

Kudelski Group
Interim report
January/June 2005



2005 Interim report Kudelski Group

Message to shareholders

Dear Madam,
Dear Sir,

Over the last two years, the Kudelski Group has made significant progress, strengthening its market presence and expanding into new segments. The Group's performance in the first half of 2005 is the result of this development, particularly in the digital television sector.

The Kudelski Group achieved an excellent first semester 2005, driven by strong growth of the digital TV activities. Total revenue reached CHF 330 M, EBIT CHF 56,3 M and net profit CHF 48,4 M. Once more the Group achieved record half-year results.

The outstanding development of the digital TV business in Europe was also enabled by the introduction of new concepts and new technologies. In particular, the Group has achieved a strong positioning in the following areas :

- the newly developed digital terrestrial TV markets in Italy, in France and in the UK, with innovative solutions such as time-limited, pre-paid cards ;
- innovative secure IPTV (TV over the Internet) projects in France, Germany and Spain ;
- the basic encryption suite addressing the mass market in Germany ;
- high value-added solutions such as the DVR (Digital Video Recorder) deployed among others at Premiere in Germany.

The European digital TV market is fast-moving and creative despite a rather weak economic environment. Europe has often been a pioneer in the field of digital and pay TV, giving birth to a number of innovative projects such as direct-to-home satellite television broadcasting. Today, the economic health of the TV sector is materially stronger than ten years ago. The sector was thoroughly restructured and now includes several profitable operators focusing on their core business.

In America, the Group's digital TV business delivered a strong growth thanks to the combined effect of organic growth and smart card swaps at EchoStar and Bell ExpressVu. In addition to the excellent development of our two main customers in North America, further interesting new projects are in the pipeline and should contribute to the Group's expansion as from 2006.

Asia is the only region where digital TV business did not meet our expectations, particularly due to a weak subscriber growth - except for a few operators in Malaysia,

Hong Kong and Singapore. This situation reflects the continent's development diversity with markets showing various degrees of maturity. While cities such as Hong Kong already benefit from the most advanced infrastructure, other regions are only at the beginning of the digital cycle. The situation should evolve positively over the next few semesters but material contributions are still some time ahead.

Public Access is undergoing a major restructuring. While first half results start to show an initial positive effect, the main impact of the reduction of production costs is expected in the second half. In the meantime, the following key developments are taking place :

- SkiData won a few strategic deals in the first half of 2005, including one of the world's largest ski resorts, Les 3 Vallées in France (that includes Courchevel, Méribel and Val Thorens, among others) ;
- SkiData launched several R&D projects, including in particular the new "Freemotion" handsfree access gate that was very well received by customers and users ;
- sales efforts in America and in Asia start to gain momentum ;
- in order to allow Nagra Public Access to better focus on its core access control business, we expect to sell Ticketcorner to a third party committed to develop the company internationally.

In addition to its innovation capabilities and its know-how in the development of most advanced technological solutions, the Group's fundamental strength lies in its short reaction time in addressing market needs with specific - local as well as global - expertise.

The Kudelski Group has always striven to be present on all continents to limit the impact of a potential local crisis and thus ensure a reasonable level of stability.

The Kudelski Group has delivered very strong 2005 half year results and expects excellent full 2005 fiscal year figures. These financial results demonstrate that the right choices were made in the past. Today we are striving to make the right investments to continue to ensure the Group's future growth and profitability.

André Kudelski

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Key figures - first half-year 2005

	January/June 2005 unaudited	January/June 2004 unaudited	in %
in kCHF			
Total revenues	330 154	275 173	20.0%
Margin after cost of material sold	223 951	192 595	16.3%
Margin after cost of material sold in % of total revenues	67.8%	70.0%	
OIBDA, Operating income before interest, taxes, depreciation and amortization	77 675	51 519	50.8%
OIBDA in % of total revenues	23.5%	18.7%	
EBIT, operating income	56 279	35 084	
EBIT in % of total revenues	17.0%	12.7%	
Net income	48 443	22 783	
Earnings per share (in CHF)			
- Basic	0.94	0.44	
- Diluted	0.94	0.44	

	30.06.2005 unaudited	31.12.2004 audited	in %
in kCHF			
Shareholders' equity including minority interest	329 020	302 784	8.7%
Cash and cash equivalents	280 896	198 897	41.2%
Market capitalization *	2 420 325	2 155 190	
Share price (in CHF)	46.90	41.80	

* Bearer shares and nominative shares are included in the calculation of the market capitalization.

