An excellent year with record growth for Kudelski

Global leader in conditional access for digital TV

Strong penetration in telecoms and DSL networks

Conquering Europe’s digital terrestrial television segment

New development sector: security solutions for mobile phones

Success of alternative business models: pre-paid / time-limited cards

Successful integration of Nagra France
Europe

The Group tripled its digital TV revenues in Europe now enjoying major presence across all European market segments.

France is an important and historic market for the Kudelski Group. The Canal+ Group has been using Kudelski technologies for 15 years. Today, Nagravision deploys its security solutions in the new broadband DSL market segments.
The Kudelski Group’s digital TV revenues increased 90% on the American market; an exclusively organic growth.
Asia

Asia/Pacific markets are progressively migrating to digital, creating **new opportunities** for the Kudelski Group.
In 2004 the Kudelski Group delivered record results, both in growth and in absolute figures, with total revenues increasing by more than 50% to reach CHF 619 million, EBIT passing the CHF 100 million threshold for the first time, and net profit reaching CHF 77.2 million.

However, beyond these figures, 2004 will remain a milestone in the history of the Group. Management as well as all teams demonstrated their ability to deal with a large number of challenges successfully, while paving the way for the Group’s future growth.

All of our activities, aside from Nagra Public Access, achieved a very good performance. Lysis in particular achieved a very good performance. Lysis in particular contributed to the Group’s future growth.

By increasing its revenues by 50% organically, this division confirmed its ability to grow on the strength of its own merits and its own resources in a highly competitive environment and under constantly moving market conditions.

The acquisition of the conditional access activity of Canal+ Technologies – MediaGuard – as well as strong organic growth have enabled the Kudelski Group to multiply its digital TV revenues in Europe by three, while in America they increased by 90% purely through organic growth.

In parallel with efforts made to address customer needs, a special task force worked on integrating the MediaGuard activity (rolled into Nagra France) within the Group’s digital television division. Today integration has been achieved, and the Nagra France and Nagravision teams are collaborating actively in the development of new technologies. Nagra France has become a competence center for terrestrial television division. Today integration has been achieved, and the Nagra France and Nagravision teams are collaborating actively in the development of new technologies. Nagra France has become a competence center for the Group’s future growth.

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The growth of the digital television business in 2004 was particularly satisfying: all the strategic objectives were particularly satisfying: all the strategic objectives were reached and the Group took full advantage of new development opportunities.

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While the Kudelski Group has built its worldwide reputation by developing new technologies, it has always sought to release new business models combined with state-of-the-art technology at the right time.

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High potential innovations released by the digital television R&D teams also include:

- Solutions for digital video recorders (DVR) that not only enable digital TV programs to be recorded securely but also offer Push VOD functionalities, offering an instant pay-per-view choice of films on demand, coupled with an exceptional comfort of use. Premiere and EchoStar have already chosen this solution, which they will offer to their customers in 2005.
- A security concept especially designed for the secure distribution of video content on mobile devices, enabling digital TV subscribers to access programs when and where they want.

Recurring business, which includes more than 11.5 million smartcards sold on a rental basis in 2004, new contracts as well as technological developments opening new markets provide a solid base for the future growth of the DTV division.

Public access

Despite a large number of new contracts, the public access business saw a difficult year in 2004. In an adverse environment, several major medium and long term cost-cutting measures were launched which should deliver first tangible results in the second half of 2005. In parallel, the Group decided to accelerate the development of new products and expand geographically instead of focusing only on short-term profitability. Some patience will be needed until these efforts come to full fruition, given that business cycles in this sector are longer than in digital television.

The public access market is faced with new challenges that offer many opportunities but also entail a few risks. This will require repositioning of the offer, leading to several technological innovations. As in the past, the Kudelski Group is determined to emerge stronger than before from this type of situation.

Investing in the future

Since its foundation in 1951, Kudelski has never paid dividends, preferring to reinvest all of its profits into the development of its activities. Today more than ever, we have strategic development projects to prepare the future growth of the Group that will require reinvesting most of the profits.

As an example, 29.5% of turnover of the digital television division is reinvested in R&D, which demonstrates, among many other instances, the commitment of the Group to develop its future business.

However, in response to the expectations of a growing number of shareholders, the Board of Directors has decided to propose the payment of a dividend of 30 Swiss centimes per bearer share and 2 centimes per registered share, corresponding to 2% of nominal value.

While this dividend may appear to be low, one must bear in mind the need to maintain the Group’s long-term solidity and ability to grow. Development opportunities have never been as numerous as they are today, and at the same time the need to stay at the cutting-edge of technology has never been greater.

In a rapidly changing world, to move more slowly than the market is to go backward, and thereby to risk forfeiting our leadership position. It is not just a matter of defining the right targets, but of being quicker off the mark than our competitors and hard-hitting when necessary. Rather than increased dividends in 2004, this approach will certainly contribute to delivering a better return on investment to shareholders in the long run.

André Kudelski
A record year for the Kudelski Group

Kudelski Group  
Annual report 2004

In 2004, the Kudelski Group delivered best-ever results, with record-breaking revenues and net profit. Total revenues increased by over 50% to reach CHF 619 million. EBIT reached the record level of CHF 101.5 million. Net income also registered strong growth more than doubling compared to 2003 to reach CHF 77.2 million, while operating cash flow reached CHF 81.7 million.

Digital television driving record results

Revenues were up by 93% compared to 2003, thanks to 50% organic growth and the consolidation of MediaGuard. European sales more than tripled to reach CHF 196.8 million and sales in the Americas increased by 88% to CHF 177.4 million. The EBIT margin of the Digital TV unit was CHF 116.8 million.

R&D spending on digital TV increased to 29.5% of digital TV revenues, enabling the Group to accelerate the development of new solutions.

The Group launched several portfolio streamlining initiatives in the Digital TV entity. It sold its ownership stake in Logiways while maintaining a business partnership and keeping full control over all relevant intellectual property rights secured by the company in the Group’s activity sector. Livewire, a US-based subsidiary, was integrated into Nagravision in the US in early 2005 to rationalize the cost base and to strengthen the Group set-top box strategy.

The Group also exited from Nagra Futuris, a joint-venture in the Digital Audio Broadcasting market, while maintaining property rights over a set of promising patents in the new TV-over-mobile network market.

Revenues from Public Access activities grew slightly by 3% in 2004, however achieving a negative EBIT of CHF 3.7 million. The Group launched an efficiency improvement program for this entity.

Financial data in kCHF

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenue</th>
<th>ACMS Margin</th>
<th>OIBDA</th>
<th>EBIT</th>
<th>Net profit</th>
<th>Equity, including minority interests</th>
<th>Net cash</th>
<th>Payroll</th>
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<tbody>
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<td>426,326</td>
<td>141,137</td>
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<td>35,427</td>
<td>639,156</td>
<td>58,663</td>
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</tr>
</tbody>
</table>

(1) ACMS Margin: margin on goods and components sold  
(2) OIBDA: operating income before interest, taxes, depreciation and amortization  
(3) EBIT: operating income  
(4) Payroll: as of 31 December in each year.
A key player in this field for 20 years, the Kudelski Group is today the world’s leading provider of conditional access solutions.
Driving exceptional growth

Kudelski Group
Annual report 2004

Digital TV

The global leader

2004 was an exceptional year for the Kudelski Group’s core business, digital TV.

A key player in this field for 20 years, Kudelski’s winning performances include delivery of a historic volume of more than 25 million smart cards/modules, the signature of major high potential contracts and entry into new growth markets.

Another success indicator is the figure of more than 100 television operators worldwide using Kudelski technologies to secure 53.5 million devices.

Innovation is the key to these dynamics, supporting the steady growth in added value of the Group’s Nagravision and MediaGuard conditional access systems and positioning the Group as a global leader.

Ever-closer collaboration with customers

Throughout the year the Group strengthened its already close ties with its customers. Committed to accompanying operators in their development, the Group intensified its R&D efforts and deployed new solutions.

Today the Group’s security solutions are designed to address not only the needs of cable, satellite and terrestrial TV network operators but also those of broadband Internet DSL networks, fixed and mobile telecommunications operators as well as content providers such as movie studios.

A new business model for operators: pre-paid cards

To meet needs in the Digital Terrestrial Television (DTT) market, the Group developed a new technology and an innovative business model based on prepaid, time-limited smart cards to control access to premium pay TV content. This concept was chosen for example in 2004 by the Italian operator Mediaset for its pay-per-view football coverage.

This type of solution meets horizontal market needs in particular, an environment where consumers buy digital decoders in supermarkets instead of renting the equipment as part of a pay TV subscription.

The model based on disposable or renewable cards helps to segment premium TV offerings and therefore boosts sales dynamics for both content suppliers and television operators. Moreover, via this system the user can access programs on impulse and anonymously, without having to take out a subscription. Consequently, the operator can respond to demand peaks and quickly cash in on card revenues while minimizing operating costs.

DTT has grown rapidly across Europe and many operators who were already broadcasting free-to-air digital channels are now launching pay TV channels on these networks.

The Kudelski Group took the lead in this market segment in 2004 thanks to the signature of contracts with Europe’s main digital terrestrial operators: Mediaset in Italy and Top Up TV in the United Kingdom. The UK DTT operator has chosen the Group’s technologies to secure its subscription-based services.

