abril Group), launched a new low cost platform to facilitate the migration of its analog base in Rio to digital. TVA also launched DVR services. Net Serviços (Globo Group) continued to migrate its analog cable base to digital.



Direct-to-home satellite television

Europe

SES ASTRA, a SES GLOBAL company and the market-leading satellite operator in Europe, selected Nagravision's end-to-end turnkey conditional access solution to secure its new digital TV infrastructure for the German market to be launched in 2007. The new infrastructure will allow operators to launch value-added TV services such as pay-per-view programs and near video-on-demand as well as interactive applications.

In France, the Canal+ Group, a long-standing Kudelski Group customer with currently some 8 million subscribers, merged with TPS (1.3 million subscribers) in 2006, becoming as a result one of the largest European operators. Canal+ has some 2.5 million analog subscribers in France being migrated to digital. In 2006, the Canal+ Group was very creative from a technological point of view; a whole new range of decoders was launched including HD, hybrid satellite/DTT and hybrid analog/DTT decoders.

One of the leading Eastern European cable network and Internet service providers RCS&RDS, whose DTH DigiTV satellite services are available in Romania, Hungary, Slovakia, the Czech Republic and Serbia, signed an agreement for the upgrade of its existing Nagravision conditional access and subscriber management systems. With two million cards to be delivered in a 24 months time-frame, of which over one million in 2006, this agreement will enable RCS to fully handle its successful business expansion and broaden its DTH offering to new markets. In less than two years, the operator increased its number of subscribers to reach 1.2 million at the end of 2006.

In Poland, Cyfrowy Polsat, a long-standing Kudelski Group customer, showed very positive progress in 2006, reaching the 1 million subscriber mark. The operator launched its first Digital Video Recorders in 2006 and is expected to continue to enhance its offering with HDTV services in 2007. Cyfra+ also showed good results in 2006. Very active on the technology side, Cyfra+ launched an HD offer in 2006.

The Kudelski Group is also well positioned on the Iberian Peninsula with leading operators among its customers including R, the Galician fiber optic telecommunications operator, who selected Nagravision to supply a conditional access solution for its new digital TV services in 2006, and long-standing customers such as the Digital+ Group and Euskaltel in Spain.

Americas

DISH Network, EchoStar Corporation's satellite operator, passed the 13 million subscriber milestone at the end of 2006 (with, in most cases, several cards per subscriber). EchoStar launched its 10th satellite in February 2006.

The growth of DISH Network is the result of several elements:

- the success of its DVR with 4.6 million units sold in 2006;
- the launch of two new advanced DVR;
- DISH Network's ever-expanding video-on-demand platform that uses the Kudelski Group's security technology;
- the largest High-Definition lineup in the US with 30 HD channels;
- satellite-delivered broadband Internet service;
- a TV offering including more than 3 100 channels.

Bell ExpressVu, Canada's largest satellite TV operator, reached 1.8 million subscribers at the end of 2006, with also several cards per subscriber.

Telefonica selected Nagravision to provide the conditional access solution for its DTH operations in Latin America. To ensure a fast time-to-market, Telefonica selected Nagravision to be the turnkey integrator of its platform. The multi-market approach of the Nagravision solution will enable an offering targeting multiple countries throughout Latin America.

Asia

In Malaysia, Astro All Asia Networks, one of Asia's leading digital TV platforms, continues to expand and plans to launch advanced DVR services using the Nagravision solution. Astro's TV services include 55 channels broadcast to more than 1.93 million subscribers, representing some 35% of television homes.

Digital terrestrial television (DTT)

The Kudelski Group holds a strong position on the digital terrestrial market in Italy, in particular with the delivery in 2005 of a system to Mediaset, one of the world's largest media groups. The operator was the first to adopt pre-paid cards to offer consumers a very flexible access to its services. Mediaset's per-per-view football offering met with enormous success; today the prepaid cards give access to an ever wider array of services including movies and sports.

In 2006, the Group further expanded its leadership in the Italian digital terrestrial market with the signature of a new agreement with Espansione TV. This operator will deliver pay-per-view services over the Italian DTT platform using a Nagravision conditional access solution. The service will be based on the proven Nagravision business model enabling secure, anonymous access to selected content through pre-paid smart cards.

In England, TopUp TV, a digital terrestrial television operator using a Nagravision conditional access for its pay TV services, extended its offering with TopUpTV Anytime, the first DVR service on DTT. TopUp TV's agreement with Setanta to broadcast a sports channel including English Premier League matches strengthens TopUp TV's growth perspectives for 2007.

In France, Canal+ uses the Kudelski Group technology to secure a pay TV bouquet launched on DTT in October 2005.

NagraID

This company manufactures and personalizes the cards intended for the Group's digital TV and public access applications. It also produces cards for customers outside the Group.

NagraID has unique cold lamination know-how, a patented technology called NagraLAM, which allows the industrial inset of sophisticated electronic components such as batteries, LCD screens, LEDs, etc. into smart cards.

In 2006, NagraID obtained the EMV (EuroPay, MasterCard and Visa) certification which authorizes the production and personalization of debit and credit cards. Having a production site meeting the highest security requirements enables NagraID to stand out in new sectors, in particular the banking and governmental fields.

At the end of 2006, NagraID signed a three-year contract with Credit Suisse for the personalization of Maestro cards in Switzerland. The company is also carrying out other projects for Swiss and international companies, in particular in the identity cards sector.

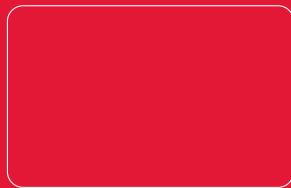
With its proven competences in the integration of modules and microchips into cards, NagraID has contributed to the incipient success of the DisplayCard. This card is a means of identification in the ISO smart card format that delivers a dynamic password displayed on an LCD screen. To authenticate him or herself, the user must press a button on the card to receive a dynamic password in the form of a number. A new password is calculated with each press of the button. In order to access on-line services, the user must type this password together with his/her user name on his/her computer. This solution combines EMV banking standards and the banks' secure graphic requirements.