Activity in the first half of 2005

Introduction

In the first half of 2005, the Kudelski Group delivered the best ever first semester in its history. The Group maintained its strong historical revenue growth trend, with a 20% revenue increase in the first half 2005 compared to the first half of last year, in line with the compounded annual growth rates delivered in the first half of the time period between 2001 and 2005.

Total revenues for the first half of 2005 have reached CHF 330.2 M. Digital TV contributed most of the growth, increasing from CHF 205.1 M to CHF 258.2 M, a 25.9% growth compared to the first half of last year. The swap out of 4 M cards at EchoStar, 0.8 M at Bell ExpressVu and 1.4 M at Digital+ as well as the system roll-out and the subsequent deployment of prepaid cards at Mediaset strongly contributed to the growth of our digital TV business.

EBIT came in at CHF 56.3 M, up by over 60% from the first half of last year. In relative terms, the Group EBIT margin was at 17%, the best ever result.

Break-down by region for digital TV

In Europe, digital TV sales further substantiated the positive momentum of the previous semesters, with an increase of 32% from CHF 87.9 M to CHF 115.8 M. In the first half of 2003, European sales were at CHF 34.5 M. Within two years, we therefore more than tripled the size of our European business, significantly extending our footprint to cover, among others, major operators such as CanalSat in France, Premiere, KDG, Iesy, Ish, and Kabel-BW in Germany, Sogecable in Spain, Mediaset in Italy and TopUp TV in the UK. In particular, the Group is setting the industry innovation standard in the emerging terrestrial market.

Sales in the Americas were positively influenced by the swap outs at EchoStar and Bell ExpressVu. In the first half of the year, the Group achieved CHF 114.5 M sales, up 40% from last year's first half, or 55% in local currency.

Asian net sales were at CHF 21.9 M, down from CHF 28.0 M in the first half of 2004. While the revenue mix is shifting towards more value-added products, including in particular recurring smart card related revenues, deployments are, with a few exceptions, still moderate.

Group profitability

Margin after cost of material sold was up from CHF 192.6 M to CHF 224 M, a 16.3% increase. In percentage terms, the margin is down two points due to a temporarily modified product mix in digital TV.

Personnel expenses are up by CHF 13 M reflecting the ongoing strengthening of the Group's investments in strategic R&D functions. Most of the increase took place in the second half of last year with a 10.6% increase. In the first half of this year, personnel expenses increased by 4.3% compared to the second half of last year.

Operating expenses and sales and administration costs are down CHF 2.2 M respectively CHF 3.6 M compared to the first half of last year, reflecting the positive impact of an efficient cost control.

Overall, this results in an OIBDA of CHF 77.7 M, up by CHF 26.2 M from the first half of last year. Total depreciation and amortization is at CHF 21.4 M. As a result, EBIT is up from CHF 35.1 M to CHF 56.3 M, a 60.4% increase, hence reaching the highest level in the history of the Kudelski Group.

Net income more than doubled to CHF 48.4 M compared to CHF 22.8 M in the first half of last year.

Basic and diluted EPS are at CHF 94 cents compared to the CHF 44 cents of last year's period.

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Activity in the first half of 2005

Results by segment

The digital TV segment maintains the strong momentum of the previous year. Total revenues are up 25.9% to CHF 258.2 M. OIBDA increases by 37.9% from CHF 65.8 M to CHF 90.7 M and EBIT increases from CHF 53.4 M to CHF 73.5 M.

Public Access total revenues are up CHF 1.9 M to CHF 72 M, due to higher sales in the Americas and in Asia. Public Access OIBDA and EBIT, on the other hand, are increasing respectively by CHF 3.7 M and CHF 3.6 M compared to the first half of last year, reflecting the initial results of the ongoing cost reduction program.