Ensuring secure access to hundreds of services in many different languages, managing millions of subscribers; the Nagravision technology is designed to anticipate the evolution of operators.
A new generation of conditional access systems

Following through on existing customers’ needs is a priority for the Kudelski Group. In 2004, a large majority of the Group’s digital TV customers migrated installed Nagravision conditional access systems to enhanced, high security Kudelski solutions.

The new generation of the Nagravision conditional access system is the fruit of years of research and development and integrates state-of-the-art security features as well as innovative functionality.

The migration trend, which generated the need for a high volume of smart cards, is consistent with the continued growth of the pay TV market and its evolution towards a mass market.

A new generation of conditional access systems is a priority for the Kudelski Group. In 2004, a large majority of the Group’s digital TV customers migrated installed Nagravision conditional access systems to enhanced, high security Kudelski solutions.

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Scalable solutions to support operators in their development

The Group continued to develop flexible and innovative solutions to address new market needs and respond to the requirements of operators who are constantly on the lookout for new TV content sales models.

Protecting on-demand content and securing it on hard-disk drives

The Kudelski Group has developed a comprehensive range of security solutions for on-demand services. These solutions, which are constantly being enhanced, are deployed today successfully by operators.

The Nagravision VOD (Video On Demand) solution is specifically designed to secure programs sent to the subscriber using an interactive mode and to manage the purchase of programs on a pay-per-view, pay-per-time or subscription basis. IP (Internet Protocol) and cable networks are well-suited to provide such on-demand services.

To enable satellite and terrestrial operators to offer similar services and address the needs of operators whose subscribers have Digital Video Recorders (hard-disk decoder/recorder), Nagravision has developed a solution to secure content on hard-disk drives, Nagra Secure DVR.

Many digital video recorders sold today are equipped with a hard-disk drive. Thanks to this technology, consumers can record encrypted digital TV programs for viewing at a later time and as many times as they want. Ensuring security of access to pay TV content and preventing unauthorized reproduction and distribution is therefore a crucial issue.

The Nagra Push VOD module ensures the security of content sent to subscribers’ hard-disk drives in push mode. This application is an extension of the Nagra Secure DVR solution. In the Push VOD application, for which Nagra provides a unique solution, operators push films to the hard disk of the subscribers’ decoders where they are stored securely. In other words, consumers can access a virtual video store and select a movie if they wish.

To guarantee total protection, potential premium content is never distributed unscrambled; however it can be broadcast with other free-to-air content such as trailers, announcements or other promotional material.

The Nagra Push VOD solution optimizes bandwidth use in broadcasting programs to subscribers and manages service purchase and payment. Thanks to its open architecture, it can be integrated with existing middleware platforms such as Open TV, DVB-MHP, and others.

All of these features help operators enhance network profitability and improve both the scope and flexibility of their product offer.

A new competence center in the Group

Acquisition of the Canal+ Technologies’ MediaGuard unit was finalized at the end of 2003 and the MediaGuard team was quickly integrated into the Kudelski Group’s Digital Television division. Based in the Group’s new Paris subsidiary, the Nagra France team continued to accompany MediaGuard customers in their development. It also succeeded in signing several major contracts in markets with high growth potential such as digital terrestrial television, with the British operator Top Up TV, and TV over IP networks.

Additionally, CanalSatellite chose MediaGuard’s conditional access system to secure its program offering over DSL networks. CanalSatDSL, Nagra France also won a contract to supply a conditional access system for the French telecoms operator neuf telecom.

Nagra France has become a competence center within the Kudelski Group, specializing in the promising field of TV content security over IP networks.
Secure TV content over IP networks

Several years ago, Nagravision created the NagraIP (Internet Protocol) solution to ensure security of TV content on IP networks, DSL (Digital Subscriber Line) and FTTH (Fiber-To-The-Home) networks.

As well as the usual standard features, NagraIP offers highly appreciated specific features:

- Security for deployments over hybrid satellite/IP and terrestrial/IP networks. These types of networks are expected to grow rapidly. Operators can simultaneously offer a bouquet of television channels in broadcast mode and push video-on-demand services over an IP network. NagraIP enables operators to deploy such services on hybrid networks without having to use two different conditional access systems.

- A scalable solution to accompany network expansion. The NagraIP solution is modular and can accommodate a subscriber base ranging from a few thousand to several million customers. This exceptional flexibility, which Nagravision has demonstrated on many occasions, is very attractive to operators.

- A content protection solution in deployments using systems other than smart card-based systems. This security system called NagraIP Evolutive can evolve over time and is particularly attractive to telecommunications network operators as it enables them to offer programs which can be accessed by identification over an IP network and subsequently by smart cards, depending on the content and the size of the customer base, and on other security criteria.

This unique Nagravision solution showcases the Kudelski Group’s high level of expertise in conditional access, network architecture and smart card technology.

The system allows IP network operators to provide sophisticated content and interactive services over a secure network with reduced maintenance costs and bandwidth use.

Security on a portable format

The Kudelski Group launched the Nagra-Lysis Mobile DRM (Digital Rights Management) solution in early 2005 to target the emerging market of TV over mobile devices including telephones, PDA (Personal Digital Assistant) and portable video recorders.

This latest Nagravision technology manages downloading, streaming and broadcasting of enriched content to these devices. It accommodates a large palette of business models to boost purchases and maximize revenues.

This technology is available for 3G, DVB-H (Digital Video Broadcasting on Handheld Devices) and DMB (Digital Multimedia Broadcasting) networks. It is based on DVB and OMA (Open Mobile Alliance) standards. These two consortiums include all players in the sector.

NagraID
A unique know-how

The Kudelski Group manufactures its own smart cards for TV and public access applications via its NagraID subsidiary. In 2004, NagraID moved to larger premises in order to increase its production capacity.

NagraID owns unique know-how in cold lamination technology, a patented industrial process to embed sophisticated electronic components in smart cards (or other plastic objects) such as batteries, LCD, screens, LEDs, etc.

These patented technologies are the propriety of the Kudelski Group and open the way to a host of applications.
The markets in 2004

Europe

Thanks to the integration of MediaGuard customers and the signature of many new contracts, the Group now boasts a major presence in Europe across a number of market segments. In 2004, Europe has thus become the Kudelski Group’s number one digital TV market.

France

In 2004, France was again a key market for the Kudelski Group.

In March 2004, French satellite operator CanalSatellite selected the Nagravision conditional access solution to distribute its programs over a broadband DSL network. The Kudelski Group thus continues to accompany one of its key customers in its development.

French pay TV channel Canal+ replaced more than 3 million analog keys with new keys based on the latest generation of the Kudelski Group’s conditional access system. The Group has provided the security solution for the analog offer of France’s first pay TV operator since its launch in 1990.

Announced in February 2005, the contract signed with France’s number two telecommunications operator, neuf telecom, which launched an 80-channel digital bouquet, was a major milestone for the Kudelski Group on the French market. This contract is the Group’s first roll-out of a NagrAlP security solution over a DSL network. It underlines Kudelski’s positioning as a supplier of TV content protection products and services for broadband network operators and marks its penetration of new market segments.

Italy

At the end of 2004, the Group signed a contract with Mediaset, a digital terrestrial television operator, setting a milestone in the Group’s penetration of the digital terrestrial market.

Mediaset, which is the market leader in Italy and one of the world’s largest electronic media groups, won digital broadcasting rights for the main Club A soccer matches for the next three seasons.

Mediaset chose the latest Nagravision content protection technology to secure its pay-per-view soccer offer across its digital terrestrial platform. This solution relies on pre-loaded smart cards and is currently one of the industry’s most innovative solutions: the cards, which store rights for a certain number of matches, can be purchased in many sales points and recharged several times until their expiry date.

This innovation has met with enormous success with the Italian public since it was launched on the market in January 2005.

The first deployment of this type, which was achieved in record time, demonstrates Nagravision’s ability to offer and quickly implement innovative business models allowing operators and TV viewers to enjoy attractive new services.

Germany

German operator Premiere, a Nagravision customer since 2003, successfully implemented in 2004 the Blue Movie Card, a smart card with pre-defined rights to access specific content over a pre-determined time period.

Moreover, in 2005, Premiere, with over 3.25 million subscribers today, is readying to launch Push VOD services. Programs will be sent to Premiere’s hard-disk decoders, with Nagravision ensuring security throughout the entire distribution chain.

Germany’s leading cable network operator KDG (Kabel Deutschland GmbH), which serves 20 million subscribers, has selected the Nagravision security solution to broadcast its own digital TV programs. This service now has more than 200,000 digital subscribers. In line with the cable network structure in Germany, KDG also distributes Premiere’s programs over the cable network as well as iSh’s digital bouquet called “iSh plus”.

The cable-operator iSh, based in Northern Rhine-Westphalia, also selected Nagravision for the secure broadcasting of its digital pay TV offer in 2004. Since the launch of these services, more than 50,000 subscribers have signed up. iSh is the country’s second largest cable operator with more than 4.3 million homes passed.

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Announced in February 2005, the contract signed with France’s number two telecommunications operator, neuf telecom, which launched an 80-channel digital bouquet, was a major milestone for the Kudelski Group on the French market. This contract is the Group’s first roll-out of a NagrAlP security solution over a DSL network. It underlines Kudelski’s positioning as a supplier of TV content protection products and services for broadband network operators and marks its penetration of new market segments.