In 2006, NagraID concluded an exclusive contract with the American company Innovative Card Technologies Inc. for the manufacture of DisplayCards based on the InCard (LCD) technology. These cards are designed to secure on-line banking and purchasing transactions as well as data access.

Using NagraID's manufacturing process, Innovative Card Technologies will be the only company in the world to mass-produce a certified ISO card with an integrated liquid crystal display.

Public Access

Strong increase in growth and profitability



Public Access

In the last two years, portfolio restructuring measures and an operational improvement program have allowed Public Access to accelerate growth from a one digit rate to 14.7% and EBIT from a negative margin to 9% in 2006.

SkiData

Historical 2006 results

SkiData, which celebrates its 30th anniversary in 2007, posted its best results ever in 2006.

In North America, turnover grew by 41%. As a result of the expansion of its distributor network, SkiData has been able to gain a strong foothold in this market where its brands and products are now well known, especially in the field of parking systems.

In the Asia/Pacific region, turnover increased by more than 66%, in particular with two key projects in South Korea and Australia. In India, SkiData has cooperated with a local partner to set up a structure that is intended to reinforce its development in this promising market.

Important projects in the Middle-East/Africa region have led to the opening of a new SkiData regional office in Dubai earlier than planned.

In Europe, SkiData has maintained strong growth, especially as a result of developments in key Eastern European markets such as Poland and Russia.

New product strategy

2006 has seen the repositioning of SkiData, which aims to evolve from a segment-specific product vendor to an "All Access" solution provider serving a worldwide market.

This new strategy has involved important technological changes. A common platform for all applications is being developed in order to migrate SkiData's current vertical product portfolio towards a market-driven, horizontal product architecture. Thanks to two interfaces, this platform remotely manages not only the equipment installed in the field (gates, turnstiles, etc.), but also peripheral applications such as pay desks, call centers and web sites. On the basis of this platform, SkiData offers solutions that are designed for specific applications or for use across various business segments.

In addition, the platform includes a remote applications management system through which active preventative maintenance can be carried out by detecting problems early on. This new software application allows substantial reduction of operational costs whilst greatly reducing time-to-market and therefore improving customer service.

To emphasize the change in philosophy, SkiData has completely revised its corporate identity and launched a new logo and a new graphic design for its products.

Success of new generation systems

New products were highly successful in 2006. In the parking sector, the remotely-controlled networking systems, as well as cash registers supporting the use of credit cards, have won the operators over.

In the ski sector, the Freemotion platform is another example of this success: from the moment of its commercial launch, more than 500 units were sold in just a few weeks. This is explained by the advantages of the gates: they remain open unless they detect the presence of a user without a valid ski pass, thus allowing the crowd of skiers to pass through much more rapidly.



Freemotion system

Optimized cost control

Cost control was substantially improved in 2006, especially through a recentering of the product portfolio, technological innovations and enhanced logistics management. These changes resulted in optimized customer service.

Storage and warehousing services were outsourced, leading to a cost reduction and improved delivery times. The "Next-Day Delivery" service was established, guaranteeing the delivery of spare parts to regional distributors and subsidiaries worldwide within 24 hours.



Hong Kong Airport car park

Leader in airport parking systems

SkiData is a leading name in the airport parking segment, with systems installed in the airports of Hong Kong (China), Melbourne (Australia), Bergamo (Italy), London-Heathrow (England), Glasgow (Scotland), Munich (Germany), Lille (France), Amsterdam-Schiphol (Netherlands), Unique-Zurich (Switzerland) as well as various cities in North America.

Car Access segment

This segment has achieved an excellent year 2006. The Shop&Go solution was favorably received, and several systems have already been deployed. Thanks to scanners connected to the shops' cash registers, parking tickets can be read and validated at the moment when purchases are paid for, thus avoiding the customer having to use a pay-on-foot machine. The system allows shops and car-park operators to offer clients various advantages: free parking if a purchase is made, first hour free, etc.

SkiData also offers its clients new services such as centralized data storage and archiving (Data Warehouse) together with analytical tools and remote maintenance and software updating functions (REMCO – Remote Control).

Airports

The Airport segment has profited from SkiData technological innovations. Operators require more and more frequently parking solutions that support local payment systems whilst ensuring maximum ease of use for operators and end consumers.

In 2006, Hong Kong Airport decided to have all of its parking facilities fitted with SkiData parking management systems. The SkyCity airport complex includes business parks, hotels, shopping malls as well as ferry and train stations. Apart from the passenger parking facilities, the area to be equipped with SkiData systems includes AsiaWorldExpo – an international exhibition center – and the SkyPlaza business and shopping complex. The systems are managed centrally from the control room and support the use of the payment cards most used in the region, including the Octopus and VEP (Visa Express Payment) cards.

In Europe, Munich airport, a client for over fifteen years, has renewed its trust in SkiData by choosing its very latest parking management technology to upgrade its parking installations. SkiData has a strong presence in Germany, a market dominated historically by national suppliers.

Shopping malls and cultural sites

In Australia, SkiData, in co-operation with its local partner Wilson Parking, has won a contract to provide access control equipment for six shopping malls in Canberra, Melbourne and Sydney. The contract signed with the Westfield Group, the world's largest retail property group, is the largest ever awarded in the Australian parking systems market. The systems, which include SkiData's new Easy.Cash stations, are managed and maintained from a control center based in Melbourne.

In the United States, SkiData sustained its rapid growth with numerous systems deployed throughout the country. In the area of parking management systems, new deals include the prestigious New York Philharmonic and a shopping, business and hotel complex in Baltimore (Maryland).

In France, Vinci Park, the country's largest car park operator, has awarded contracts to SkiData for several projects in the Champs-Élysée district of Paris. France's second-largest parking provider, Epolia, has also chosen SkiData to equip the parking facilities of the Louvre museum.

