Kudelski Group
Interim report 2006

NAGRA
KUDELSKI GROUP

2006 Interim Report Kudelski Group
Message to the Shareholders

The Kudelski Group delivered promising first half results in 2006, driven by both the favorable evolution of its business in Europe and Asia and the sale of a majority stake in Ticketcorner.

Group performance during the first six months is in line with previous years with underlying organic growth of close to 22% excluding Ticketcorner and card swap revenues. With several new customers in the Digital Television and Public Access sectors, the Group continues to extend its footprint into new markets.

For nearly a decade, the principal growth driver of the Kudelski Group has been satellite and cable digital television for "premium" operators. This activity has posted an average annual growth of 25% over this period. While the Group initially entered just a limited number of pioneer markets, it has today become a key player internationally securing extensive use of its technologies worldwide.

Paralleling the development of premium digital television, controlled access digital TV has become increasingly important. This is a significant evolution transforming digital television from a niche to a mass market business.
The deployment of the "basic access" system via cable in Germany and the agreement with APS in 2006 represent the first concrete phases of an evolution which is expected to become an important growth driver for the Kudelski Group as from 2007.

The increasing consumer accessibility of digital television is driving broader penetration of digital TV sets and standard decoders. These will require more extended use of conditional access modules to allow selective consumer access to programs. The Kudelski Group's recent acquisition of SmarDTV, positions the Group to become the world leader in this sector, broadening its range of conditional access solutions.

In addition to the outstanding development of digital television markets, new opportunities are emerging outside the traditional operators realm - such as IPTV (internet television) and mobile television.

Until recently, IPTV and mobile TV technologies only existed as concepts and accordingly required substantial risk investments. The Kudelski Group made an early decision to invest in these new sectors and the first tangible results are now apparent.

Thanks to the Nagravision solution, the 110,000 early subscribers to 3 Italia's mobile television service were able to follow the football World Cup this summer – another example of the Group's pioneering innovation in maturing markets. Following this launch, telephone manufacturers Samsung and LG selected Kudelski's Nagravision mobile TV technology for worldwide application. Italian telephone operator TIM also selected Group technology, making Nagravision the de facto standard in the Italian market.

Quative, the IPTV entity of the Kudelski Group, is today ready to deliver an integrated IPTV solution to operators who wish to offer Internet television services. Several pilot systems were installed and are being assessed by IPTV operators.

Message to the Shareholders

Strategy and perspectives

To secure future growth, the Kudelski Group continues to follow its long-term development strategy characterized by increased R&D efforts particularly within the digital television division. The Group thus plans to steadily reinforce and extend its presence into new, high growth potential markets in the digital television sector.

Also within the digital television sector, the Kudelski Group intends to migrate the majority of its key customers to rental model over the mid-term, to reduce the volatility of its revenue stream and to better align the interests of operators and the Group. Several new important clients have already opted for this model, thus contributing to a 14% growth of the rental base, to reach 14,2 million units. However, the Group applies strict margin protection policies in transitioning customers to the rental model – and thanks to sustained market growth, the Group expects to be able to achieve the steady transition to rental mode with a less dramatic impact than initially anticipated.

Within the Public Access division, the Group continues to focus on organic growth and on developing its business outside Europe, while making targeted investments in innovative new products and solutions.

The Kudelski Group also anticipates making one or more targeted acquisitions, principally in the digital television sector, primarily to broaden its product and solution range and/or to increase market share. The Group has the necessary cash to successfully pursue its strategy.

In sum, the Group is optimistic about prospects for the sustained future development of its business and is confident that the substantial recent R&D investments will contribute strongly to driving its mid and long term growth.

Key figures - 1st half-year 2006

in CHF'000	January/June 2006 unaudited	January/June 2005 unaudited	in %
Total revenues	305 085	334 445	-8.8%
Gain on sale of subsidiary	59 236	–	
Margin after cost of material sold	277 796	228 651	21.5%
Margin after cost of material sold in % of total revenues	91.1%	68.4%	
OIBDA, Operating income before interest, taxes, depreciation and amortization	117 661	82 476	42.7%
OIBDA in % of total revenues	38.6%	24.7%	
EBIT, operating income	97 339	64 459	51.0%
EBIT in % of total revenues	31.9%	19.3%	
Net income	90 310	37 941	138.0%
Earnings per bearer share (in CHF)			
- Basic	1.7045	0.6261	
- Diluted	1.6451	0.6261	

in kCHF	30.06.2006 unaudited	31.12.2005 audited	in %
Shareholders' equity including minority interest	467 641	390 493	19.8%
Cash and cash equivalents	474 569	434 685	9.2%
Market capitalization *	1 532 247	2 018 218	
Share price (in CHF)	29.55	39.05	

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

2006 Interim Report Kudelski Group
Activity in the first half of 2006

Introduction

Following a record year in 2005, the first half 2006 confirmed the strong momentum of the Group's digital TV business and a continued improvement of Public Access activities.