Balance sheet

Total fixed assets are at CHF 203.5 M, a 4.2% increase compared to the end of 2004. This mainly reflects a CHF 12 M increase in building under construction.

Working capital is further optimized, with inventory down CHF 17.4 M due to the deployment of the year-end stock that was established for the early 2005 smart cards swaps. Trade account receivables were materially reduced by CHF 50.1 M and other receivables are also down by CHF 2.1 M. Days Sales Outstanding for the Digital TV unit are now at 62 days, a historical low for the Group.

The combined effect of a strong operational performance and of a closely controlled working capital management led to a cash balance increase of CHF 82.0 M to CHF 280.9 M.

In the reporting period, the Group bought back an additional USD 15 M of the outstanding convertible bond, reducing the balance to USD 157.9 M. The increase of the USD balance sheet exchange rate from CHF 1.14 to CHF 1.28, however, led to an increase of the total convertible bond liability of CHF 6.4 M to CHF 206.1 M.

Cash flow statement

In the first half of 2005, the Group generated a net cash from operating activities of CHF 147.3 M, reflecting the outstanding operational performance of the Digital TV business and the strong working capital management. This compares to CHF 53.3 M in the first half of last year and CHF 3.2 M in the first half of 2003.

Outlook

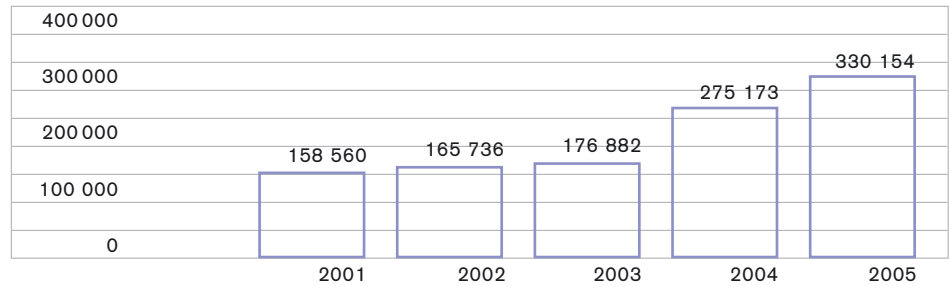
Business outlook for the second half of the year is favorable.

With the completion of significant swap out projects in the first half, we expect an atypical reversed seasonality with digital TV revenues front loaded towards the first half.

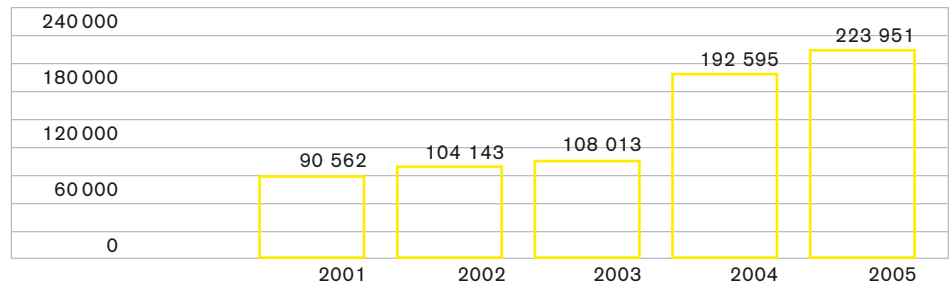
Public Access, on the other hand, is expected to follow the historical seasonality patterns, with a material revenue growth in the second half compared to the first half and a positive contribution margin.