SkiData has made good progress in key Eastern European markets, with a first parking installation in Poland for Zlote Tarasy, an important shopping, business and leisure center in Warsaw. In Russia, the Ritz Carlton Hotel, situated in Red Square, has also been equipped with a SkiData parking solution.



People Access segment

After the Freemotion access system for ski resorts, SkiData has launched a new reader called People.Gate, based on the architecture and philosophy of the new All Access platform. It is an example of the new approach by which the technologies developed for a particular segment are utilized for innovation in other segments. This new reader has a modular design and various optional elements such as biometric control can be added as needed.

Designed to manage large visitors volumes and already in use at numerous stadiums throughout the world, the Handshake solution is going from strength to strength: a success that is mainly the result of its ability to interface easily with third-party ticketing systems, as well as its visitors management and follow-up functionalities.

Mobile phone-based ticketing systems have also won the approval of operators, both in the segments of stadiums/leisure facilities and ski resorts.

Other technological innovations, such as the tourist access cards for particular destinations, further illustrate SkiData's product development dynamics.

Stadiums and arenas

In Europe, the stadium sector was especially stimulated in 2006 by the World Football Cup. SkiData's installations at several German stadiums (Munich, Stuttgart, Kaiserslautern and Hamburg) have aroused the interest of many other clubs. As a result, several new deals were signed in 2006 with European first league football clubs in the United Kingdom (Manchester United, Coventry City, Aberdeen, Everton), Norway (Ullevall), France (FC Nantes) and Italy (Lecce, Bergamo, Napoli, Mantova). Other projects are also under discussion for 2007.

In Italy, where SkiData holds a strong position in the stadium segment, the new security measures imposed by the government at the beginning of 2007 will require numerous stadiums to review their installations and especially their physical access control systems. Various projects are under discussion in this respect as well.

In England, a system has been installed to manage visitors' access to the prestigious Ascot racecourse.

In North America, SkiData was chosen for the installation of a contactless access system for the venues hosting the Hawaii Winter Baseball, a prestigious professional baseball league event. The installation consists of an integrated solution that includes People.Gate readers and has the ability to read cards based on Sony's FeliCa technology – a very common mobile payment and ticketing technology in Asia. In the stadium segment, electronic access systems are not very widespread in North America, and this project represents a key reference for a further penetration of this market.

Also in the United States, SkiData will equip the site of the Houston Ballet (Texas) with a Handshake solution.

Ski

The year 2006 marked the arrival of SkiData on the South Korean market, with the installation of an access management solution for Kangwon Land, a vast complex that includes a ski resort, hotels, casinos and theme parks. SkiData is providing a solution integrating with the existing systems at the points of sale and enabling the management of access to all the activities offered throughout the resort. As Kangwon Land is a landmark resort in South Korea, the SkiData solution has already aroused the interest of other Korean operators.



Kangwon Land, South Korea

The domain of Madonna di Campiglio in Italy, which hosted the World Ski Championship, chose SkiData as supplier of an access solution which includes a ticketing service integrated with Italy's principal issuer of credit cards, CartaSi. An identical system has also been adopted by the operator Promotur in the Friuli region. Users can charge their ski pass to their credit card, either by SMS or at a sales office. The popularity of these new solutions both with operators and the public has led other resorts to follow suit; as a result, several new Italian projects are planned for 2007.

In Germany, SkiData was chosen to supply access solutions to the Allgäu region, one of Europe's key ski regions which includes fifteen operators. The initial phase of the project began at Ski Pool Oberstaufen. The system will include a guest card allowing visitors to access various services, including ski lifts and public transport. The SkiData solution will manage the accurate distribution of revenues among all operators.

Sites and events

In China, the Shanghai branch of the London-based Madame Tussaud's wax museum opted for a SkiData solution to manage access to its amusement park in the center of Shanghai. SkiData is already well established on the Chinese market with systems installed at the Beijing Fair/China International Exhibition Center, the China Tennis Open and the Gong Ti Stadium (People's Stadium) in Beijing.

In the Middle East/Africa region, important projects are in preparation for 2007. SkiData already enjoys a strong presence on these markets with access solutions installed at the Dubai Sunny Mountain Skidome as well as the Wild Wadi Water Park in Dubai.

In Italy, a system has been installed to manage access to the different sites and attractions in and around the Duomo of Florence (church, museum, towers).

In addition, a SkiData solution has been chosen to manage access for the 2007 Cricket World Cup in the Caribbean.

polyright

Securitas Group takes a stake in polyright

In January 2007, the Swiss Securitas Group, a world leader in physical security, and the Kudelski Group announced the signature of an agreement on the acquisition by Securitas of a 50% stake in the capital of polyright SA. The alliance will give polyright access to its new shareholder's first-rate sales, distribution and after-sales service network. The objective is to reinforce polyright's market leadership and intensify its business activity both in Switzerland and abroad.

polyright is specialized in the development and commercialization of the market's most advanced multifunctional smartcard-based management system. This platform is especially designed for applications in the fields of education (universities, schools), health (hospitals, clinics) and business (corporations). Using a single smart card, polyright solutions enable the integrated management of all functions linked to security, time management and electronic-wallet payments (cafeterias, restaurants, photocopiers, printers, vending machines, etc.). The partnership with Securitas will further strengthen security modules.

Prestigious schools and universities (EPFL, Universities of Fribourg, Neuchâtel and Bern), clinics (Hirslanden Group, Genolier) and international corporations (Merck Serono, Philip Morris International, Eaton) are among polyright's customers. polyright also provides access systems to some international events such as the Strategic Arab Forum in Dubai.

Nagra Audio

An evolution in line with a prestigious career



Nagra Audio

Audio is the historical activity of the Kudelski Group. Initially focused on portable recorders reserved for professionals, today it also embraces a complete range of hi-fi equipment aimed at audiophiles.