Total net revenues for the Group reached CHF 305.1 million. Moreover, the Group booked a CHF 59.2 million gain on the sale of Ticketcorner.

Digital TV economics in the first half of 2005 were driven by large volumes of swap out cards at customers such as Echostar, Digital + and Bell ExpressVu. In the first half of this year, Digital TV generated CHF 239.9 million of revenue. This represents a structural growth of 26.7% compared to the first half 2005 pro-forma revenue, net of the swap-out impact. The revenue-generating installed base of cards in the rental model increased by 14% to 14.2 million units, with a total number of active smart cards now in excess of 66 million.

With the reduction of the Group's stake in Ticketcorner to 28%, Ticketcorner consolidated revenue of CHF 10.9 million is no longer consolidated in the Public Access segment. Public Access revenues with a constant perimeter of consolidation increased by 9% from CHF 59.8 million to CHF 65.1 million.

Break-down by region Digital TV

In absolute terms, Europe was the key driver of the Digital TV segment performance. Net sales increased by 19% to CHF 137.9 million. In addition to established customers, such as the Canal Group, Premiere, UPC and NTL/Telewest, the Group extended its footprint to several other operators. German cable operators are generating material volumes of new cards, including initial basic encryption cards. In Italy, Mediaset continues to develop very strongly both in terms of new cards and new system releases. Further customers generating material number of cards in the first half include Eastern European operator RCS, currently in the launch phase, TV Cabo in Portugal and Polsat in Poland: in aggregate these three operators generated close to one million new cards in the first half year.

In the Americas, Digital TV generated CHF 65.9 million of sales, roughly in line with last year's revenues net of swap-outs. Brazilian operators Net and TVA developed particularly well both in terms of cards and equipment sales.

In Asia, Digital TV achieved a growth rate of 62% to CHF 35.4 million, reflecting in particular the positive development of Astro in South-East Asia as well as the deployment of a complete solution suite at Starhub in Singapore.

Break-down by region Public Access

While Europe still represents the key driver of Public Access sales, both the American and the Asian markets continue to deliver a high growth rate, with a sales increase of 31% and 34% respectively compared to the first half of last year. Within two years, the share of sales from these two markets has increased from 8% to 18% of total Public Access sales.

Group profitability

Margin after cost of material sold, a pro-forma non-IFRS item, increased from CHF 228.7 million to 277.8 million, including the CHF 59.2 million gain from the sale of Ticketcorner. Even net of this gain, however, this margin was up three percentage points compared for last year, reflecting, in particular a favorable business mix, with a substantial contribution of service and licensing revenues.

Personnel expenses are up CHF 2.4 million due to our ongoing investments in new business areas such as IPTV and mobile TV, while other operating expenses increased by CHF 11.6 million to CHF 59.7 million. Most of this increase is due to engineering and development work outsourced to third parties in our core Digital TV business.

OIBDA for the first half is at 117.7 million up by CHF 35.2 million and EBIT is at 97.3 million, up CHF 32.9 million from the first half of last year.

Interest expenses amount to CHF 5.8 million and net finance income is at CHF 2.8 million, compared to the first half 2005 loss due to the one-off convertible bond related charges.

Overall, net income more than doubles from CHF 37.9 million to CHF 90.3 million.

Basic EPS and diluted EPS are at CHF 1.70 respectively CHF 1.65 compared to CHF 0.63 in 1H2005.

Results by segment

The Digital TV segment achieved an OIBDA of 71.2 million and an EBIT of CHF 53.1 million both lower than the first half 2005, which included the effect of the swap-outs.

Public Access OIBDA and EBIT are negative, reflecting the customary seasonality of this business; yet they keep improving by CHF 1.6 million respectively CHF 3.3 million compared to the first half of last year.