Italy

At the end of 2004, the Group signed a contract with Mediaset, a digital terrestrial television operator, setting a milestone in the Group’s penetration of the digital terrestrial market.

Mediaset, which is the market leader in Italy and one of the world’s largest electronic media groups, won digital broadcasting rights for the main Club A soccer matches for the next three seasons.

Mediaset chose the latest Nagravision content protection technology to secure its pay-per-view soccer offer across its digital terrestrial platform. This solution relies on pre-loaded smart cards and is currently one of the industry’s most innovative solutions: the cards, which store rights for a certain number of matches, can be purchased in many sales points and recharged several times until their expiry date.

This innovation has met with enormous success with the Italian public since it was launched on the market in January 2005.

The first deployment of this type, which was achieved in record time, demonstrates Nagravision’s ability to offer and quickly implement innovative business models allowing operators and TV viewers to enjoy attractive new services.

Germany

German operator Premiere, a Nagravision customer since 2003, successfully implemented in 2004 the Blue Movie Card, a smart card with pre-defined rights to access specific content over a pre-determined time period.

Moreover, in 2005, Premiere, with over 3.25 million subscribers today, is readying to launch Push VOD services. Programs will be sent to Premiere’s hard-disk decoders, with Nagravision ensuring security throughout the entire distribution chain.

Germany’s leading cable network operator KDG (Kabel Deutschland GmbH), which serves 20 million subscribers, has selected the Nagravision security solution to broadcast its own digital TV programs. This service now has more than 200,000 digital subscribers. In line with the cable network structure in Germany, KDG also distributes Premiere’s programs over the cable network as well as iSh’s digital bouquet called “iSh plus”.

The cable-operator iSh, based in Northern Rhine-Westphalia, also selected Nagravision for the secure broadcasting of its digital pay TV offer in 2004. Since the launch of these services, more than 50,000 subscribers have signed up. iSh is the country’s second largest cable operator with more than 4.3 million homes passed.

In 2004, Germany was one of the Kudelski Group’s strongest growth markets with close to 700,000 new customers subscribing to digital television services broadcast with Nagravision security technology.
Leader on its domestic market, the Kudelski Group became in 2004 the system integrator and turnkey security solution provider for Swisscom Broadcast, the reference telecommunications operator in Switzerland.

Nagravision will integrate the operator’s digital pay television platform, provide the conditional access solution, manage the subscriber base with the Nagravision Subscriber Management System and provide an electronic program guide.

Swisscom Broadcast supplies digital television broadcasting services to Swiss cable network operators.

Belgium

Flemish cable operator Telenet opted for Nagravision’s new generation conditional access system for its digital television offer.

The operator already uses Lysis content rights management solutions in its head-end facilities. Thanks to its middleware platform, which is compatible with the European MHP (Multimedia Home Platform) standard, Telenet will provide high-level interactive services including government services and video-on-demand.

Wallon operator Be tv (previously Canal+ Belgium), another Kudelski Group customer in Belgium, launched its first pay-per-view service, “Be à la séance”, using the MediaGuard conditional access system.

United Kingdom

In April 2004, British operator Top Up TV launched a digital terrestrial television service using the MediaGuard solution. Top Up TV provides pay television services using the decoders deployed by the former ITV Digital operator as well as new set-top boxes sold in retail outlets and equipped with the MediaGuard technology. This customer’s offer is meeting with increasing success.

RCS & RDS, the country’s leading cable network operator and Internet services supplier, selected Nagravision’s security solution for its new bouquet of digital television programs by satellite – the first DTH (Direct-to-Home) service to be launched in the country.

RCS, which also has subsidiaries in Hungary and Slovakia, has more than one million analog cable subscribers today. The signature of this new contract further reinforces the Kudelski Group’s penetration and market position in Central Europe.

Malta

Melita Cable, Malta’s cable operator, signed a contract with Nagravision for the delivery of a conditional access solution for the broadcasting of the operator’s new 80-channel digital bouquet. Melita Cable launched its first analog services in 1992 and has more than 100,000 subscribers today. The new digital channels include a wide choice of programs such as British and Italian football championships.

Spain

Digital+ was created in 2003 following the merger between Canal Satélite Digital and Via Digital. In 2004, Digital+ switched its system to Nagravision’s new generation conditional access technology. The operator currently totals close to 2 million subscribers.

The Spanish terrestrial operator Canal+ also migrated its 700,000 subscribers to a new analog conditional access technology.

Portugal

TV Cabo, the country’s leading digital TV operator, is about to migrate its satellite subscribers to the latest generation of Nagravision’s conditional access system. More than 350,000 smart cards will be changed in 2005. TV Cabo also selected Nagravision for its new digital cable service. Close to 350,000 subscribers to TV Cabo’s premium analog service will go digital this year.

Poland

Nagravision signed a long-term partnership with Polish satellite TV operator Cyfrowy Polsat. This agreement centers on the delivery of the most recent generation of the Nagravision conditional access system and strengthens the relationship that Nagravision has developed with Cyfrowy Polsat over the last five years.

Serving the country’s two market leaders – Cyfrowy Polsat and Cyfra+ – has brought market leadership status to the Kudelski Group.
The Americas

United States

With steadily increasing growth over the last few years, reaching 90% in 2004, the United States remain a reference market for the Kudelski Group whose development here is exclusively based on organic growth.

American satellite operator EchoStar started to migrate its DISH Network subscribers to Nagravision’s latest conditional access system. The process involves more than eight million smart cards. This is the first time in eight years that the operator is swapping its cards, demonstrating the reliability of the system Nagravision implemented in 1996.

In 2004, EchoStar’s impressive growth was underlined by the launch of the company’s tenth satellite in October. DISH Network’s offering has continually expanded and currently includes several hundreds of channels including 100 international programs broadcast in more than 25 languages.

In January 2005, DISH Network passed the 11 million subscribers threshold, barely seven months after celebrating the 10 millionth subscriber in July 2004. Most subscribers have more than one receiver in their homes.

The Kudelski Group’s partnership with EchoStar is gaining strength every day. The two groups signed an agreement for delivery of a security solution for the new advanced video-on-demand services launched by DISH Network in the first half of 2005. Based on new sophisticated hard-disk set-top boxes, these services offer:
- instant access to a catalogue of 100 movies
- 100-hour recording capabilities
- ability to pause live TV for up to two hours
- fast-forward, fast reverse, slow-motion and instant replays
- high-definition recording capabilities.

Moreover, Kudelski technology will be used to integrate Archos portable video players to the home networks of DISH subscribers, protecting the transfer of content between the receiver’s hard disk and the portable device.

Digital cable roll-out

The Kudelski Group continued to develop on the American digital cable market, historically a very closed market. In 2004, the Group signed a contract with Iowa Network Services for delivery of a conditional access solution for the operator’s digital cable television network broadcast to all cable operators in the State. Equipped with Nagravision technology, the Iowa Network Services’ headend supplies secure television content to the 150 companies included in the network.

Solutions for movie studios

For the Kudelski Group, Disney’s MovieBeam platform, equipped with a Nagravision solution, marked inroads into the promising market of security solutions designed for content owners such as cinema studios. Thanks to its DVR solution, which was specially developed for on-demand services, Nagravision is now penetrating this new market with a secure end-to-end solution including both conditional access and DRM services.

Canada

Satellite operator Bell ExpressVu started to migrate its 2.6 million decoder base to the new generation of Nagravision’s conditional access system. The switch should be completed during 2005.

Brazil

In 2004 the Kudelski Group made a spectacular breakthrough in Brazil’s digital cable market by supplying its digital conditional access technology to the country’s two main cable network operators, Net Serviços (Globo) and TVA (Abril).

The choice of Nagravision’s solution by Brazil’s two main cable operators was a decisive step in the development of the Kudelski Group’s presence on the South American continent, and more specifically in the market that has the highest potential in the region.

Net Serviços, a Globo Group company, has 1.3 million subscribers and over 6.5 million homes passed through 44 cities including São Paulo, Rio de Janeiro, Belo Horizonte and Porto Alegre.

TVA, of the Abril Group, is one of Brazil’s leading cable pay TV operators with 300 000 TV subscribers and 30 000 broadband Internet services subscribers.

The deployment of the Nagravision system goes well beyond mere delivery of a conditional access system; it includes system integration services and delivery of the Livewire decoder software solution, as well as interactive applications offered by partners.

These developments show that the Brazilian television market is taking another step forward with the migration of its cable systems to digital.

With these new contracts, the Kudelski Group has become the reference in the digital cable market in Brazil.

The Kudelski Group was already present on the Brazilian market with systems deployed by three MMDS operators; Nagravision is the only conditional access supplier with experience in Brazil’s MMDS sector.

The growth of the American satellite operator EchoStar is accelerating and its DISH Network offering has continually expanded to include services on Digital Video Recorders. EchoStar benefits from the latest developments of the Kudelski Group’s content protection technologies.
Asia

China
In 2004, the Group speeded up development of its activities in China, buoyed by the strategic partnership signed with CITIC Technologies, a subsidiary of the leading CITIC Group. The company controls some 23 cable TV networks covering a population of 200 million households across the country, of whom ten million are already analog TV subscribers.

CITIC Technologies will promote the use of the Nagravision conditional access system for all digital programs distributed over its networks. Partnership with a powerful player in China will provide the Kudelski Group with a strong basis for future expansion on this market.

