

# Financial statements of Kudelski SA

## Notes to the financial statements

### 1. General Comments

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies. The financial statements are presented in accordance with the requirements of the Swiss Code of Obligations. They are also prepared under the historical cost convention and on the accrual basis.

### 2. Accounting Policies

#### Financial fixed assets

Investments and loans to Group companies are accounted for at acquisition cost less adjustment for impairment of value.

#### Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits. Cash at bank consists of all funds in current accounts available within 48 hours. Short-term deposits generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

#### Exchange rate differences

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss it is charged to the income statement, whilst a net gain is deferred.

### 3. Notes to the balance sheet

#### 3.1 Intangible fixed assets

This item includes brands registered by the Group as well as the capitalization of software licenses.

#### 3.2 Investments

Company	Place of incorporation	Activity	Share Capital	% held 2005	% held 2004
Nagravision SA	CH Cheseaux	Solutions for Digital TV and audio products	kCHF 12 000	100	100
NagraCard SA	CH Cheseaux	Secure smart cards	kCHF 100	100	100
Lysis SA	CH Cheseaux	No activity	kCHF 100	100	100
Nagravision Iberica SL	ES Madrid	Sales and support Digital TV	kEUR 3	100	100
Nagra France Sàrl	FR Paris	Solutions for Digital TV and audio products	kEUR 32 833	100	100
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	kGBP 1	100	100
Nagravision GmbH	DE Hildesheim	Services	kEUR 25	100	100
Nagra USA, Inc.	US Nashville	Sales and support	kUSD 10	100	100
Nagra Public Access AG	CH Zug	Holding in Public Access	kCHF 15 000	100	100
Nagra Plus	CH Cheseaux	Analog TV	kCHF 2 000	50	50
NagraID SA	CH Chaux-de-Fonds	Smart card production	kCHF 4 000	100	100
MediaCrypt AG	CH Zurich	Fundamental scrambling technology	kCHF 1 000	50	50
Kudelski Financial Services Holding SCA	LU Luxemburg	Finance	kCHF 37 050	100	100
Kudelski Luxembourg Sàrl	LU Luxemburg	Finance	kEUR 13	100	100
Leman Consulting SA	CH Nyon	Intellectual property consulting	kCHF 100	100	100
Nagravision Asia Pte Ltd	SG Singapore	Services	kSGD 100	100	100
Kudelski Malaysia SDN. BHD.	MA Kuala Lumpur	Services	kMYR -	100	100
Abilis Systems Sàrl	CH Plan-les-Ouates	Research & development for mobile phones	kCHF 20	70	-
Nagravision (Shanghai) Technical Services Co., Ltd	CN Shanghai	Software integration for Digital TV	kUSD 200	100	-
Quative Ltd	UK London	IPTV Solutions	kGBP 1	100	-
Nagra Travel Sàrl	CH Cheseaux	Travel agency	kCHF 50	100	100
Acetel Co Ltd	SK Seoul	Digital broadcasting solution provider	kKRW 1 460	15	-
Thema SAS	FR Paris	Worldwide brokerage of thematic channels	kEUR 46	10	-

#### 3.3 Other receivables

	31.12.2005	31.12.2004
in CHF'000		
Other accounts receivable	873	592
Prepaid expenses and accrued income	60	34
Withholding tax	347	260
	<b>1 280</b>	<b>886</b>

### 3.4 Cash and cash equivalents

	31.12.2005	31.12.2004
in CHF'000		
Cash at bank and in hand	1 157	11 508
Short-term deposits	134 670	67 351
	<b>135 827</b>	<b>78 859</b>

### 3.5 Change in shareholders' equity

	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
in CHF'000					
<b>As of December 31, 2003</b>	<b>514 949</b>	<b>59 000</b>	<b>380</b>	<b>162 036</b>	<b>736 365</b>
General reserve allocation		137		-137	-
Share capital increase	647	1 175			1 822
Net income				723	723
<b>As of December 31, 2004</b>	<b>515 596</b>	<b>60 312</b>	<b>380</b>	<b>162 622</b>	<b>738 910</b>
General reserve allocation		36		-36	-
Dividend				-10 319	-10 319
Share capital increase	1 233	2 311			3 544
Net income				35 182	35 182
<b>As of December 31, 2005</b>	<b>516 829</b>	<b>62 659</b>	<b>380</b>	<b>187 449</b>	<b>767 317</b>

#### Treasury shares

	Number of bearer shares	Book value
in CHF'000		
<b>As of December 31, 2004 and December 31, 2005</b>	<b>20 155</b>	<b>380</b>

No transaction occurred during the last two financial years.