Balance sheet

The Group continues to maintain a strong balance sheet, with a cash position further growing to reach CHF 474.6 million at the end of the first half 2006. It also maintained efficient working capital management, in particular reducing receivables by CHF 30.3 million compared to the end of 2005. Inventory levels were increased to shield the second half smart card business of potential issues with the supply of integrated circuits.

Net tangible fixed assets are down CHF 4.6 million, in spite of an increase of CHF 5.6 million in the net book value of land and buildings, due to the construction of a new Headquarter, completed this summer. Intangible assets increased by CHF 8.8 million, mainly reflecting the acquisition of IP licenses and technologies in the core security business. Financial assets increased by CHF 16.8 million, mainly due to a CHF 17.5 million loan granted to Ticketcorner in the context of the Group's partial divestment.

Total equity increased by CHF 77.1 million to CHF 467.6 million.

Cash flow statement

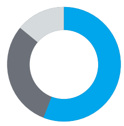
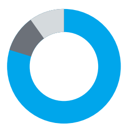
In the first half 2006, cash flow from operating activities was at CHF 70 million, substantially higher than the comparable 2003 and 2004 periods, yet lower than the first half of last year, which benefited from the high swap volumes and the reimbursements of outstanding receivables at the beginning of the year.

Outlook

In the second half of the year, we expect to further slightly increase our Digital TV revenues from the strong first half base, however with a revenue mix less favorable than in the first half year. Similarly to the first half, no material revenue contributions from swap-outs are expected in the second half.

Within Public Access, we expect the usual seasonality pattern with materially higher second half revenues, resulting into a positive full year result.

in million CHF

Revenue breakdown			
By sector	Total revenues, other operating income and gain on sale of subsidiaries	364.3	
	Net income	305.1	
	Public Access	65.1	
	Digital TV	239.9	
By region Digital TV	Total	239.9	
	Europe	137.9	
	Americas	65.9	
	Asia/Pacific	35.4	
By region Public Access	Total	65.1	
	Europe	53.6	
	Americas	6.5	
	Asia/Pacific	5.0	

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Consolidated income statements for the period ended June 30, 2006 and 2005 (Unaudited)

in CHF'000	January/June 2006	January/June 2005
Revenues	305 085	334 445
Other operating income	–	1 143
Gain on sale of subsidiary	59 236	–
Cost of material	-86 525	-106 937
Employee benefits expense	-100 436	-98 034
Other operating expenses	-59 699	-48 141
Operating income before interest, taxes, depreciation, amortization and impairment	117 661	82 476
Depreciation, amortization and impairment	-20 322	-18 017
Operating income (EBIT)	97 339	64 459
Interest expense	-5 814	-7 694
Other finance income / (expense), net	2 836	-14 562
Share of results of associates	592	331
Income before tax	94 953	42 534
Income tax expense	-4 643	-4 593
Net income for the period	90 310	37 941
Attributable to:		
- Equity holders of the company	88 271	32 298
- Minority interest	2 039	5 643
	90 310	37 941

in CHF	January/June 2006	January/June 2005
Earnings per bearer share		
– Basic	1.7045	0.6261
– Diluted	1.6451	0.6261
Earnings per registered share (not listed)		
– Basic	0.1704	0.0626
– Diluted	0.1645	0.0626

2006 Interim Report Kudelski Group

Consolidated balance sheets for the period ended June 30, 2006 and 2005 (Unaudited)

Assets

in CHF'000	30.06.2006	31.12.2005
Non-current assets		
Tangible fixed assets	130 649	135 292
Intangible assets	24 883	16 041
Investments in associates	7 146	7 559
Deferred income taxes	24 451	27 255
Financial assets and other non-current assets	40 742	23 974
Total non-current assets	227 871	210 121
Current assets		
Inventories	63 902	51 424
Trade accounts receivable	142 355	172 608
Other current assets	38 923	48 456
Financial assets at fair value through profit or loss	9 372	9 822
Cash and cash equivalents	474 569	434 685
Total current assets	729 121	716 995
Total Assets	956 992	927 116