Additionally, the SARFT, the Chinese government’s regulatory authority for television services, formally confirmed the use of the MediaGuard and Nagravision conditional access technologies throughout the country.

In Beijing, cable network operator Beijing Gehua Cable TV launched its digital television services. More than 150 000 smart cards based on the MediaGuard technology were supplied in 2004.

In Shanghai, more than 50 000 smart cards based on the MediaGuard technology in the fall of 2004.

To combat piracy and benefit from the latest security developments, Astro migrated its 1.7 million subscribers to a new version of the MediaGuard conditional access system in early 2005.

In early 2005, Astro announced the launch of a joint-venture with PT Broadband Multimedia, a subsidiary of the Indonesian digital TV leader Lippo Group, to provide multi-channel satellite pay television and multimedia services in Indonesia, a development that signals opportunities for growth for the Kudelski Group.

Singapore
StarHub Cable Vision deployed its digital cable television network in Singapore in 2004 and is readying to launch its digital terrestrial television network in 2005. Nagravision provides security technology for both platforms. StarHub Cable Vision is Asia’s only integrated telecommunications operator offering mobile, broadband and fixed telephony services.

Nagravision partnered with application developers to deploy interactive applications over the StarHub network. This partnership was carried out with TeleIDEA, FreshIT and ABB. These companies provided applications such as games, chat, and electronic mail services on the decoder, an electronic program guide, video mosaic, as well as pay-per-view events that can be purchased via the remote control (Impulse Pay-Per-View). This offer also includes a karaoke application, which transforms the decoder into a multimedia platform.

Head-end content management is handled by Lysis iDTV.

Malaysia
Malaysian satellite bouquet Astro, equipped with MediaGuard technology, is one of Asia’s leading digital television platforms. The operator offers more than 50 television channels and 16 radio stations.

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Korea
In Korea, the Kudelski Group continues to expand. Its conditional access system carried on the CAM (Conditional Access Module) of German SCM Microsystems Inc. received certification or the country’s cable market.

SCM and Nagravision have jointly developed and manufactured a security module adapted to OpenCable specifications, the standard for the American digital cable networks also selected by the Korean government. Certification is a key step to penetration of the digital cable market in Korea, which, according to the government’s forecasts, could sign up more than 9 million subscribers over the next few years.

In 2004, Nagravision also provided a security solution for the video-on-demand service of C&M Communications Co. Ltd., the multiple cable network operator which today has 1.3 million analog subscribers and close to 280 000 Internet services subscribers.

Korea
Cable operator HKC International Holdings Ltd. (iCable), one of Hong Kong’s leading cable operators and the only one to show profitability, selected Nagravision’s conditional access system for the distribution of its digital television services over its satellite network. HKC has been a Nagravision customer since 2001 for cable transmissions and serves over 700 000 subscribers.

Indonesia
Pursuing its roll-out in this high growth potential region, the Group signed a contract to supply a conditional access solution to PT Broadband Multimedia, a key player in Indonesia cable selling its services under the brand name Kabelvision which has currently 130 000 analogue subscribers.

Kabelvision is expected to launch its digital pay TV service using Nagravision technology in 2005.

Digital TV
Kudelski Group
Annual report 2004
Stadiums, car parks, ski-lifts: more than 3500 sites worldwide are equipped with the Kudelski Group access control solutions.
A focus on core business

Kudelski Group
Annual report 2004

Nagra Public Access

Revenues of the Nagra Public Access unit rose by 3% in 2004 but the unit posted a negative EBIT of CHF 3.7 million. Measures undertaken to improve the situation include the following divestments:

_ Tourist Data Shop: in February 2005, the Group announced its intention to sell its participation shares in this company;

_ AccessArena will concentrate on the Business-to-Business sector and strengthen its cooperation with Europe’s major card issuers. Offices in Zurich for the operational staff were closed and moved to the Group head office in Cheseaux.

Budget measures were implemented across all Nagra Public Access companies to cut costs and rationalize the portfolio.

A new structure for SkiData

SkiData restructured, grouping its activities around two entities:

_ People Access, including the ski, stadium, exhibition as well as leisure park segments;

_ Car Access, including parking facilities for towns, airports and corporations.

In addition, SkiData launched a program to streamline its cost base by optimizing its sourcing strategy. All purchasing and logistics activities are now housed in a single center which controls the entire chain. Finally, a unified software platform was implemented across both entities.

Harmonization of Ticketcorner’s technological platform

Ticketcorner completed the switch of its IT platform to a seamless internal solution. The Ticketsoft reservation system now shares the same software base across all the markets where Ticketcorner operates.

This measure is contributing to cost-cutting efforts as well as improving the efficiency and attractiveness of the platform for operators and international partners. Additionally, the company’s technological independence is a key competitive advantage, giving Ticketcorner more flexibility to meet market demand and deploy new interfaces or integrate with access control systems.

The company also launched a new accounting management software to facilitate transaction settlements with all retail distribution channels and promoters. These changes not only generate savings – especially in terms of license fees – but will also generate new income.

Finally, Ticketcorner is pursuing its international development, with a strengthened sales structure, especially on the German market, and a new office in Austria.

In Portugal, the 2004 European soccer championships provided a prestigious showcase for SkiData, which equipped the new stadiums in Lisbon, Porto, Farense and Laira and managed access of more than 700,000 spectators.

New projects

New projects are opening up interesting horizons for the Nagra Public Access division.

Via its AccessArena subsidiary, the Group is partnering with major smart card issuers in Switzerland, such as PostFinance (the banking division of the Swiss Post), Les Chemins de Fers Fédéraux (Swiss Railways) and Cornèr Banca, to introduce AAC (All Access Card) technology into smart cards. This allows customers to download tickets and/or services to their card and use the card as an electronic admission ticket for direct access to events, thus avoiding queues.

A promising pilot project

In cooperation with PostFinance, the Kudelski Group launched an electronic ticketing project using AAC technology in Postcards (the smart cards issued by PostFinance). Card holders participating in the project can access 30 ski resorts and a wide range of events. Reservations can be made over the Internet, with payment debited from the card holder’s “yellow” account (the account they hold with PostFinance). The potential is significant as more than 2 million people have a Postcard.

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The first credit card with contact-less access function

The project launched by the Swiss Cornèr Banca is the first to integrate the principle of a contact-less access function into a credit card (the card is read remotely).

Another original feature is the co-branding concept in which the card can be sold in partnership with a third party. In the case of the Cornèr Banca project, the partner is Switzerland’s Engadin Region. Beyond the access functionality, the Cornèr Banca + VIP Engadin Card includes Internet reservation capacities as well as a fidelity bonus point system.
Sales increased in the two SkiData divisions, People Access and Car Access, and the company also increased its geographical reach.

People Access Division

In China, SkiData supplied an access system to Beijing’s largest trade fair center, Beijing Main Fairground. Additionally, the company concluded a strategic alliance with China International Exhibition Center Group Corporation, opening up promising opportunities.

Beyond the established markets of Europe and America, China provides the most promising potential for the future, especially with the perspective of the city hosting the 2008 Olympic Games and the ensuing needs for sport, exhibition and parking infrastructure.

In the Czech Republic, a SkiData Handshake system was deployed in Prague’s Sazka Arena. This multi-format venue hosted the European Ice Hockey Championships in 2004, and is viewed as Europe’s most modern complex.

In the Netherlands, SkiData won a contract to equip Efteling, the country’s largest amusement park. The system manages both people and car access and is linked to the websites of the partnering ticketing companies. This platform thus enables electronic ticketing and mobile ticketing applications.

Another important achievement is the installation of an access system for New York’s Bronx Zoo, in the United States.

Sports stadiums: SkiData a key player in the championships

In Portugal, the 2004 European Soccer Championships provided a prestigious showcase for SkiData, which equipped the new stadiums in Lisbon, Porto, Farense and Laira and managed access for more than 700,000 spectators.

These installations have enabled SkiData to prove the efficiency of its systems in this specific context and to win new contracts such as the World Soccer Championships to be held in Germany in 2006, for which SkiData has signed a number of major contracts including the Munich and Hamburg sites.

The same is true for the 2008 European Soccer Championships to be held in Switzerland and Austria. Vienna’s Ernst Happel Stadium, which will host the final, has already opted for a SkiData access solution.

In Italy, SkiData made an entry into the stadiums sector by signing a contract with the Turin-based Juventus. This club’s stadium, one of the most important in the country, will be completely refurbished in 2005 and will deploy a SkiData access solution.

Numerous other installations across Europe’s stadiums include, for example, systems for the Blackburn Rover and Leeds United soccer teams in the United Kingdom.

In Switzerland, SkiData installed a system for HC Lugano as part of a joint project with Ticketcorner as the ticketing system provider.

Ski: strong growth in Eastern Europe

In Eastern Europe, SkiData installed several systems in major ski resorts in Russia, Ukraine, Czech Republic, Bulgaria and Serbia, all implementing SkiData’s most innovative technologies.

In the Netherlands, the agreement signed with ANWB – the national automobile club – has proved an outstanding success. Thanks to SkiData technology, ANWB members (3.8 million altogether) can book ski passes for 55 Austrian ski resorts (as part of the initial phase of the project) via any of the club’s local agencies.