In 1951, the invention of the first Nagra portable recorder was a revolution for audio professionals and conferred a mythical status on the brand. The spirit of this invention has been perpetuated over the years through equipment that, generation after generation, represented the summit in their technology. The many prestigious prizes awarded to the Nagra recorders – including two Oscars and one Emmy Award – attest to this exceptional record that makes Nagra one of the most respected names in the audio world.

Professional line

The rise of digital has considerably modified the conditions in which audio has evolved during the last fifteen years.

The difference between professional and mass-market equipment has been reduced as much for the level of performance and functions as for the price. Digital equipment is characterized by greater mechanical simplicity and can be miniaturized more easily. Production costs are also lower.

Nagra took advantage of this evolution to adapt its strategic and technical approach. The brand has worked especially on its cost structure and has developed a new generation of products offering maximum performance at an optimized price. Quality continues to be of primary importance for Nagra both in terms of product design and after sales service. Nagra has more than 40 distributors throughout the world, many of whom have represented the brand for several decades.

Nagra owners know that they can count on the robustness of their machines, while in this sector equipment often becomes obsolete within a few months. Thanks to the information and software updates made available on Nagra's website – www.nagraaudio.com – users have a close contact with the company and are able to maintain their devices up to date.

Continuing success of the Ares-M

The miniature recorder Nagra Ares-M illustrates this evolution. Launched in 2005, it has been able, thanks to its attractive price, to enter a market partially occupied by mass-market devices. The Ares-M interests not only radio professionals but also a new class of clients, such as recording enthusiasts, doctors and lawyers, who use it as a high-performance handheld machine. The security sector, for which tailored versions of the recorder are being developed, also represents a new market opportunity.

The sales of the Ares-M have reached unprecedented volumes and allow Nagra to conclude the year 2006 with improved results.

High-end line

Nagra Audio entered the hi-fi sector in 1997 and rapidly became a reference in the high-end segment. This activity contributes today some 30% of the revenues of the division. Along with Europe, the United States and Asia constitute the principal markets of development.

The brand offers a continually increasing range of products. These are built to the same standards as the Nagra professional machines and include the following: two valve preamplifiers, the Nagra PL-P and PL-L, a valve amplifier, the Nagra VPA, transistor amplifiers, Nagra PMA and PSA, a digital/analog converter as well as a range of compact disk players, the Nagra CDP, CDT and CDC, launched at the end of 2006.

Nagra products have received numerous distinctions from the specialized press. In 2006, the Prize for Innovation was awarded to the PMA amplifier by the world's largest consumer electronics exhibition, the CES in Las Vegas.



New Nagra CD player

Promising start for Nagra CD players

The new range of Nagra CD players began its career promisingly with a full order book and a strong interest from the distribution network.

These machines, whose design is typical of the brand, have been welcomed as outstanding equipment by hi-fi journalists, their reviews rating them among the best players ever produced.

Mechanically and electronically, the Nagra CD players inherit numerous developments from professional recorders.



Nagra Ares-M miniature recorder

Partner of the Montreux Jazz Festival

For a long time, Nagra recorders have been used to record the concerts of the Montreux Jazz Festival in Switzerland. Since 2004, this collaboration has taken a new dimension, with an active participation of Nagra in the "Montreux Jazz on Film": a program of concert screenings selected from the vast archives of the Festival.

These high-definition screenings recreate sound conditions close to reality. They are an ideal shop window for Nagra technology and have attracted thousands of Festival participants. This concept was also used for the World-wide Festivals, editions of the Montreux Jazz Festival organized in other cities throughout the world, such as Singapore and Atlanta.

Corporate Governance

Corporate Governance

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange. Unless otherwise mentioned, the information provided in this report reflects the situation as of December 31, 2006.

1. Group structure and shareholders

1.1 Group structure

Kudelski SA has its registered offices in Cheseaux-sur-Lausanne.

The company is structured as a holding company since 1999. Its shares are listed on the SWX Swiss Exchange since August 2, 1999. 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 participations in the Digital Television sector are held directly by Kudelski SA, while the participations 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

See following page.

1.1.2 Listed companies included in the scope of consolidation

Kudelski SA is a Swiss holding company listed on the SWX Swiss Exchange (val. No 001226836/ISIN CH0012268360) with market capitalization at December 31, 2006 of CHF 2 171 310 516. Only bearer shares of Kudelski SA 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 2006 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.

At December 31, 2006

Kudelski family pool

Listed bearer shares	6 702 147
Unlisted registered shares	46 300 000
Voting rights	56.62%
Share capital held	21.82%

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

1.3 Cross-holdings

There are no cross-holdings.

Kudelski SA

Digital TV

Nagravision	100%	NagraCard	100%
Nagra France	100%	NagraStar	50%
Nagra Plus	50%	NagraID	100%
Nagra Trading	100%		
Quative	100%	Leman Consulting	100%
SmarDTV	100%	Nagra Thomson Lic.	50%
Abilis Systems	100%		