Equity and Liabilities

in CHF'000	30.06.2006	31.12.2005
Capital and reserves		
Share capital	518 528	516 829
Reserves	-78 514	-153 364
Treasury shares	-380	-380
Equity attributable to equity holders of the parent	439 634	363 085
Minority interest	28 007	27 408
Total equity	467 641	390 493
Non-current liabilities		
Long-term financial debt	316 726	314 458
Deferred income tax liabilities	2 761	2 899
Employee benefits liabilities	14 131	14 080
Provisions for other liabilities and charges	4 897	4 865
Other long-term liabilities	4 034	4 287
Total non-current liabilities	342 549	340 589
Current liabilities		
Short-term financial debt	10 868	18 534
Trade accounts payable	44 688	83 100
Other current liabilities	66 689	66 916
Current income taxes	4 737	8 393
Advances received from clients	17 549	15 261
Provisions for other liabilities and charges	1 950	2 070
Derivative financial instruments	321	1 760
Total current liabilities	146 802	196 034
Total liabilities	489 351	536 623
Total equity and liabilities	956 992	927 116

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Consolidated cash flow statements for the period ended June 30, 2006 and 2005 (Unaudited)

in CHF'000	January/June 2006	January/June 2005
Net income attributable to equity holders of the company	88 271	32 298
Adjustments for:		
Current and deferred income tax	4 643	4 593
Interest expense and other finance income/(expense), net	-2 159	19 003
Allocation of the equity conversion component, transaction costs and reconstitution of redemption value of convertible bonds	2 606	3 877
Net loss on partial repurchase of convertible bond	0	336
Depreciation, amortization and impairment	20 322	18 017
Change in fair value of financial assets at fair value through profit or loss	-1 439	6 204
Net income associated companies	-592	-331
Dividend received from associated companies	1 283	502
Minority interest in net income	2 039	5 643
Non-cash employee benefits expenses	3 304	2 087
Gain on sale of subsidiary	-59 236	–
Other non cash income / expenses	-1 224	-732
Change in inventories	-12 015	18 037
Change in trade accounts receivable	25 308	41 263
Change in other net current working capital headings	372	-4 586
Interest paid	-328	-3 275
Interest received	4 237	2 146
Income tax paid	-5 405	-5 961
Cash flow from operating activities	69 987	139 121
Purchases of intangible fixed assets	-14 902	-1 743
Purchases of tangible fixed assets	-13 572	-22 216
Reimbursement of financial fixed assets and other non-current assets	48	–
Investment in financial fixed assets and other non-current assets	-3 287	-604
Disposal of subsidiaries, cash inflow	39 533	175
Purchase of subsidiaries, cash outflow	-11 114	0
Cash flow used in / from investing activities	-3 294	-24 388
Change in bank overdrafts, long-term loans and other non-current assets	-10 081	-2 092
Proceeds from employee share purchase programme	50	82
Repurchase of convertible bond	0	-17 910
Cash received from exercise of options granted	1 152	0
Dividends paid to minority interests	0	-5 490
Dividends paid to shareholders	-15 540	-10 321
Cash flow used in financing activities	-24 419	-35 731
Effect of foreign exchange rate changes on cash and cash equivalents	-2 390	2 475
Net increase (decrease) in cash and cash equivalents	39 884	81 477
Cash and cash equivalents at January 1	434 685	197 718
Cash and cash equivalents at June 30	474 569	279 195
Net increase (decrease) in cash and cash equivalents	39 884	81 477

Consolidated statement of changes in equity (Unaudited)

in CHF'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority Interest	Total equity
January 1, 2005	515 596	50 972	-309 866	–	992	-380	22 545	279 859
Currency translation adjustment					-517		2 168	1 651
Net profit			32 298				5 643	37 941
Total recognized income & expense for the period			32 298		-517		7 811	39 592
Minority interest disposed of							-161	-161
Employees share purchase program	33	86						119
Employee stock option plan			330					330
Shares issued for employees	433	1 176						1 609
Dividends paid to shareholders			-10 321					-10 321
Dividends paid to minority interests							-5 490	-5 490
June 30, 2005	516 062	52 234	-287 559	–	475	-380	24 705	305 537
January 1, 2006	516 829	53 284	-240 668	33 470	550	-380	27 408	390 493
Currency translation adjustment					-688		-1 440	-2 128
Net profit			88 271				2 039	90 310
Total recognized income & expense for the period			88 271		-688		599	88 182
Employees share purchase program	24	47						71
Employee stock option plan	576	576	266					1 418
Shares issued for employees	1 099	1 918						3 017
Dividends paid to shareholders			-15 540					-15 540
June 30, 2006	518 528	55 825	-167 671	33 470	-138	-380	28 007	467 641

2006 Interim Report Kudelski Group
Notes to the interim consolidated financial statements for the period ended June 30, 2006 (Unaudited)

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting.