By giving high visibility to ski resorts, this new service is a powerful marketing tool. This is an innovative cooperation concept that may be expanded to include more ski resorts and services in the future and which is already being assessed by other automobile clubs in Europe.

FreeMotion and OpenGate

A revolution in ski access systems

SkiData has developed a new, dedicated solution for ski applications, which can be deployed in two modes, FreeMotion and OpenGate. This solution facilitates flows of skiers and surfers in ski-lift areas and thus improves their comfort.

The system has revolutionized access management in ski resorts:

FreeMotion: the gate is open by default and only closes if it detects a non-valid ski pass.

OpenGate: the gate opens for the skier once a valid ski pass has been detected.

This new solution has been tested in Austria’s Sölden resort. Results are very promising and the concept has strong growth potential.
Car Access Division

SkiData’s strongest growth division is dedicated to Parking access solutions. State-of-the-art technology and a dynamic market approach are the driving forces of this positive trend.

In the Netherlands, SkiData has installed an access and management system for a network of 29 car parks.

In the United Kingdom, SkiData has set up the world’s largest networked city car park platform for NCP (National Car Parks) in Cambridge.

Other major car park network installations have been deployed. In Australia, SkiData has set up a centralized system for the Wilson Group, managing 75 SkiData-equipped car parks throughout the country.

In Italy, Milan’s Nuovo Polo exhibition center — a complex spreading over 530,000 m² — selected SkiData’s access control solution to equip its car parks totaling some 10,000 spaces. This is the country’s biggest installation and a model in terms of real time management of car flows. Akin to highway toll booths, the parking will be able to provide immediate access to reserved VIP lanes to cars equipped with the appropriate electronic device.

In Hong Kong, SkiData has pursued Car Access development across North America. In 2004, the company completed its first site for Amtrak in Chicago and installed the first system in Mexico in the city of Monterrey.

Airport Parking

A high growth segment for SkiData

SkiData has a strong position in the airport parking segment, where growth continued in 2004.

New installations were deployed in Europe (Bergamo in Italy and Cork in Ireland), in the Middle East (extension of the Dubai airport in the United Arab Emirates), in North America (Park n’ Fly networks in airports serving New Orleans, Los Angeles, Atlanta and Cleveland), as well as in the Asia/Pacific Region (Melbourne and Launceston airports).

Managing large-scale car parks relies more and more on very sophisticated parking management systems. Beyond controlling access of vehicles, the technological solution must address flow management, parking capacity and user profile issues.
The structural and technological consolidation work undertaken within Ticketcorner over 2003 continued into 2004, helping the company remain competitive in a sector which is experiencing the relative sluggishness of the events market.

With Ticketcorner’s new price structure, introduced in 2004, the company is in a position to offer attractive conditions, especially for long-term contracts and large volumes. In 2004, Ticketcorner signed more than 200 long-term contracts, including a renewal with Good News, Switzerland’s largest events agency, as well as with Freddy Burger Management, the Marco Rima Tour, Cornelli Circus, Gstaad Saanenland Tourism, Think Musical and others.

In Germany, Ticketcorner also signed a record number of new contracts.

New solutions for sports events
Sports events require high-performance professional ticketing services, and in 2004 Ticketcorner achieved good progress in this segment.

Ticketcorner signed cooperation agreements with the German Handball association and with German League soccer clubs.

HC Lugano stadium: the first fully-integrated Nagra Public Access solution
In Switzerland, the system installed for HC Lugano includes Ticketcorner’s software platform, which enables the operator to manage its own ticket sales, unlimited use of the Ticketcorner distribution network as well as the SkiData access control system and smart card-based season tickets.

This integrated solution is Switzerland’s most innovative, turning in top-rate performances and has consequently sparked the interest of a number of sports promoters across Switzerland and in other countries. The solution is becoming a reference for sports events across Europe.

International expansion
Ticketcorner made a positive start in 2005 and is ready to pursue its international development. The new office in Vienna will support development of the Austrian market and will also serve as a bridgehead for operations further east.

Innovative products to be launched during the year will include an Internet-based software management tool designed for organizers and a secure Print@home solution to print tickets at home, combined with access control over a mobile phone.

Access management services and e-payment
Via its SportAccess subsidiary, Nagra Public Access is active in service access systems that are specially designed for the health (hospitals, clinics), education (universities, schools) and corporate markets.

The multi-function card solution called MultiSpAK has won new clients in Switzerland such as Philip Morris International, DuPont de Nemours International, the French-speaking Swiss TV channel Télévision Suisse Romande and many others.

The MultiSpAK system is built around a database. A single chip can handle several access-based or e-payment services.

World Economic Forum
As a strategic partner of the World Economic Forum for several years, the Kudelski Group renewed its partnership agreement for another three years in 2005. The ongoing relationship between the two organizations has deepened over the years. The physical access solution provided by the Group for the Annual Meeting of the World Economic Forum in Davos offers new features every year.

The secure badge system provides participants with greater security and enhanced services, and gives the World Economic Forum organizers a top performance management tool. The solution handles registration as well as participant access to various sessions or to the Web information platform.

Montreux Jazz Festival
Each year, the Kudelski Group has strengthened its partnership with the Montreux Jazz Festival Foundation. The Group has been associated with the Festival since the beginning of the event, through the recording of concerts on Nagra equipment, and has been an official sponsor for the past four years.

For the 2004 edition, Nagra installed a sound system to broadcast a number of exclusive concerts from the Festival archives. The opportunity to view again such great concerts as those of Al Jarreau, Nina Simone and George Duke among others was greatly appreciated by the audience. The exceptional sound quality of the Nagra system gave spectators a chance to relive the magic of the Festival.

In 2004 again, the Kudelski Group was at the hub of the Festival’s logistics for the accreditation and payment card system. The Group continues to support the development of the Festival with innovative and customized solutions.
Professional or high-end hi-fi products: Nagra has a special place in the audio industry.

For decades, radio reporters and sound hunters have trusted their Nagra recorders, carrying them around the planet.
50 years of innovation

The worldwide prestige of the Nagra brand has its roots in the audio industry, the starting point of the Kudelski company back in 1951.

Portable Nagra recorders founded the legend at a time when recording equipment was bulky and immobile. The company introduced miniaturization, mobility and autonomy.

Moreover, offering unparalleled sound quality and extremely robust, these recorders were welcomed as a revolution in professional radio, television and cinema. Even secret services around the world embraced the technology of the recorders.

Over the years, the Nagra flame has never faltered and each new generation of equipment has offered more innovative features. No other brand in the industry has received as many prestigious awards as Nagra for its technological creativity and its unique contribution to audio history.

2004: a very active year

As a result of its repositioning efforts, the Audio division redeployed intensive efforts across its markets in 2004, grossing most of its business through exports. 60% of sales were achieved in Europe while the remaining 40% was divided between North America, Asia and the Middle East.

The company participated in numerous exhibitions and trade shows worldwide, providing valuable contacts with agents and distributors as well as users. This direct approach helped push sales, posting the best results of the decade.

During the year, Nagra Audio launched a series of innovations and new versions of existing products.

Professional equipment: bolstering key segments

In the sector of portable recorders designed for radio applications – where Nagra is the leader – the digital Ares BB was launched during the second half of 2004 and immediately well received. This machine offers excellent ergonomics, is lightweight, compact, and is shoulder-hung in the pure Nagra tradition. It also provides full compatibility: recorded sounds can be transferred to any workstation or personal computer (PC or MAC), running off-the-shelf software.

Moreover, the Ares BB is competitively priced, which should help to bolster Nagra’s position in this market segment.

Launched in 2003, the Ares PII is another digital pocket recorder for radio journalists, which was technically updated in 2004. It now uses the FAT 32 format, widespread across the PC world. The device can therefore accept removable Compact Flash memory cards with larger capacities (more than 2 Gbits).

A new option was introduced for the Nagra V, with the addition of an internal hard disk drive, so that when recording a copy can be made simultaneously of the external hard disk drive. This change guarantees that no information is lost during or after the recording, consequently ensuring ever-greater data security. The successful Nagra V product is a market leader on twin-track portable recorders. It serves as a market reference for recording in-the-field for the movie industry and for musical recordings for record companies.

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A richer product range for audiophiles

For a long time, Nagra production was sold exclusively to professionals, but the company turned to the general public in 1997, with products targeting music-loving audiences and audiophiles. Building on the brand’s reputation, the new high-end hi-fi product line quickly established itself in the small world of recognized and prestigious brands.

Products include pre-amplifiers and vacuum tube and transistor amplifiers, as well as a digital-to-analogue DAC converter and a miniature recorder.

In late 2004, a family of innovative amplifiers joined the product range, the PMA and PSA. The pyramidal device comes in both mono (PMA) and stereo (PSA) versions. It also features a patented PFC (Power Factor Corrector) circuit, and yields excellent performance at an attractive price, thus reaching out to a broader market and opening up new and interesting development possibilities.

The official launch of Nagra PMA and PSA amplifiers took place at the Las Vegas international CES (Consumer Electronic Show) in early 2005.

Another award for the Nagra VPA

The Nagra VPA, an 845 tube amplifier, was voted “Amplifier of the Year” 2004 by the German magazine “image hifi”. This prize, awarded to a product launched in 1999, shows the longevity of Nagra equipment which, far from becoming obsolete, gains year after year in both reputation and recognition.
Note concerning corporate governance
This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which entered into force on July 1, 2002. Unless otherwise mentioned, the information given in this report reflects the situation as of December 31, 2004.
1/ Group structure and shareholders

1.1 Group Structure

Kudelski SA is registered in Cheseaux-sur-Lausanne.