Public Access

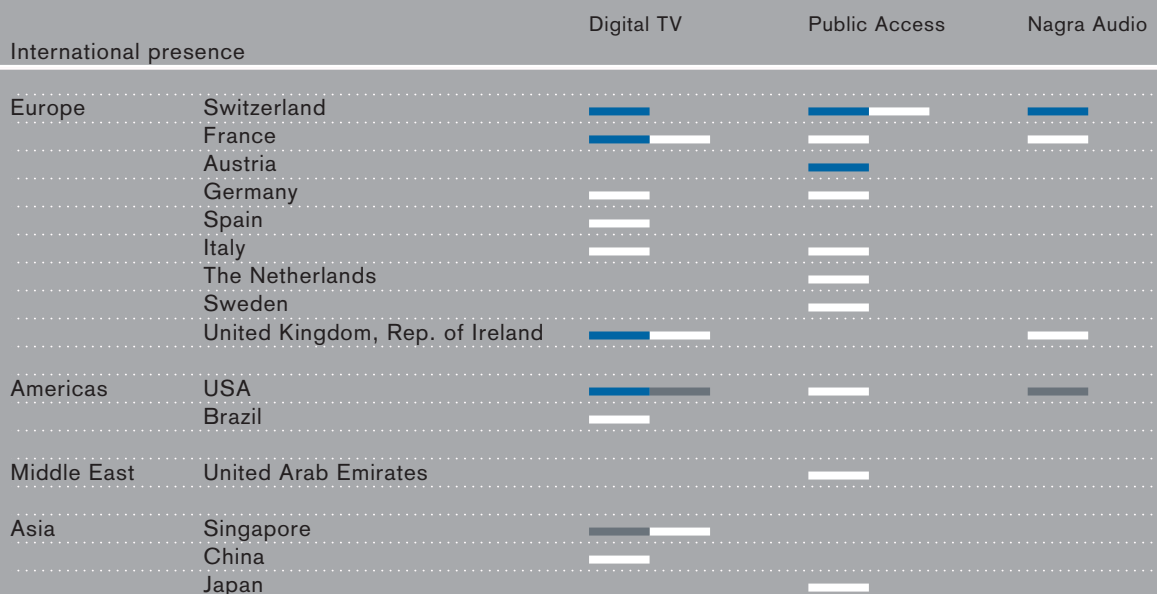
Nagra Public Access

SkiData	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.

* At December 31, 2006, polyright was a fully owned affiliate of Kudelski SA. On January 18th, 2007, the Kudelski Group announced the acquisition by the Securitas Group of a 50% participation in polyright SA.

International presence



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

As of December 31, 2006, the share capital amounts to CHF 519 352 400. It is divided into 47 305 240 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 2, 2008, by a maximum total of CHF 40 881 640 through the issuance 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 companies or parts of companies 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 112 085 160 and is structured as follows:

- A maximum amount of CHF 12 085 160 through the issuance of a maximum of 1 208 516 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

	31.12.06	31.12.05	31.12.04
CHF'000			
Registered share capital	46 300	46 300	46 300
Bearer share capital	473 052	470 529	469 296
Legal reserve	68 629	63 039	60 692
Net profit	72 320	35 182	723
Total available earnings	241 888	187 449	162 622
Total shareholders' equity	829 869	767 317	738 910

Information relating to changes in capital having taken place in 2006, 2005 and 2004 are shown in the Group's corresponding financial statements.

2.4 Shares and participation certificates

The capital of Kudelski SA on December 31, 2006 was made up of 46 300 000 registered shares with a nominal value of CHF 1 and 47 305 240 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.

Kudelski SA does not have participation certificates.

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 share certificate and subject to the approval of the Board of Directors. The latter may refuse to approve the transfer of registered shares in one or several of the following cases:

- a) If there exists valid reason 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 may jeopardize the economic independence of the company. This would in particular be the case if the acquirer can prejudice 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 in his own name and for his own account. If the shares were acquired by succession, division of an estate, marital property law or by debt enforcement, the company may only refuse its consent if it offers to the acquirer to take over the shares at their real value.

In the case of dispute, the real value provided for under this article will be determined by the courts of the seat 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 real value, the offer will be deemed accepted.

Kudelski SA has no regulations concerning nominee registration.

2.7 Convertible bonds and options

Convertible bond

On October 5, 2005, Kudelski Financial Services Holding S.C.A., a wholly owned subsidiary of Kudelski SA, issued a non-subordinated convertible bond of CHF 350 million in order to pursue the aim of the Kudelski Group of actively managing its assets, in particular by optimizing the financial costs and by improving the duration of its financial debt instruments. The proceeds of the issuance were used mainly for the redemption of the previous convertible bond which was issued at the end of January 2002 and the remainder is used for potential acquisitions or other purposes corresponding to the general interest of the Group outside of 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 has been set 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 CH0022692609.

The offering circular for the convertible bond is available upon request at the Kudelski Group headquarters or by e-mail at info@nagra.com.

More information on the convertible bond can be found in the Kudelski Group 2006 financial statements, note 27 to the consolidated financial statements.

Options

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

The following options were distributed (status as at December 31, 2006):

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, pages 47-48.

Share purchase plan

In 2004, the Kudelski Group introduced a share purchase plan for employees of certain companies of the Group, enabling these 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 of the Group in the future.

A chart relating to employees' participation in this plan for the year 2006 is available in the Kudelski Group financial statements pages 47-48.

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 consists of seven 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 Føetisch

Marguerite Kudelski
Since May 2, 2006

Pierre Lescure

Honorary Chairman (since May 2, 2006):
Stefan Kudelski

Secretary to the Board:
Nicolas Gøetschmann
Corporate Secretary (not member)

3.1 Members of the Board of Directors

	Year of birth	Nationality	Executive/ Non-executive
André Kudelski	1960	Swiss	Executive
Claude Smadja	1945	Swiss	Non-executive
Norbert Bucher	1931	Swiss	Non-executive
Laurent Dassault	1953	French	Non-executive
Patrick Føetisch	1933	Swiss	Non-executive
Marguerite Kudelski	1965	Swiss	Non-executive
Pierre Lescure	1945	French	Non-executive

André Kudelski

André Kudelski obtained a degree in physical engineering from the Ecole Polytechnique Fédérale de Lausanne (Federal Institute of Technology of Lausanne) in 1984. He then held the position of R&D Engineer at Kudelski SA and in the 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 to 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 is a member of the Board of the Edipresse Group, Nestlé, HSBC Private Banking Holdings SA (Switzerland) and Dassault Systèmes (France). He is also a member of the Swiss American Chamber of Commerce and of the Committee of economiesuisse.

André Kudelski chairs 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) and Nagra Plus (Chairman and Chief Executive Officer). André Kudelski is also a member of the Supervisory Board of SkiData.