Treasury shares are capitalized at the cost of acquisition or the stock market price, whichever is lower.

In compliance with Article 659 a para 2 of the Swiss Code of Obligations, the company allocated a total corresponding to the acquisition value of treasury shares to a separate reserve.

#### Composition of share capital

	31.12.2005	31.12.2004
in CHF'000		
47 052 914/46 929 580 bearer shares, at CHF 10 each	470 529	469 296
46 300 000 registered shares at CHF 1 each	46 300	46 300
	<b>516 829</b>	<b>515 596</b>

The Bearer Shares have been listed on the main market of the SWX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360) and traded on virt-x since 2001. They are included in the SMI (Swiss Market Index) since October 1, 2000. The Registered Shares are not listed nor traded on any stock exchange.

**Financial statements of Kudelski SA**  
Notes to the financial statements

Conditional share capital (Article 6 of Articles of Incorporation)

	31.12.2005	31.12.2004
in CHF'000		
Conditional share capital as of January 1	68 342	68 988
Increase of conditional share capital	47 500	
Employee Share purchase plan	-105	-126
Shares allotted to employees	-1 128	-520
<b>Conditional share capital at December 31</b>	<b>114 609</b>	<b>68 342</b>

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 million, through the issue of 10 million bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries.

Furthermore, the ordinary 2005 General Assembly approved an increase of the conditional share capital for the exercise of options or the subscription of shares by employees up to a maximum amount of CHF 15 841 760 consisting of 1 584 176 bearer shares of a nominal value of CHF 10.

Authorized share capital (Article 7 of Articles of Incorporation)

	31.12.2005	31.12.2004
in CHF'000		
3 768 164 / 3 768 164 bearer shares, at CHF 10 each	37 682	37 682
3 200 000 registered shares at CHF 1 each	3 200	3 200
<b>Authorized share capital as of December 31</b>	<b>40 882</b>	<b>40 882</b>

The Board of Directors is authorized to increase the share capital in one or more stages until May 26, 2006 for the purpose of acquiring companies or parts of companies.

Major shareholders

	Voting rights 31.12.2005	Voting rights 31.12.2004	Shareholdings 31.12.2005	Shareholdings 31.12.2004
Kudelski Family Pool	57%	64%	22%	34%

3.6 Provision

The provision on sale of an investment is a tax-free reserve arising from a gain realized from the transfer of Nagrastar LLC to Nagra USA Inc. as of January 1, 1999. It can be dissolved with no tax impact on December 31, 2006 in accordance with article 207a LIFD.

3.7 Short-term provisions

This item records the unrealized exchange gains on loans from/to affiliated companies in foreign currency. It amounts to kCHF 0 as of December 31, 2005 (December 31, 2004: kCHF 12 395).

## 4. Notes to the income statement

### 4.1 Financial income

	2005	2004
in CHF'000		
Dividends received from Group subsidiaries	36 500	450
Interest income third parties	1 971	1 047
Interest on loans to Group subsidiaries	9 854	3 353
Net currency exchange gains	19 959	2 225
Other income	57	151
	<b>68 341</b>	<b>7 226</b>

### 4.2 Administrative and other expenses

	2005	2004
in CHF'000		
Administrative expenses	-4 912	-3 923
Taxes other than income tax	-1 018	-1 270
	<b>-5 930</b>	<b>-5 193</b>

### 4.3 Financial expenses

	2005	2004
in CHF'000		
Interest on loans from Group subsidiaries	-550	-857
Interest expenses	-16	-18
	<b>-566</b>	<b>-875</b>

### 4.4 Impairment of financial fixed assets

	2005	2004
in CHF'000		
Reversal of/(allocation to) provisions on Group investments and loans	-27 367	13 445
Reversal of provision on third party loan	775	
Impairment of other long-term investments	-	-10 427
Value adjustment on marketable securities and others	10	-190
	<b>-26 582</b>	<b>2 828</b>

### 4.5 Losses on sales of equity interests

2004 losses on the realization of financial fixed assets are due to the sale of Logiways.

## 5. Commitments and contingencies

in CHF'000	31.12.2005	31.12.2004
<b>Guarantee commitments</b>		
Guarantees for the repayment of the capital and interest of the convertible bond	350 000	199 745
Commitment in favor of third parties	21	–
Deposits and guarantees in favor of third parties	1 600	1 600
Guarantees for a commitment of a subsidiary	866	–
	<b>352 487</b>	<b>201 345</b>
<b>Other commitments</b>		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.