IFRS 1, First-time adoption of International Financial Statements is applied in preparing these interim financial statements since they are the first Kudelski Group interim financial statements. Reconciliations and descriptions of the effects of the transition from Swiss GAAP FER to IFRS on the Group's equity and its net income as of June 30, 2005 are provided in the transition to IFRS section.

Summary of significant accounting policies

These consolidated financial statements were prepared under the historical cost convention, except for items to be recorded at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2005.

Seasonality

Seasonality impacts the business segments as follows:

Digital Television:
In the Digital Television business, Christmas sales usually lead to increased new subscriptions at some of our clients and therefore higher revenues for the Group. Nevertheless this impact may be limited.

Public Access:
SkiData has strong seasonal revenue variations in particular in the ski access business as it earns most of its revenues in the fourth quarter.

Furthermore, the Digital Television business may be subject to abnormal seasonality due to bulk orders of smart cards from large customers (e.g. for swap-outs) which can substantially impact yearly revenues.

Business combinations

On May 22, 2006 the Kudelski Group closed an asset deal to acquire the assets of DTVS (Digital Television Solutions), a division of secure access solutions provider SCM Microsystems for a total consideration of USD 11 million. SmarDTV SA, Cheseaux, a newly created Swiss company owns the intellectual property and the contracts while Research and Development activities are located in La Ciotat, France.

Furthermore, the Group bought 50% of Mediacrypt AG increasing its share to 100% as of June 30, 2006.

Business combinations impacted the financial statements as follow:

CHF'000	
Tangible fixed assets	2 337
Intangible fixed assets (excl. goodwill)	6 459
Net working capital	2 644
Short term financial liability	253
Cash and cash equivalent	846
Fair value of net asset acquired	12 539
Goodwill	1 846
Acquisition costs	45
Total purchase consideration	14 430
Contingent consideration	-2 470
Cash and cash equivalent acquired	-846
Net cash outflow from acquisitions	11 114

The goodwill is fully attributable to the purchase of the assets of DTVS a division of SCM Microsystems and is attributable to the capacity of the employees to develop new products, to the entity's position in its market and synergies expected to arise from the acquisition.

The acquired businesses contributed net income of CHF 0.1 million to the Group for the period from the acquisition to June 30, 2006. If the acquisition had occured on January 1, 2006, consolidated revenues and net income for the year would have been KCHF 318 349 and KCHF 88 851 respectively.

Issuances of equity securities

Shares issued for employees

As of June 30, 2006, 109 867 bearer shares of Kudelski SA were distributed to employees for no consideration of which 45 000 shares include a five-year blocking period and 15 058 shares include a three-year blocking period. The total expense recognized in the income statement amounts to kCHF 3 017.

Employee share plan

As of June 30, 2006, 2 408 bearer shares were underwritten by employees according to the articles of the Employee Share Plan. The attributable expense in the income statement is kCHF 21.

Employee stock option plan

As of June 30, 2006, employee have exercised options for 57 527 bearer shares for a price of CHF 20 each.

Paid dividend

On May 5, 2006, the Group paid a dividend of CHF 0.30 per bearer share and CHF 0.03 per registered share. The dividend paid amounts to kCHF 15 540.

Substantial divestment

On February 17, 2006, the Group closed a sale agreement with a consortium of investors to dispose of the Tickercorner company. The Group retains a 28% stake of the Ticketcorner business. The net consideration for the equity sold was CHF 71.1 million consisting of a cash payment of CHF 53.6 million and a loan of CHF 17.5 million. Furthermore, the acquirer has reimbursed the CHF 10 million loan and committed to an earn-out payment of up to CHF 15.5 million. The net profit realized as of June 30, 2006 in connection with this divestment amounts to kCHF 59 236 and is disclosed under Gain on sale of subsidiaries.