Claude Smadja

Claude Smadja is a graduate in political science 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, he joined the management of the World Economic Forum in 1987, a position that he held 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 is a member of the Board 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 is Deputy Chairman of the Kudelski SA Board of Directors and 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.



André Kudelski



Claude Smadja



Norbert Bucher



Laurent Dassault



Patrick Fœtisch



Marguerite Kudelski



Pierre Lescure

Norbert Bucher

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

Norbert Bucher began his professional career with Sulzer, in Winterthur and New York, then 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.

He is a member of the Kudelski SA Board of Directors since 1992 and of the Audit Committee.

Norbert Bucher is also a member of the Board of Nagra Plus.

Laurent Dassault

Laurent Dassault is a business law graduate and 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 "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 sits on the Board of Directors of Dassault Systèmes (France).

He thus held 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), IPS (Industrial Procurement Services) (1992). He is also Chairman of Midway Aircraft (1992).

Laurent Dassault is a member of the Board of Terramaris SA in Fribourg, Switzerland (1992), the Power Corporation in Montreal, Canada and Assicurazioni Generali SP 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 is a member of the Board of Directors of Renault Finance SA, Lausanne.

He is a member of the Kudelski SA Board of Directors since 1992 and 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: Nagravision (Chairman), NagraCard (Chairman), Nagra Plus (member of the Board), NagraID (Chairman) and polyright (member of the Board). He is also a member of the Supervisory Board of SkiData.

Marguerite Kudelski

Marguerite Kudelski obtained a degree in micro-technical engineering from the Ecole Polytechnique Fédérale de Lausanne (Federal Institute of Technology of Lausanne) in 1991 and a PhD in Microtechnics from the same Institute in 1999. She also graduated with an Executive MBA degree from the IMD in Lausanne in 2006.

From 1991 to 1999, Marguerite Kudelski made her first professional experience at the Laboratory of Electro-mechanics and electrical machines of EPFL working simultaneously as development engineer for the Kudelski Group's Nagra Audio division.

In 1999, she was promoted Head of Research & Development at Précel SA in Neuchâtel (then a Kudelski Group company) and, in 2000, CEO and Board Member of the same company, a position that she held until end of 2002.

After completing a number of projects for NagraID in 2003, she took the responsibility of some key projects for the Kudelski Group within the Finance Department in 2004. She held this position until November 2006.

Marguerite Kudelski is a member of the Board of Directors of Kudelski SA and polyright SA since May 2006. She is also a member of the Audit Committee of Kudelski SA's Board of Directors.

Pierre Lescure

After graduating in literature and journalism and from the Centre de Formation des Journalistes in 1965, Pierre Lescure started his career working with various radio stations (RTL, RMC, Europe 1) and then turned to the television industry. He worked at Antenne 2 as news presenter from 1972. He then returned to the radio industry and became co-editor-in-chief of Europe 1 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 Supervisory 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.

3.2 Other activities and vested interests

Please refer to the individual CVs of the members provided under 3.1 above.

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 (France).

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 organizes itself by appointing a Chairman and a Deputy Chairman. The Secretary may be elected 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
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André Kudelski	1987	02.05.2006	24.05.2007
Claude Smadja	1999	02.05.2006	24.05.2007
Norbert Bucher	1992	02.05.2006	24.05.2007
Laurent Dassault	1995	02.05.2006	24.05.2007
Patrick Fœtisch	1992	02.05.2006	24.05.2007
Marguerite Kudelski	2006	02.05.2006	24.05.2007
Pierre Lescure	2004	02.05.2006	24.05.2007

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 pursuant to the law (Art. 716 CO).

The Chairman is responsible for conducting the discussions at the General Meeting of Shareholders and at Board meetings, informs the members of the Board of the development of the business and the biannual accounts as well as represents the company in respect of administrative and judicial authorities.

The Board of Directors currently consists of seven members, six 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, the management of the company is delegated to the Chief Executive Officer (CEO).

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 interests of the company require 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, which is an advantage 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 plurality of functions 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 of the Board

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 key officers of the company.

It ensures that remunerations are aligned to the level of similar companies in the same sector, as well as in the 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. The 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 ensure the integrity, transparency and quality of such processes. It ensures the compliance of the accounting methods with applicable regulations on the subject and 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 Strategy 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 organization 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		Chairman	
Claude Smadja	Member	Member	Member
Norbert Bucher	Member		
Patrick Fœtisch			Member
Marguerite Kudelski	Member		
Pierre Lescure		Member	Member

Chairman 
Member 

3.5.3 Work methods of the Board of Directors and its Committees

In 2006, the Board and its Committees met as follows:

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

*of which 2 were held with the entire Board.

Average attendance at Board meetings exceeded 90%. Most meetings lasted between 3 and 4 hours. The Board took a three-day trip to the United States to visit NagraStar and the operator EchoStar, a Kudelski Group customer.

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 set out in the By-laws. This document is available on request from the General Secretary of the Kudelski Group.

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

The Board of Directors is informed periodically of the Group's business situation. This information is made available to Board members in various ways:

- The Chief Executive Officer provides the Board, before every meeting of the Board, with reports about the situation of the Group's various entities and activity sectors.
- Members of the Management or experts in specific fields are regularly requested to make presentations about particular topics to the members of the Board.
- The Group has implemented risk management processes enabling the systematic identification of key business risks, their potential impact and proposed measures. The processes cover market, strategic, operational and financial risks. The Board of Directors is periodically informed through presentations of the situation regarding the principal risks incurred by the Group.
- The Controlling Unit provides ad hoc financial and operational analyses 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 continuously 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 a regular review 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 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.

