

Message from the President

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

André Kudelski