

Notes to the financial statements 2006

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.

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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	Location	Activity	Share capital	% held 2006	% held 2005
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 Pay-TV solutions	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	M	50
Nagra Trading SA	CH Cheseaux	Trading of set-top-boxes	kCHF 100	100	0
SmarDTV SA	CH Cheseaux	Chipsets for iDTV and conditional access modules	kCHF 1 000	100	0
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	kCHF 37 050	100	100
Kudelski Luxembourg Sàrl	LU Luxembourg	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	70
Nagravision Shanghai Technology	CN Shanghai	Software integration for Digital TV	kCNY 1 619	100	100
Quative Ltd	UK London	IPTV Solutions	kGBP 1 000	100	100
TESC Test Solution Center GmbH	DE Munich	Services	kEUR 25	25	-
Nagravision Italy Srl	IT Milan	Services	kEUR 10	100	-
Nagra Travel Sàrl	CH Cheseaux	Travel agency	kCHF 50	100	100
Acetel Co Ltd	SK Séoul	Digital broadcasting solution provider	kKRW 1 460	15	15
Thema SAS	FR Paris	Worldwide brokerage for existing audio-visual thematic channels	kEUR 46	10	10

M: merged company.

3.3 Other receivables

	31.12.2006	31.12.2005
In CHF'000		
Other accounts receivable	615	873
Prepaid expenses and accrued income	1 337	60
Withholding tax	444	347
	2 396	1 280

3.4 Cash and cash equivalents

	31.12.2006	31.12.2005
In CHF'000		
Cash at bank and in hand	2 411	1 157
Short-term deposits	116 932	134 670
	119 343	135 827

3.5 Change in shareholders' equity

	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total shareholders' equity
In CHF'000					
As of December 31, 2004	515 596	60 312	380	162 622	738 910
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
As of December 31, 2005	516 829	62 659	380	187 449	767 317
General reserve allocation		2 341		-2 341	-
Dividend				-15 540	-15 540
Share capital increase	2 523	3 249			5 772
Net income				72 320	72 320
As of December 31, 2006	519 352	68 249	380	241 888	829 869

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Treasury shares

Number of
bearer shares Book value
in CHF'000

As of December 31, 2005 and December 31, 2006	20 155	380
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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

31.12.2006 31.12.2005

In CHF'000

47 305 240/47 052 914 bearer shares, at CHF 10 each	473 052	470 529
46 300 000 registered shares at CHF 1 each	46 300	46 300
	519 352	516 829

The Registered Shares are not listed nor traded on any stock exchange. 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). They are included in the SMIM (Swiss Market Index Mid-Cap).

Conditional share capital (article 6 of Articles of incorporation)

2006 2005

In CHF'000

Conditional share capital as of January 1	114 609	68 342
Increase of conditional share capital	-	47 500
Employee share purchase plan	-47	-105
Exercise of options	-778	-
Shares allotted to employees	-1 699	-1 128

Conditional share capital at December 31	112 085	114 609
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Of which may be utilized as of December 31 for:		
- convertible bonds		
10 000 000 bearer shares, at CHF 10 each	100 000	100 000
- options or share subscriptions to employees		
1 208 516/1 460 842 bearer shares, at CHF 10 each	12 085	14 609
	112 085	114 609

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 10 000 000 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 options exercises or share subscriptions to employees up to a maximal 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)

In CHF'000	31.12.2006	31.12.2005
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
Authorized share capital as of December 31	40 882	40 882

The Board of Directors is authorized to increase the share capital in one or more stages until May 2, 2008, for the purpose of acquiring companies or parts of companies.

Major shareholders

In CHF'000	Voting rights 31.12.2006	Voting rights 31.12.2005	Share- holdings 31.12.2006	Share- holdings 31.12.2005
Kudelski Family	57%	57%	22%	22%

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 on January 1, 1999. It can be dissolved with no tax impact on December 31, 2006 in accordance with article 207a LIFD. It has been released against income statement in 2006 for an amount of kCHF 1 856.

4. Notes to the income statement**4.1 Financial income**

In CHF'000	2006	2005
Dividends received from Group subsidiaries	69 950	36 500
Interest income third parties	2 654	1 971
Interest on loans to Group subsidiaries	11 651	9 854
Net currency exchange gains	-	19 959
Other income	-	57
	84 255	68 341

4.2 Gain on sale of investment

Following the purchase of the remaining 50% of Mediacypt, Kudelski SA sold the 100% of the company to another Group company and merged it. This transaction resulted in a gain of kCHF 300.

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4.3 Administrative and other expenses

	2006	2005
In CHF'000		
Administrative expenses	-4 314	-4 912
Taxes other than income tax	-1 415	-1 018
	-5 729	-5 930

4.4 Financial expenses and exchange results

	2006	2005
In CHF'000		
Net currency exchange losses	-1 076	-
Interest on loans from Group subsidiaries	-255	-550
Interest expenses	-19	-16
	-1 350	-566

4.5 Impairment of financial fixed assets

	2006	2005
In CHF'000		
Reversal of/(allocation to) provisions on Group investments and loans	-6 967	-27 367
Reversal of provision on third party loan	-	775
Value adjustment on marketable securities and others	-	10
	-6 967	-26 582

5. Commitments and contingencies

	31.12.2006	31.12.2005
In CHF'000		
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	350 000	350 000
Commitment in favor of third parties	48 800	21
Deposits and guarantees in favor of third parties	1 600	1 600
Guarantees for a subsidiary commitment	866	866
	401 266	352 487
Other commitments		
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.