Segment information

The primary segment information for the period ended June 30, 2006 and 2005 is as follows:

	Operating divisions									
	Digital Television		Public Access		Corporate		Eliminations		Total	
in CHF'000	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005
Revenues										
External sales	239 940	263 779	65 145	70 666					305 085	334 445
Inter-segment sales	1 136	278	297	0			-1 433	-278	–	–
Total revenues	241 076	264 057	65 442	70 666			-1 433	-278	305 085	334 445
Result										
Operating income (EBIT)	53 068	82 273	52 421	-10 143	-8 150	-7 671			97 339	64 459
Interest expense and other finance income / (expense), net									-2 978	-22 256
Share of result of associates			592	331					592	331
Income before tax									94 953	42 534
Income tax expense									-4 643	-4 593
Net income for the period									90 310	37 941

Expenses relating to Corporate include the costs of Group headquarters and the expense items which are not directly attributable to specific divisions.

Secondary segments

	Digital TV		Public Access		Total	
Sales in CHF'000	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005	Jan/June 2006	Jan/June 2005
Europe	137 863	115 998	53 596	61 934	191 459	177 932
Americas	65 868	125 281	6 459	4 940	72 327	130 221
Asia, Oceania and Africa	36 209	22 500	5 090	3 792	41 299	26 292
	239 940	263 779	65 145	70 666	305 085	334 445

Transition to IFRS

(A) Basis of transition to IFRS

The Group's financial statements for the year ended December 31, 2005 are the first annual financial statements that comply with IFRS. In preparing these interim financial statements in accordance with IFRS, the Group has applied the mandatory exceptions and certain of the exemptions from full retrospective application of IFRS.

(B) Exemptions from full retrospective application elected by the Group

(a) Business combination exemptions

The Group has applied the business combination exemptions in IFRS 1. It has not restated business combinations that took place prior to January 1, 2004. The Group did not recognize goodwill in its IFRS balance sheet since in Swiss GAAP FER it was recognized as a deduction from equity. Adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration are recognized in Retained earnings.

(b) Fair value as deemed cost

The Group has elected to measure an item of property at fair value as at January 1, 2004. The application of this exemption is detailed in note (a) to the reconciliation of equity and income statement.

(c) Employee benefits exemption

The Group has elected to recognize all cumulative actuarial gains and losses as at January 1, 2004. The application of this exemption is detailed in note (f) to the reconciliation of equity and income statement.

(d) Cumulative translation difference exemption

The Group has elected to set the previously accumulated translation differences to zero as at January 1, 2004.

(e) Designation of previously recognized financial instruments

The Group has designated certain existing financial assets as financial assets at fair value through profit or loss on January 1, 2004.

(C) Reconciliation of equity and income statement

The tables below detail the impact of the conversion of the financial statements from Swiss GAAP FER to IFRS. They reconcile the equity at June 30, 2005 and the income statement for the period January to June 2005.

Swiss GAAP FER balance sheet figures have been reclassified to be comparable with the IFRS balance sheet. Deferred income tax assets have been reclassified from current to non-current assets according to IAS 12 resulting in an increase of kCHF 12 304 at June 30, 2005 in non-current assets and a similar reduction in current assets compared to the interim financial statements released as of June 30, 2005 under Swiss GAAP FER. Furthermore the 2002 convertible bond has been reclassified from non-current liabilities to current liabilities resulting in an increase of kCHF 206 126 at June 30, 2005 in current liabilities and a similar decrease in non-current liabilities. This reclassification was necessary since the Group does not have an unconditional right to defer settlement of the liability from the cash settlement alternative.

Under Swiss GAAP FER, joint venture entities were fully integrated within the scope of consolidation. As not all control requirements for full consolidation were fulfilled under IFRS, the companies Mediacrypt AG and Nagra Thomson Licensing SA were consolidated using the proportionate consolidation. Using the proportionate consolidation for these companies impacts several balance sheet and income statement items. For clarity reasons, the impact of proportionate consolidation is disclosed as a separate column named "joint venture impact" in the reconciliations below.