The company has been structured as a holding company since 1999. It has shares that have been listed on the SWX Swiss Exchange since 2 August 1999 and the company has been part of the SMI (Swiss Market Index) since October 1, 2000.

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 shareholdings in the digital television sector are held directly by Kudelski SA, while the principal shareholdings 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

Please refer to the next page.

1.1.2 Listed companies included in the scope of consolidation

Kudelski SA, which is registered in Cheseaux-sur-Lausanne, Switzerland, is a Swiss holding company listed on the SWX Swiss Exchange (val No 001226836 / ISIN CH0012268360) with market capitalization at December 31, 2004 of CHF 1,961,656,444. Only Kudelski SA bearer shares 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 11-13 of the Kudelski Group 2004 Financial Statements.

1.2 Significant shareholders

The principal shareholder of Kudelski SA is the Kudelski family. No other shareholder holds more than 5% of the capital and there are no shareholders’ agreements.

31.12.04

Kudelski family
listed bearer shares 12,939,909
unlisted registered shares 49,302,000
Voting rights 63.54%
Share capital held 34.08%

1.3 Cross-shareholdings

There are no cross-shareholdings.

1.3.1 Nagra Audio activity

The Nagra Audio activity is an integral part of Nagravision SA. It is under the operational direction of Charles Egli, Executive Vice President.
2/ Capital structure

Kudelski Group
Annual report 2004

2.1 Amount of the ordinary, authorized and conditional capital

2.2 Authorized and conditional capital in particular

Ordinary capital

The share capital amounts to CHF 515'000'000. It is divided into 46'929'580 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 26, 2006, by a maximum total of CHF 408'616'400 through the issue 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 corporations or parts of corporations 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 68'341'760 and is structured as follows:

- A maximum amount of CHF 8'341'760 through the issue of a maximum of 834'176 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 over the last three financial years

<table>
<thead>
<tr>
<th>Year</th>
<th>31.12.04</th>
<th>31.12.03</th>
<th>31.12.02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered share capital</td>
<td>46'300</td>
<td>46'300</td>
<td>46'300</td>
</tr>
<tr>
<td>Bearer share capital</td>
<td>469'296</td>
<td>468'649</td>
<td>467'299</td>
</tr>
<tr>
<td>Net profit</td>
<td>723'372</td>
<td>723'372</td>
<td>723'372</td>
</tr>
<tr>
<td>Total available earnings</td>
<td>162'632</td>
<td>162'036</td>
<td>160'985</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>736'192</td>
<td>736'905</td>
<td>732'983</td>
</tr>
</tbody>
</table>

Information relating to changes in capital having taken place in 2004, 2003 and 2002 are shown in the Group's corresponding financial statements.

2.4 Shares and participation certificates

The capital of Kudelski SA on December 31, 2004 was made up of 46'300'000 registered shares and 46'929'580 bearer shares. 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.

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

a) If there exists good cause within the meaning of Article 688 b (2) of the Swiss Code des Obligations, i.e. if admission of the acquirer of the stocks into the shareholder group is incompatible with the object of the company or is capable of compromising the economic independence of the company.

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 on his own behalf and for his own account.

If the shares were acquired by right of succession, estate distribution, marital agreement or judicial execution proceedings, the company may only refuse consent if it offers to take over the shares from the acquirer at their actual value.

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

Kudelski SA has no regulations concerning nominee registration.

2.7 Convertible bonds and options

Convertible bond

At the end of January 2002, Kudelski Financial Services Holding S.C.A., a 100% subsidiary of Kudelski SA, issued an unsubordinated convertible bond of USD 325 million. The conversion price was initially fixed at CHF 127.50 per ordinary bearer share of Kudelski SA and was changed on July 31, 2003 to the corresponding amount of CHF 100 (on the basis of a USD exchange rate of 1.6396) in conformity with the provisions of the bond public offering prospectus. Kudelski SA guarantees this issuance unconditionally and irrevocably.

The annual coupon is 2.25% calculated on the nominal amount of the bonds and payable semi-annually (on January 31 and July 31) from July 31, 2002.

As of January 31, 2009, the maturity date, the issuer will redeem the bonds at 105.79% of their nominal amount. As of January 31, 2009, the issuer will redeem the bonds at 105.79% of their nominal amount.

During the 2002 and 2003 financial years, a bond repurchase operation was conducted on the market. By December 31, 2003, the Kudelski SA Group had repurchased USD 152.072 million in nominal value. These bonds have been cancelled. Following this operation, the nominal amount of bonds in circulation on December 31, 2004 stood at USD 172'928 million.

The offering circular for the convertible bond is available on the Kudelski Group website under the following link: www.nagra.com/rapport_annuel/convertible.pdf

Options

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

The following options were distributed:

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Expiration</th>
<th>Exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>125'000</td>
<td>01.04.08</td>
<td>CHF 1</td>
</tr>
<tr>
<td>125'000</td>
<td>01.04.07</td>
<td>CHF 2</td>
</tr>
</tbody>
</table>

For more information on the stock option plan, please refer to the Kudelski Group’s financial statements.

Share purchase plan

In 2004, the Kudelski Group implemented a share purchase plan for employees of certain companies in the Group, enabling them 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.

A chart relating to employees’ participation in this plan for the year 2004 is available in the Kudelski Group Financial Statements page 26.

A chart relating to employees’ participation in this plan for the year 2004 is available in the Kudelski Group Financial Statements page 26.
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 is made up of eight members elected by the General Meeting of shareholders.

The Board of Directors has an Audit Committee, a Strategy Committee and a Remuneration Committee.

Membership is as follows:

**André Kudelski**
Chairman of the Board and Chief Executive Officer (CEO)

**Claude Smadja**
Deputy Chairman of the Board of Directors and Lead Director

**Norbert Bucher**

**Laurent Dassault**

**Patrick Fœtisch**

**Stefan Kudelski**

**Pierre Lescure**

First election to the Board at the Ordinary General Meeting on 26 May 2004

**Gérard Limat**

Secretary to the Board:

**Nicolas Gatschmann**
Corporate Secretary (not member)
Stefan Kudelski

Stefan Kudelski studied at Florimont (Geneva). Self-taught in electronics, from 1948 he studied to be a physical engineer at the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology). In 1951, he created the Kudelski firm with the first Nagra, a self-contained tape recorder designed for radio reporters. Within a few years, having expanded into new, enhanced models, the Nagra range became a standard tool in the cinema and television industry.

In 1991, a project for diversification into the field of encryption for pay TV provided the firm with a new direction. At this point, Stefan Kudelski handed over the reins of management to his son, André Kudelski.

Stefan Kudelski has received many awards during his career: Academy Awards (Oscars) in 1965, 1977, 1978 and 1983, two Emmy Awards and Gold Medals from L. Warner, AES (Audio Engineering Society), Lyra and Eurotechnica.

He is also an honorary member of AES, of SMPTE (Society of Motion Picture Television Engineers), of BKTST (British Cinematograph Sound and Television Society), of SVIA (Schweizerischer Verein für Informatik in der Ausbildung), of IEEE (Institute of Electrical and Electronics Engineers) and of AMPS (Association of Motion Picture Sound). In addition, he possesses an honorary doctorate from the Ecole Polytechnique Fédérale de Lausanne.

Stefan Kudelski has been on the Kudelski SA Board of Directors since 1968.

Patrick Fätsch

Patrick Fätsch graduated from the University of Lausanne as a Doctor of Law. He manages his own law office.

He sits on the Board of Directors of Renault Finance SA, Lausanne and of Renault Holding AG, Zug.

A member of the Kudelski SA Board of Directors since 1992, he is also Chairman of the Board’s Remuneration Committee.

Patrick Fätsch acts as legal counsel to the Group as and when required.

He holds positions on the Board of the following Kudelski Group companies: Nagrevision (President), NagraCard (President), Nagra Plus (member of the Board), NagraID (President), Tourist Data Shop (member of the Board) and SportAccess (member of the Board).

He is also a member of the Supervisory Board of SkiData.

Pierre Lescure

After taking a university degree in literature and journalism, Pierre Lescure started his career working with various radio stations (RTL, RMC, Europe1) and then turned to the television industry in the early 1980s. In 1982-1983, he was editor-in-chief at Antenne 2 and, in 1984, worked with André Rousselet on the Canal+ project. In 1988, he was appointed Chief Executive Officer of Canal+, and, in 1993, President and Chief Executive Officer.

From 2000 to 2002, he was co-Chief Executive Officer of Vivendi Universal.

Pierre Lescure is member of the Supervisor 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.

Pierre Lescure was elected a member of the Board of Directors of Kudelski SA at the Ordinary General Meeting on May 26, 2004.

Laurent Dassault

A business law graduate, Laurent Dassault also holds a degree from the Paris ESLSCA (School of Applied Commercial Sciences). In 1977, he began his career at Banque Vernes and at Banque Industrielle et Commerciale du Marais, taking over Banque Parisienne Internationale with Paribas in 1980.

In 1992, he joined the Groupe Industriel Marcel Dassault (GIMD), where he now holds important positions within its various French and foreign structures.