4. Group management

4.1 Group executive management members

Group management consists of the following:

André Kudelski
Chairman and Chief Executive Officer (CEO)

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

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

Alan Guggenheim
Executive Vice President
Chief Executive Officer (CEO) of NagraStar
Until 15th March 2007

Adrienne Corboud Fumagalli
Executive Vice President
Business Development

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

Lucien Gani
General Counsel
Head of Group Legal Affairs

Nicolas Gøetschmann
Corporate Secretary
Director of Group Administration

John Burke
Senior Vice President
Head of Group Human Resources

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 (Federal Institute of Technology of Lausanne) in 1984. He then held the position of R&D Engineer at Kudelski SA and in the 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 to 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 is a member of the Board of the Edipresse Group, Nestlé, HSBC Private Banking Holdings SA (Switzerland) and Dassault Systèmes (France). He is also a member of the Swiss American Chamber of Commerce and of the Committee of *economiesuisse*.

André Kudelski chairs 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) and Nagra Plus (Chairman and Chief Executive Officer).

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, he joined IBM as a commercial engineer in 1977. 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).



André Kudelski



Pierre Roy



Charles Egli



Alan Guggenheim



Adrienne Corboud Fumagalli



Mauro Saladini



Lucien Gani



John Burke



Nicolas Gøetschmann

Since 1999, he managed his own consultancy company and worked in the telecommunications sector while continuing to contribute to strategic projects for Nagravision. In 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 Ascom (Switzerland).

Charles Egli (1948)

Executive Vice President
Chief Executive Officer (CEO), Nagra Public Access
Swiss nationality

Charles Egli holds 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, and then joined Nagravision as project manager. He was appointed Chief Operating Officer of Kudelski SA in 1992, then in 2003 President and Chief Executive Officer of Nagra Public Access and Executive Vice President of the Kudelski Group. Charles Egli has also been CEO of SkiData since September 2004.

Alan Guggenheim (1950)

Executive Vice President and Chief Executive Officer (CEO), NagraStar (until 15th March 2007)
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 French West Indies 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).

He then moved to California and 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 founder and a 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 and Chairman of Nagra USA, Inc. He was appointed Executive Vice President of the Kudelski Group in 2003.

Adrienne Corboud Fumagalli (1958)

Executive Vice President
Business Development
Swiss nationality – Italian nationality since 1993

Adrienne Corboud Fumagalli holds a doctorate in economics and social sciences from the University of Fribourg. She was a researcher, lecturer and consultant in the field of media and information technology policies for various institutions for several years (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.

Mauro Saladini (1966)

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

Mauro Saladini holds a degree in electrical engineering from the ETHZ (Federal Institute of Technology of 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 the Zurich branch of this company 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 was 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.

He joined the Kudelski Group as Chief Financial Officer and Executive Vice President in 2003.

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

Lucien Gani (1948)

General Counsel
Head of Group 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 Berne; 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 worked on his doctorate thesis from 1984 and started his Bar practice training in 1987. He worked as independent lawyer and partner in a law firm in Lausanne since 1990.

Lucien Gani joined the Kudelski Group in January 2006 as General Counsel and Head of Legal Affairs. Before that date, he contributed as an independent lawyer for several years to the Kudelski Group's legal activity, particularly by drafting and negotiating strategic contracts.

Nicolas Goetschmann (1960)

Corporate Secretary
Director of Group Administration
Swiss nationality

Nicolas Goetschmann holds a graduate degree in economics 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.

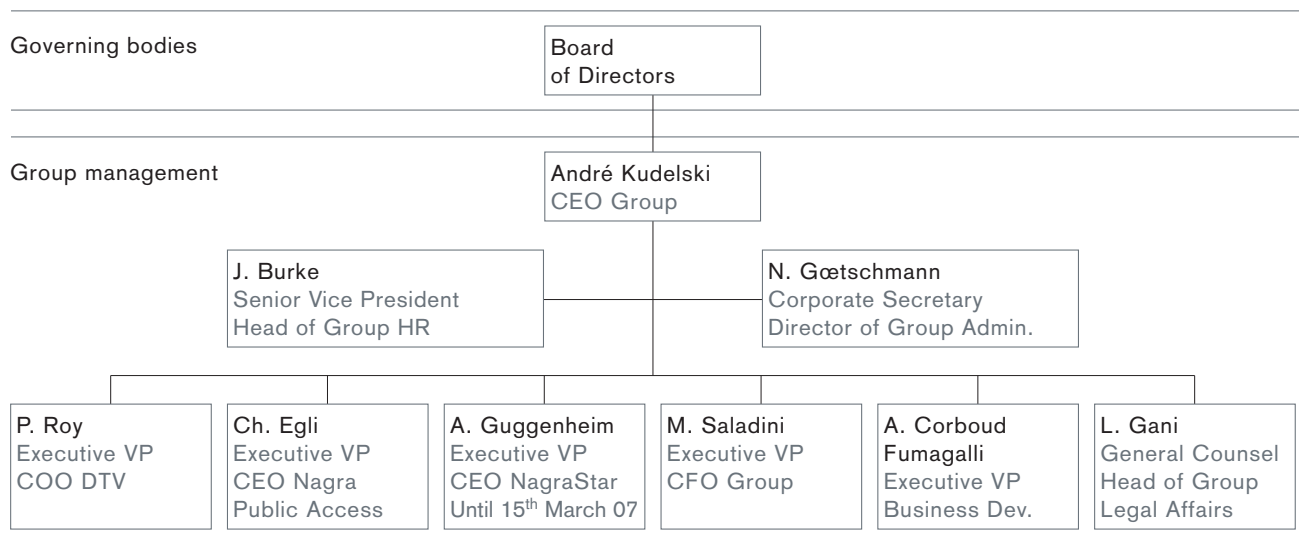
John Burke (1953)

Senior Vice President
Head of Group Human Resources since June 1, 2006
Irish nationality

John Burke graduated in economics and business administration from Trinity College Dublin in 1974.