Reconciliation of equity at June 30, 2005

in CHF'000	Note	Swiss GAAP FER	Effect of transition to IFRS Joint venture impact	Other changes	IFRS
Tangible fixed assets	a	135 706	-8	-1 443	134 255
Intangible assets	b	42 349	–	-27 235	15 114
Investments in associates		5 228	–	–	5 228
Deferred income taxes	g	12 304	–	8 088	20 392
Financial assets and other non-current assets		20 196	-2	–	20 194
Total non-current assets		215 783	-10	-20 590	195 183
Inventories		60 930	-1	–	60 929
Trade accounts receivable	c	119 994	-553	10 250	129 691
Other current assets		37 894	-657	–	37 237
Financial assets at fair value through profit or loss		9 616	–	–	9 616
Cash and cash equivalents		280 896	-1 701	–	279 195
Total current assets		509 330	-2 912	10 250	516 668
Total assets		725 113	-2 922	-10'340	711 851
Share capital		516 062	–	–	516 062
Reserves	i	-211 035	–	-23 815	-234 850
Treasury shares		-380	–	–	-380
Equity attributable to equity holders of the parent		304 647	–	-23 815	280 832
Minority interest	h	24 373	-5 448	5 780	24 705
Total equity	i	329 020	-5 448	-18 035	305 537
Long-term financial debt		4 177	–	–	4 177
Deferred income tax liabilities		2 034	–	–	2 034
Employee benefits liabilities	f	3 075	–	9 095	12 170
Provisions for other liabilities and charges		4 772	-1	–	4 771
Other long-term liabilities		7 632	253	–	7 885
Total non-current liabilities		21 690	252	9 095	31 037
Short-term financial debt	d	230 603	-276	-8 608	221 719
Trade accounts payable		65 757	3 151	–	68 908
Other current liabilities	f	54 766	-299	-734	53 733
Current income taxes		3 105	-167	–	2 938
Advances received from clients		10 064	-1	–	10 063
Provision for other liabilities and charges		10 108	-134	–	9 974
Derivative financial instruments	e	–	–	7 942	7 942
Total current liabilities		374 403	2 274	-1 400	375 277
Total liabilities		396 093	2 526	7 695	406 314
Total equity and liabilities		725 113	-2 922	-10 340	711 851

Reconciliation of Income Statements for the period ended June 30, 2005

			Effect of transition to IFRS		
	Note	Swiss GAAP FER	Joint venture impact	Other changes	IFRS
in CHF'000					
Revenues	j	323 674	-23	10 794	334 445
Other operating income	k	6 480	–	-5 337	1 143
Cost of material		-106 203	-734	–	-106 937
Employee benefits expense		-97 858	154	-330	-98 034
Other operating expenses		-48 418	277	–	-48 141
Operating income before interest, taxes, depreciation and amortization		77 675	-326	5 127	82 476
Depreciation, amortization and impairment	b	-21 396	3	3 376	-18 017
Operating income (EBIT)		56 279	-323	8 503	64 459
Interest expense	m	-4 332	-2	-3 360	-7 694
Other finance income / (expense), net	n	7 029	-48	-21 543	-14 562
Share of results of associates		331	–	–	331
Income before tax		59 307	-373	-16 400	42 534
Income tax expense	g	-4 990	142	255	-4 593
Net income		54 317	-231	-16 145	37 941
Attributable to:					
- Equity holders of the company		48 443	–	-16 145	32 298
- Minority interest		5 874	-231	–	5 643
		54 317	-231	-16 145	37 941

Notes to the reconciliation of equity at January 1, 2005, June 30, 2005 and Income Statements ended June 30, 2005

a) The change in connection with tangible fixed assets is due to a building measured at its fair value and used as deemed cost.

CHF'000	01.01.2005	30.06.2005
Initial fair value adjustment as of January 1, 2005	-1 443	-1 443

b) Intangible assets under Swiss GAAP FER included kCHF 25 239 for capitalized developments of new products that are transferred to retained earnings since they do not qualify for recognition as intangible asset under IFRS.

CHF'000	30.06.2005
Initial net balance not recognized as of January 1, 2005	-25 239
- 2005 capitalized development under Swiss GAAP FER (note k)	-5 372
- 2005 amortization recognized under Swiss GAAP FER	3 376
Adjustment as of June 30, 2005	-27 235

c) Under Swiss GAAP FER, hedge accounting was applied to derivative instruments hedging accounts receivable. These derivatives do not qualify for hedge accounting under IFRS since they are not effective during the whole life of the coverage. They are classified as derivative financial instruments and valued at fair value under IFRS.