He is Chairman and Managing Director of Dassault Belge Aviation, Managing Director of Immobilière Dassault SA and a member of the board of GIMD, SVE, Dassault Systèmes, SOGITEC Industries SA, IPS (Industrial Procurement Services), APRO (Aero Precision Repair and Overhaul Company) and Assicurazioni Generali S.p.A. in Trieste, Italy. He is also Chairman of Midway Aircraft.

Laurent Dassault sits on the Board of Terramaris SA in Fribourg, Switzerland, and on the Power Corporation in Montreal, Canada.

He is also a member of the Advisory Board of Syntak Capital SA in Pulich, Germany, and of the Advisory Committee of Sagard Private Equity Partners in Paris.

Laurent Dassault has been a member of the Kudelski SA Board of Directors since 1995.

Gérard Limat

Gérard Limat studied accountancy and has worked within the Dassault Group since 1968. He is currently the manager of Terramars International SA in Meinen-Genève (a company belonging to the Dassault Group).

He is also Chairman of the Board of Directors of Société Financière Terramars SA in Fribourg, Sita SA in Fribourg and Dasnair SA in Meinen-Genève.

In addition, he sits on the Board of Cendres et Métaux in Bienne, of Société d’Exploitation du Stade de Genève in Geneva and of Olympic Tools Hellas in Greece.

He was appointed to the Kudelski SA Board of Directors in 1995 and is a member of the three Committees within the Board, namely the Audit, Strategy and Remuneration Committees.

Gérard Limat is also a member of the Board of Ticketcorner, Nagra Public Access and SportAccess.

Patrick Fätsch

Patrick Fätsch graduated from the University of Lausanne as a Doctor of Law. He manages his own law office.

He sits on the Board of Directors of Renault Finance SA, Lausanne and of Renault Holding AG, Zug.

A member of the Kudelski SA Board of Directors since 1992, he is also Chairman of the Board’s Remuneration Committee.

Patrick Fätsch acts as legal counsel to the Group as and when required.

He holds positions on the Board of the following Kudelski Group companies: Nagrevision (President), NagraCard (President), Nagra Plus (member of the Board), NagraID (President), Tourist Data Shop (member of the Board) and SportAccess (member of the Board).

He is also a member of the Supervisory Board of SkiData.

Norbert Bucher

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

Norbert Bucher began his professional career with Sulzer, in Winterthur and New York, continuing it 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 post of Senior Vice President of Jacobs Suchard in Zurich for seven years.

A member of the Kudelski SA Board of Directors since 1992, he is also a member of the Board’s Audit Committee.

Norbert Bucher is also a member of the Board of Nagra Plus and Chairman of the Board of Directors of Ticketcorner.

Stefan Kudelski

Stefan Kudelski studied at Florimont (Geneva). Self-taught in electronics, from 1948 he studied to be a physical engineer at the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology).

In 1951, he created the Kudelski firm with the first Nagra, a self-contained tape recorder designed for radio reporters. Within a few years, having expanded into new, enhanced models, the Nagra range became a standard tool in the cinema and television industry.

In 1991, a project for diversification into the field of encryption for pay TV provided the firm with a new direction. At this point, Stefan Kudelski handed over the reins of management to his son, André Kudelski.

Stefan Kudelski has received many awards during his career: Academy Awards (Oscars) in 1965, 1977, 1978 and 1983, two Emmy Awards and Gold Medals from L. Warner, AES (Audio Engineering Society), Lyra and Eurotechnica.

He is also an honorary member of AES, of SMPTE (Society of Motion Picture Television Engineers), of BKTST (British Cinematograph Sound and Television Society), of SVIA (Schweizerischer Verein für Informatik in der Ausbildung), of IEEE (Institute of Electrical and Electronics Engineers) and of AMPS (Association of Motion Picture Sound). In addition, he possesses an honorary doctorate from the Ecole Polytechnique Fédérale de Lausanne.

Stefan Kudelski has been on the Kudelski SA Board of Directors since 1968.
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 establishes itself by appointing a Chairman and a Deputy Chairman. The Secretary may be chosen from outside the Board of Directors. He or she is not a member of the Board.

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 interest of the company requires such independent discussion. He ensures a performance appraisal process for the Chairman and Chief Executive Director 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.

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 established by the law (Art. 716 CO).

The Chairman is delegated responsibility for conducting discussion at the General Meeting, the minutes and the conduct of meetings of the Board, the task of informing the members of the Board of the development of business and the biannual accounts as well as representation of the company in respect of administrative and judicial authorities.

The Board of Directors today is made up of eight members, seven 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, 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 interest of the company requires such independent discussion. He ensures a performance appraisal process for the Chairman and Chief Executive Director 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.

3.5.2 Members list, tasks and area of responsibility for each Committee

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 Committee

The Remuneration 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 top management of the company.

This 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 satisfy itself of their integrity, transparency and quality. It ensures the compliance of the accounting methods with applicable regulations on the subject and also sees to 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.

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.

3.5.3 Work methods of the Board of Directors and its Committees

In 2004, the Board and its Committees met as follows:

<table>
<thead>
<tr>
<th>Committee</th>
<th>Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>7</td>
</tr>
<tr>
<td>Strategy Committee</td>
<td>2</td>
</tr>
<tr>
<td>Remuneration Committee</td>
<td>3</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>3</td>
</tr>
</tbody>
</table>

Average attendance at Board meetings, excluding absences for health reasons, was more than 90%. The Board reserved one full day for the discussion of strategic questions. With the exception of this one-day meeting, most meetings lasted between 3 and 4 hours.

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 established in the By-laws. This document is available on request from the General Secretariat of the Kudelski Group.

3.7 Information and control instrument vis-à-vis the group management

The Group has defined and implemented a new risk management process enabling the systematic identification of key business risks, their potential impact and proposed mitigation measures. The risk management process addresses reasonably likely events and developments with a material economic impact on the Group and covers market, strategic, operational and financial risks.

The Controlling function provides ad hoc financial and operational audits 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. For example, an assessment of IT-related risks was conducted on behalf of and discussed with the Audit Committee.

The Group continued to develop its Management Information System, further enhancing the scope, quality and timeliness of its reporting. A standardized reporting for all legal units and the relevant core centers within each unit is available. Moreover, a Project Controlling Office provides key customer and project-based operational indicators.
4/ Group management

4.1 Group executive management members

4.2 Other activities and vested interests

This information is provided in the individual CVs of the members of the Group management in the following pages.

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

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

- **Adrienne Corboud Fumagalli**
  Executive Vice President Business Development

- **Nicolas Gœtschmann**
  Corporate Secretary
  Director of Group Administration

4.3 Management contracts

There were no management contracts in place at Kudelski SA on December 31, 2004.
André Kudelski (1948)
Chairman and Chief Executive Officer (CEO)
Swiss nationality

André Kudelski obtained a degree in physical engineering from the École Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology) in 1984. He then held the position of R&D Engineer at Kudelski SA in 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 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 sits on the Boards of the Edipresse Group, Nestlé and Dassault Systèmes (France), among others. He is also a member of the Advisory Board of Credit Suisse, of the Swiss American Chamber of Commerce and of the Board of economicsuisse.

André Kudelski presides over 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), Nagra Plus (President and Chief Executive Officer) and MediaCrypt (President).

André Kudelski is also a member of the Supervisory Board of SkiData.

Pierre Roy (1952)
Chief Operating Officer (COO) Digital TV Executive Vice President
Swiss nationality

After obtaining a degree in business management from HEC, the business administration school of the University of Lausanne, in 1979, Pierre Roy began his professional career as a financial analyst with Procter & Gamble. Building on this initial experience, in 1977 he joined IBM as a commercial engineer. 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 Précisal SA (then a company belonging to the Kudelski Group).

Since 1999, he has managed his own business consultancy company and has worked in the telecommunications sector while continuing to contribute to strategic projects for Nagravision. On January 17, 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 Nagravision, NagraCard, NagraID, Livewire and Nagra Thomson Licensing.

Charles Eglı (1948)
Chief Executive Officer (CEO) Nagra Public Access Executive Vice President
Swiss nationality

Charles Eglı has a degree in electronic engineering from the ETHZ technical college. He worked at Studer Revox in Zurich as an R&D engineer and then as a project manager until 1989, the year in which he joined Nagravision as project manager. He was appointed Chief Operating Officer of Kudelski SA in 1992, then on January 17, 2003 President and Chief Executive Officer of Nagra Public Access and Executive Vice President of the Kudelski Group. Charles Eglı has also been CEO of SkiData since September 2004.

He sits on the Board of the following Kudelski Group companies: Nagravision, NagraCard, NagraID, Ticketcorner, SportAccess, SkiData (Schweiz), SkiData France, AccessArena and Tourist Data Shop.

Alan Guggenheim (1950)
Chief Executive Officer (CEO) NagraStar Executive Vice President
French nationality – American nationality since 1991

Alan Guggenheim is an engineering graduate from the ESP (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 Antilles 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).

Having moved to California, he 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 1992 and 1996 and a founding member of the board of the Pacific States Bank in Stockton, CA, from 1985 until 1987.

Since 2000, Alan Guggenheim has been Chief Executive Officer of NagraStar, a company owned equally by the Kudelski Group and EchoStar.

He was appointed Executive Vice President of the Kudelski Group on January 17, 2003. He is also Chairman of Nagra USA, Inc. since 2003.