He started his professional career in marketing with Procter & Gamble International in Geneva in 1977. He was appointed Group Marketing Manager in 1982 with successive assignments in Geneva, Athens, Cincinnati and Madrid. In 1986 he joined RotoVision SA as Commercial Director. He then joined IUCN – The World Conservation Union – as Director of Communications and Corporate Relations in 1991. In 1996 he joined Novartis Consumer Health, initially as global Head of Human Resources & Communications. He was then appointed Global Head of the Medical Nutrition business and member of the Division Executive Committee and subsequently promoted to worldwide Head of Novartis' Nutrition Business Unit. In 2001, he joined the Geneva-based International Federation of Red Cross & Red Crescent Societies as Director of Support Services and in 2004 was appointed Chief Administrative Officer of the Global Fund to Fight Aids, TB and Malaria.

John Burke joined the Kudelski Group in June 2006.



4.2 Other activities and vested interests

Please refer to the individual CVs of the members of the Group management under 4.1 above.

4.3 Management contracts

There were no management contracts in place at Kudelski SA on December 31, 2006.

5. Compensation, 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 the responsibility of determining the remuneration of the 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 fees corresponding to the market rate for the same type of services.

Members of Group management

The global annual remuneration of members of Group management includes a base 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 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 2006 to members of the Board of Directors and/or members of the Group management amounted to CHF 10 637 642.

This sum breaks down as follows: CHF 10 187 476 for the executive member of the Board of Directors and for the members of the Group management and CHF 450 167 for the 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 2006.

5.3 Compensation for former members of governing bodies

A total of CHF 205 020 was paid to a former member of the Group management in 2006.

5.4 Share allotment in the year under review

During the financial year 2006, a total of 147 732 bearer shares of a nominal value of CHF 10 each were allotted to the executive member of the Board of Directors and to the members of the Group management. No shares were allotted to the non-executive members of the Board of Directors.

5.5 Share ownership

The number of Kudelski SA shares held on December 31, 2006 by the executive member of the Board of Directors

and by members of the Group management of Kudelski SA (including the members of the Kudelski family who are not part of the family pool) as well as the parties closely related to such persons was 12 743 031 bearer shares and 46 300 000 registered shares.

Excluding the Kudelski family, the number of Kudelski SA shares held on December 31, 2006 by the other members of the Board of Directors as well as the parties closely related to such persons was 1 198 392 bearer shares.

5.6 Options

The Kudelski Group implemented an option plan in 2003. The situation on December 31, 2006 is as follows:

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

Year of grant: 2003

Number of options	Vesting period	Maturity	Ratio	Exercise price
25 436	01.04.2006	01.04.2007	1 – for – 1	CHF 20
43 960	01.04.2007	01.04.2008	1 – for – 1	CHF 20
43 960	01.04.2008	01.04.2009	1 – for – 1	CHF 20

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

Year of grant: 2003

Number of options	Vesting period	Maturity	Ratio	Exercise price
3 000	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 period	Maturity	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 remuneration

The additional fees (including consulting fees and fees relating to other contracts/agreements) and other remuneration paid by the Kudelski Group for services rendered during the financial year 2006 to members of the Board of Directors and to parties closely related to them were as follows: CHF 318 227 to Mr. Patrick Fœtisch – for himself and the lawyers appointed by him – as legal advisor to the Kudelski Group.

5.8 Loans granted to governing bodies

At December 31, 2006, 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 related 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 2006, the elements are as follows:

- Compensation: CHF 5 461 675 (in cash)
- Share allotment: 115 000 (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 set out in the Swiss Code of Obligations. The Articles of Incorporation are available on the Kudelski Group website under the following link: 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 Calling together of the General Meeting of Shareholders

The statutory rules on the 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.

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 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 2, 2006.

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 880 948 to PricewaterhouseCoopers for auditing services for the year 2006.

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 291 136 to PricewaterhouseCoopers for additional services for the year 2006.

Additional services mean in particular services such as the auditing of punctual 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 risk management.



8.4 Monitoring 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 partner in charge of the Group's audit, 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 website 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 company 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 website is a permanently updated 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 and presence in the main tradeshow) 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
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Kudelski 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.

Its conditional access and content security solutions are currently being used by more than 100 leading pay-TV operators worldwide securing content delivered to over 71 million active smart cards and devices.

Kudelski SA is headquartered in Cheseaux-sur-Lausanne, in Switzerland. Its stock is listed on the SWX Swiss Exchange.

Founded in 1951, the Group currently has more than 2 200 employees worldwide (including OpenTV), of whom close to 600 are located on the Cheseaux site.

Digital TV

Nagravision

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



Nagra France/MediaGuard

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).



OpenTV

Middleware solutions enabling advanced digital television services including interactive television and interactive and addressable advertising. Part of the Kudelski Group since January 2007.



Nagra Plus

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



SmarDTV

Removable Conditional Access Modules (CAM) for digital TV access on digital devices.



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.



Abilis Systems

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



NagraID

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



Nagra Trading

Management of the Kudelski Group's set-top box activity.



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.

Public Access

SkiData

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



polyright

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



Audio

Nagra Audio

Portable digital recorders for professionals; products in the high-end hi-fi sector.



Historical overview

1951

Launch 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 to 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 MSCI (Morgan Stanley Capital International).

2001

The Group makes several acquisitions in the public access sector (SkiData, 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

After a ten-year period of uninterrupted growth, the Kudelski Group suffers from the impact of the crisis in the television market, particularly in Europe, and of unfavorable developments in the foreign exchange markets.

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

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

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 is again in the black.

Sale of majority stake of Ticketcorner.

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

2006

The Group publishes record financial results.

The Group becomes a leader in middleware and interactivity for digital TV with the acquisition of a controlling interest in OpenTV (finalized in January 2007).

Acquisition of the Digital TV activity of SCM Microsystems resulting in the creation of SmarDTV.

Massive consumer acceptance of new solutions such as IPTV and mobile TV solutions.

Strong growth in profitability for Nagra Public Access.

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