5 years comparison January/June

Total revenues



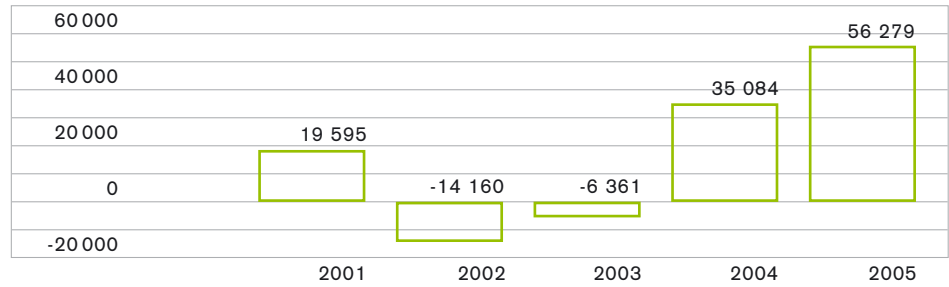
Margin after cost of material sold



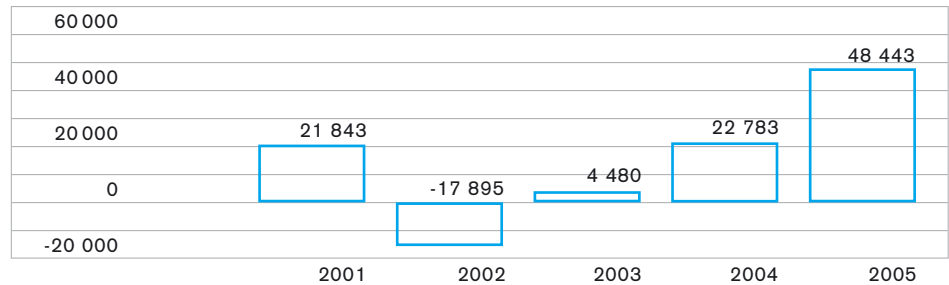
OIBDA



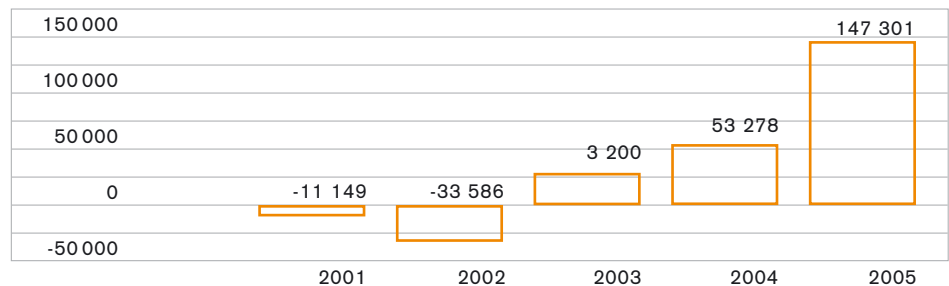
EBIT



Net income



Net cash from operating activities



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Consolidated balance sheets

Assets	30.06.05 unaudited	31.12.04 audited	Variation	in %
in kCHF				
Fixed assets				
Intangible fixed assets	42 349	41 105		
Financial fixed assets	25 424	24 985		
Tangible fixed assets				
Land and buildings	54 233	39 980		
Fixtures and fittings	81 473	89 142		
Total fixed assets	203 479	195 212	8 267	4.2%
Current assets				
Inventories	53 574	70 995		
Work in progress	7 356	5 120		
Trade accounts receivables	119 994	170 044		
Other receivables	50 198	52 328		
Marketable securities	9 616	8 776		
Cash and cash equivalents	280 896	198 897		
Total current assets	521 634	506 160	15 474	3.1%
Total assets	725 113	701 372	23 741	3.4%

Shareholders' equity and liabilities	30.06.05 unaudited	31.12.04 audited	Variation	in %
in kCHF				
Shareholders' equity				
Share capital	516 062	515 596		
Share premium and reserves	-211 415	-234 533		
Total shareholders' equity, Group's interest	304 647	281 063	23 584	8.4%
Minority interests	24 373	21 721		
Total shareholders' equity	329 020	302 784	26 236	8.7%
Long-term liabilities				
Convertible bond	206 126	199 745		
Provisions	9 880	9 527		
Other long-term debt	11 809	12 625		
Total long-term liabilities	227 815	221 897	5 918	2.7%
Current liabilities				
Bank overdrafts	22 137	23 326		
Trade accounts payables	65 757	71 566		
Advances received from clients	10 064	5 130		
Short-term provisions	10 108	16 468		
Accrued liabilities and other payables	60 212	60 201		
Total current liabilities	168 278	176 691	-8 413	-4.8%
Total liabilities	396 093	398 588	-2 495	-0.6%
Total shareholders' equity and liabilities	725 113	701 372	23 741	3.4%