Mauro Saladini (1966)
Chief Financial Officer of the Group (CFO) Executive Vice President
Swiss nationality

Mauro Saladini has a degree in electrical engineering from the ETHZ (Swiss Federal Institute of Technology 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 that company’s Zurich branch 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 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 on February 1, 2003.

Mauro Saladini is also member of the Supervisory Board of SkiData.

Nicolas Gättschmann (1960)
Corporate Secretary – Director of Administration
Swiss nationality

Nicolas Gättschmann is an economics graduate 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 Group Administration.

Nicolas Gättschmann is a member of the Board of Lysis SA and Leman Consulting, two Kudelski Group companies.
5/ Compensations, shareholdings and loans

5.1 Content and method of determining the compensation and shareholding programmes

The Remuneration Committee controls and approves the remuneration policy established by the company. It also has responsibility for determining the remunerations of 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.

For the specific portfolios allocated to members of the Board of Directors of Kudelski SA or of one of the companies in the Group, the services rendered are remunerated on the basis of fees, with the amount of the benefits corresponding to the going market rate for this type of portfolio.

Members of Group management

The global annual remuneration of members of the Group management includes a 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 the form of Kudelski SA bearer shares.

Shares and/or stock options may be attributed by the remuneration 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 2004 to members of the Board of Directors and/or members of the Group management amounted to CHF 7 439 485.

This sum breaks down as CHF 6 972 485 for executive members of the Board of Directors and for members of the Group management and CHF 467 000 for 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 2004.

5.3 Compensation for former members of governing bodies

A total of CHF 357 380 was paid to two former members of Group management in 2004. One of these persons became scientific consultant to Group management.

5.4 Share allotment in the year under review

During the financial year 2004, a total of 85’837 bearer shares of a nominal value of CHF 10 each was allotted to executive members of the Board of Directors and members of Group management. No shares were allotted to non-executive members of the Board of Directors.

5.5 Share ownership

The number of Kudelski SA shares held on December 31, 2004 by the entirety of the executive members of the Board of Directors and by members of the Group management of Kudelski SA as well as the entirety of the parties closely linked to such persons was 12’953’236 bearer shares and 46’300’000 registered shares.

Excluding the Kudelski family, the number of Kudelski SA shares held on December 31, 2004 by the entirety of the other members of the Board of Directors as well as the entirety of the parties closely linked to such persons was 1’438’520 bearer shares.

5.6 Options

The Kudelski Group implemented an option plan in 2003.

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

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Vesting</th>
<th>Expiration</th>
<th>Ratio</th>
<th>Exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>43 960</td>
<td>01.04.07</td>
<td>01.04.08</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
<tr>
<td>43 960</td>
<td>01.04.07</td>
<td>01.04.08</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
<tr>
<td>43 960</td>
<td>01.04.08</td>
<td>01.04.09</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
</tbody>
</table>

Year of grant: 2003

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

<table>
<thead>
<tr>
<th>Number of options</th>
<th>Vesting</th>
<th>Expiration</th>
<th>Ratio</th>
<th>Exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>6’000</td>
<td>01.04.07</td>
<td>01.04.08</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
<tr>
<td>6’000</td>
<td>01.04.07</td>
<td>01.04.08</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
<tr>
<td>6’000</td>
<td>01.04.08</td>
<td>01.04.09</td>
<td>1-for-1</td>
<td>CHF 20</td>
</tr>
</tbody>
</table>

Year of grant: 2003

No option was distributed during financial year 2004.

5.7 Additional fees and remunerations

The additional fees (including consulting fees and fees relating to other contracts/agreements) and other remunerations paid by the Kudelski Group for services rendered during the financial year 2004 to members of the Board of Directors and to parties closely linked to them were as follows: CHF 595’162 to Mr. Patrick Fœtisch – for himself and the lawyers appointed by him – as legal advisor for the various requests of the Kudelski Group.

5.8 Loans granted to governing bodies

At December 31, 2004, 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 linked 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 2004, the elements are as follows:

- compensation: CHF 4’132’914 (in cash)
- share allotment: 77’000 (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 laid down in the Swiss Code des Obligations. The Articles of Incorporation are available on the Kudelski Group website under the following link: http://www.nagra.com/rapport_annuel/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 Convocation of the General Meeting of shareholders
The statutory rules on 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 option up in its Articles of Incorporation. Thus the provisions regarding the legally prescribed 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 26, 2004.

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 970,620 to PricewaterhouseCoopers for auditing services for the year 2004.

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 415,416 to PricewaterhouseCoopers for additional services for the year 2004.

Additional services are understood to mean in particular services such as the auditing of occasional 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 the management of risk.

8.4 Supervisory 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 chief partner, 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 web site 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, around five or six times a year. 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 member 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 web site is a permanent 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) 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: www.nagra.com/investorDoc.php

E-mail addresses

General information: info@nagra.com
Investor relations: ir@nagra.com
Media relations: communication@nagra.com
### Historical overview

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>Birth of the first portable recorder, the Nagra I.</td>
</tr>
<tr>
<td>1958</td>
<td>Release of the Nagra III, the legendary cinema recorder.</td>
</tr>
<tr>
<td>1965</td>
<td>First Nagra SN (Série Noire), the miniature device for secret agents.</td>
</tr>
<tr>
<td>1984</td>
<td>First portable professional video recorder, the Nagra VPM-5.</td>
</tr>
<tr>
<td>1986</td>
<td>The company is listed on the stock market.</td>
</tr>
<tr>
<td>1989</td>
<td>Canal+ adopts Kudelski’s access control system for pay television.</td>
</tr>
<tr>
<td>1992</td>
<td>Creation of Nagra+, a joint venture with Canal+. Launch of the Nagra-D, the first portable professional 4-track digital recorder.</td>
</tr>
<tr>
<td>1996</td>
<td>Full conversion of the convertible bond (1986-1996) as part of a PEO.</td>
</tr>
<tr>
<td>1997</td>
<td>85% of sales are achieved in the conditional access television sector.</td>
</tr>
<tr>
<td>1998</td>
<td>Nagravision conquers the British cable market. Creation of Nagravision, a joint venture with EchoStar, and of NagraCard. First systems offering mixed pay TV/Internet solutions.</td>
</tr>
<tr>
<td>1999</td>
<td>First encryption systems designed for broadband networks. Creation of MediaCrypt and investment in NagraID. Kudelski stock is listed on the principal market of the SWX Swiss Exchange.</td>
</tr>
<tr>
<td>2001</td>
<td>Acquisition of SkiData, Ticketcorner, Lysis, Livewire and creation of AccessArena. The Kudelski share is split by 10. Launch of a convertible bond of USD 325 million. The operation is heavily over-subscribed.</td>
</tr>
<tr>
<td>2002</td>
<td>A difficult year for Kudelski, which suffers from the impact of the crisis in the digital television market, particularly in Europe, and of unfavorable developments in the foreign exchange markets. After a ten-year period of uninterrupted growth, the Kudelski Group issues the first profit warning in its history. The company carries out an in-depth review of its structures. Creation of the holding company Nagra Public Access (grouping together the companies SkiData, Ticketcorner and SportAccess).</td>
</tr>
<tr>
<td>2003</td>
<td>Recovery of the digital television market. The digital television unit is reinforced with the acquisition of the MediaGuard activity of Canal+ Technologies. The Kudelski Group becomes the world leader in the field of conditional access solutions.</td>
</tr>
<tr>
<td>2004</td>
<td>The Group publishes record results. The Group 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 tripled its digital TV revenues in Europe and almost doubled them in America.</td>
</tr>
</tbody>
</table>
Group companies

**Digital TV**

- **Nagravision**
  Integrated security software solutions for digital television operators and content providers.
- **Livewire**
  Development of software solutions for digital decoders.
- **Nagra France**
  MediaGuard integrated conditional access solution.
- **NagraID**
  Security technology using smart cards for digital television and other applications such as physical access.
- **MediaCrypt**
  Fundamental encryption technology based on Ascom’s IDEA™ algorithm. Equally owned with Ascom (CH).
- **NagraStar**
  Conditional access and smart cards used by EchoStar’s DISH Network American satellite television system and companies affiliated to EchoStar. Equally owned with EchoStar (USA).
- **Nagra Thomson Licensing**
  Joint-venture company equally owned with Thomson (F), whose role is to manage the patents portfolio and patent applications for MediaGuard pending as of 31.12.2003.

**Nagra Public Access**

- **Livewire**
  Development of software solutions for digital decoders.
- **Nagra Plus**
  Security systems for analog pay television. Equally owned with Canal+ (F).
- **Nagra Thomson Licensing**
  Joint-venture company equally owned with Thomson (F), whose role is to manage the patents portfolio and patent applications for MediaGuard pending as of 31.12.2003.

**Nagra Audio**

- **Nagra Audio**
  Portable digital recorders for professionals; products in the high-end hi-fi sector.
- **Ticketcorner**
  One of the principal ticketing organizations in Europe.
- **SportAccess**
  Open-ended rights and services management solutions for hospitals, universities and corporations.
- **ACCESS ARENA**
  Destination management solutions enabling visitors to a tourist region to access different services using just one smart card.
- **Tourist Data Shop**
  Platform for the reservation and purchase of online products and services in tourism.

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Annual report 2004
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Annual report 2004

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