Consolidated income statements (unaudited)

in kCHF	January/June 2005	January/June 2004	Variation	in %
Sales	323 501	267 406		
Capitalized developments and installations	6 653	7 767		
Total revenues	330 154	275 173	54 981	20.0%
Cost of goods and components sold	-106 203	-82 578		
Margin after cost of material sold	223 951	192 595	31 356	16.3%
Salaries and wages	-97 857	-84 829		
Operating expenses	-19 936	-22 137		
Sales and administration costs	-28 890	-32 512		
Change in provisions	407	-1 598		
OIBDA, operating income before interest, taxes, depreciation and amortization	77 675	51 519	26 156	50.8%
Depreciation and amortization	-21 396	-16 435		
EBIT, operating income	56 279	35 084	21 195	60.4%
Financial income	16 050	4 711		
Financial expenses	-13 022	-7 497		
Net income before tax and minority interests	59 307	32 298	27 009	83.6%
Income tax	-4 990	-3 791		
Net income of the Group	54 317	28 507	25 810	90.5%
Minority interests	-5 874	-5 724		
Net income	48 443	22 783	25 660	112.6%
As percentage of income				
Operating income	17 %	13 %		
Net income	15 %	8 %		
Earnings per share (in CHF)				
- Basic	0.94	0.44		
- Diluted	0.94	0.44		

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Consolidated cash flows statements (unaudited)

	January/June 2005	January/June 2004
in kCHF		
Net income, Group's interest	48 443	22 783
Financial income	-3 670	-1 719
Financial expenses	6 747	4 079
Current and deferred income tax	4 990	3 791
Profit on repurchase of convertible bond	-489	-
Amortization of costs and redemption value of convertible bond	1 342	1 273
Depreciation and amortization	21 397	16 435
Net result on sale of subsidiaries	487	-
Use of lawsuit, restructuring and long term provisions	195	-8 565
Minority interests in net income	5 874	5 724
Net income associated companies	-331	-
Dividends received from associated companies	502	644
Employee related non cash expense/income	1 757	-
Cash flow	87 244	44 445
Change in inventories	18 036	-20 987
Change in trade account receivables	52 559	25 192
Change in other working capital headings	-5 755	6 044
Operational cash flow	152 084	54 694
Interests paid	-826	-425
Interests received	2 146	1 663
Taxes paid	-6 103	-2 654
Net cash from operating activities	147 301	53 278
Net investment in intangible assets	-7 115	-9 749
Net investment in tangible assets	-22 220	-24 719
Net investment in financial assets	-610	-4 973
Sales/acquisition of subsidiaries, cash inflow/outflow	175	-
Net cash used in investing activities	-29 770	-39 441
Change in bank overdrafts and long term loans	-1 919	-12 526
Employee share program - cash paid by employees	82	-
Repurchase of convertible bond	-17 910	-
Interests paid on convertible bond	-2 449	-2 462
Dividends paid to minority interests (subsidiaries)	-5 490	-2 264
Dividends paid	-10 321	-
Net cash used in financing activities	-38 007	-17 252
Effect of exchange rate changes on cash and cash equivalents	2 475	-226
Movements in cash and cash equivalents	81 999	-3 641
Cash and cash equivalents at January 1	198 897	237 107
Cash and cash equivalents at June 30	280 896	233 466
Movements in cash and cash equivalents	81 999	-3 641

Consolidated statements of changes in Shareholders' equity (unaudited)

	Share capital	Share premium	Other reserves	Treasury shares	Goodwill	Consolidated shareholders' equity, Group's interest	Minority interests	Total shareholders' equity
in kCHF								
At January 1, 2004	514 949	49 798	237 308	-380	-611 016	190 659	15 194	205 853
Employees share program	127	252	8			387		387
Shares issued for employees	520	922				1 442		1 442
Impact of sale of subsidiaries					5 691	5 691		5 691
Adjustment on goodwill at acquisition (earn-out and pension obligations)					2 388	2 388		2 388
Dividends paid to minority interests						-	-2 264	-2 264
Currency translation adjustment			3 301			3 301	-1 217	2 084
Effect of deferred consideration in favour of a joint-venture company						-	2 743	2 743
Net income			77 195			77 195	7 265	84 460
At December 31, 2004	515 596	50 972	317 812	-380	-602 937	281 063	21 721	302 784
Employees share program	33	86				119		119
Shares issued for employees	433	1 176				1 609		1 609
Impact of sale of subsidiaries					523	523	-162	361
Dividends paid to minority interests						-	-5 490	-5 490
Dividends			-10 321			-10 321	-	-10 321
Currency translation adjustment			-16 789			-16 789	1 538	-15 251
Effect of deferred consideration in favour of a joint-venture company						-	892	892
Net income			48 443			48 443	5 874	54 317
At June 30, 2005	516 062	52 234	339 145	-380	-602 414	304 647	24 373	329 020

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Notes to the consolidated financial statements (unaudited)

General comments and principles of consolidation

The unaudited interim consolidated financial statements are prepared in accordance with Swiss GAAP FER and provide a true and fair view of the financial position and results of the Group. The accounting conventions and accounting policies are the same as those applied at the year end 2004 consolidated financial statements.

Change in scope of consolidation

During the first half 2005, the scope of consolidation of the Kudelski Group has mainly changed due to the sale of TouristDataShop SA, Ollon.

Furthermore, Nagra USA Inc, Nashville took over Livewire Communication Inc, Gainesville and Systems Ticketing AG, Muri (CH) was liquidated and left the scope of consolidation.

In the first half 2004, the scope of consolidation has changed as follows:

- the companies
 - o Nagravision Asia Pte Ltd, Singapore
 - o Kudelski Malaysia SDN. BHD, Kuala Lumpur
 - o and Ticketcorner Holding AG, Rümlangwere added to the scope of consolidation. These companies have been set up organically and are 100% held ;
- Labitzke Schaffner AG, Adliswil and SkiData (Schweiz) AG, Diepoldsau have been merged. Lysis Trading SA, Cheseaux and Nagravision SA, Cheseaux were merged as well. Both mergers were effective as of January 1st, 2004 ;
- Systems Ticketsysteme Vertriebs GmbH, Kaufbeuren (D) left the scope of consolidation following its liquidation.

Notes to the consolidated financial statements (unaudited)

Convertible bond

	2005 kUSD	2005 kCHF	2004 kCHF
At January 1st	172 928	197 137	214 431
Redemption and partial cancellation	-15 000	-18 045	-
Exchange rate effects	-	23 055	-17 293
Convertible bond on June 30th / December 31st	157 928	202 147	197 138
Allocated issuing costs	-1 220	-1 562	-2 004
Reconstitution of the redemption value	4 328	5 540	4 611
At June 30th / at December 31st	161 036	206 126	199 745

The convertible bond is quoted at the Luxembourg stock exchange under reference number ISIN XS0140968842.

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Notes to the consolidated financial statements (unaudited)

Segmental analysis

The split by geographical areas and by business sectors of sales for the first half of 2005 and first half of 2004 is as follows :

January/June 2005	Europe	America	Asia and Oceania	Africa	Total
in kCHF					
Digital TV	115 839	114 491	21 921	584	252 835
Physical access control and data access	61 934	4 940	3 747	45	70 666
	177 773	119 431	25 668	629	323 501

January/June 2004	Europe	America	Asia and Oceania	Africa	Total
in kCHF					
Digital TV	87 935	81 503	28 028	1 066	198 532
Physical access control and data access	63 487	3 120	2 227	40	68 874
	151 422	84 623	30 255	1 106	267 406

Principal exchange rates

CHF for	1 USD	1 EUR	1 GBP	1 SGD
Average January/June 2005	1.2030	1.5460	2.2500	0.7300
Average January/June 2004	1.2656	1.5529	2.3067	0.7452
Rates for end of June 2005	1.2800	1.5500	2.2500	0.7300
Rates for end of December 2004	1.1400	1.5500	2.1900	0.7000
Rates for end of June 2004	1.2550	1.5250	2.2700	0.7300

Agenda 2006

Release of 2005 financial results 24 February 2006
Annual general meeting 2 May 2006

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