CHF'000	01.01.2005	30.06.2005	Income statement 01.01-30.06.05
Hedge value disclosed under trade accounts receivable under Swiss GAAP FER	650	-10 250	-10 900
Fair value of the derivative financial instruments (note e)	467	-7 401	-7 868
Adjustment	183	-2 849	-3 032

As the fair value of the derivative financial instruments is negative as of June 30, 2005, it has been classified as a liability under derivative financial instruments. Under previous GAAP, the negative value was considered as a reduction of trade accounts receivable as of June 30, 2005.

d) Under Swiss GAAP FER, the 2002/2009 convertible bond was treated as a debt instrument. Under IFRS, it is treated as a compound financial instrument in compliance with IAS 39.

CHF'000	30.06.2005
Value adjustment of the liability component of the 2002 convertible bond as of January 1, 2005	-10 854
Interest expense – allocation of the equity conversion component and transaction costs (note m)	3 360
Other finance income / (expense), net – exchange difference (note n)	-1 114
Adjustment as of June 30, 2005	-8 608

The difference includes the equity portion of the convertible bond at June 30, 2005 under IFRS as well as the corresponding allocation of the issuance costs.

e) The 2002/2009 convertible bond has a cash alternative settlement option. IAS 32 prescribes that the conversion option be classified as a fair value instrument through profit or loss and disclosed as a liability.

CHF'000	30.06.2005
Fair value of the conversion option as of January 1, 2005	2 064
Other finance income / (expense), net – fair value adjustment (note n)	-1 664
Other finance income / (expense), net – exchange difference (note n)	141
Adjustment on the fair value of the conversion option as of June 30, 2005	541
Plus:	
Fair value of the derivative financial instruments not qualifying for hedge accounting (note c)	7 401
Adjustment as of June 30, 2005	7 942

f) Under IFRS, employee benefits liabilities are adjusted as follows:

CHF'000	30.06.2005
Employee benefits according to IAS 19	12 170
Less:	
Liability according to Swiss GAAP RPC 16 included in:	
- employee benefits obligations	-3 075
- other current liabilities	-731
Initial adjustment through equity as of January 1, 2005	8 364
Reclassification from other current liabilities	734
Currency translation	-3
Adjustment and reclassification of employee benefits liabilities as of June 30, 2005	9 095

g) The above changes increase the deferred tax asset as follows:

CHF'000	30.06.2005
Intangible assets (note b)	6 126
Derivative financial instruments (note c)	-227
Employee benefits IAS 19 (note f)	2 194
Currency translation	-5
adjustment as of June 30, 2005	8 088
Less:	
Income tax expense	-255
Initial adjustment through equity as of January 1, 2005	7 833

h) Under Swiss GAAP FER, the Group applied the entity concept method to determine the minority interest. Under this method, the Group recognized minority interest on the elimination of an internal profit in joint venture companies.
A difference of kCHF 5 780 results from the cancellation of internal profit on inventory in IFRS. Minority interests reconciles as follows:

CHF'000	30.06.2005
Initial net balance not recognized as of January 1, 2005	5 143
Currency translation	637
Adjustment as of June 30, 2005	5 780

i) Adjustments to retained earnings / equity as of January 1, and June 30, 2005 are as follows:

	Equity adjustments 01.01.2005 CHF'000	Income statement impact January/June 2005 CHF'000	Retained earnings impact January/June 2005 CHF'000	Currency translation impact January/June 2005 CHF'000	Total equity adjustment 30.06.2005 CHF'00
Tangible fixed assets (note a)	-1 443	–	–	–	-1 443
Intangible assets (note b)	-25 239	-1 996	–	–	-27 235
Derivative financial instruments (note c)	-183	3 032	–	–	2 849
Convertible bond (note d)	10 854	-2 246	–	–	8 608
Conversion option (note e)	-2 064	1 523	–	–	-541
Employee benefits – IAS 19 (note f)	-8 364	–	–	3	-8 361
Deferred tax asset (note g)	7 833	255	–	–	8 088
Stock option plan expense (note l)	–	-330	330	–	–
Impact of goodwill not recycled (note n)	–	523	-523	–	–
Impact of change in functional currency (note n)	–	-16 906	–	16 906	–
Adjustments to equity attributable to equity holders of the parent	-18 606	-16 145	-193	16 909	-18 035
Minority interest (note h)	-5 143	–	–	-637	-5 780
Adjustments to total equity	-23 749	-16 145	-193	16 272	-23 815

j) Under IFRS, revenues are adjusted as follows:

CHF'000	January/June 2005
Change in fair value of derivative financial instruments (note c)	3 032
Reclassification to other finance income/(expense), net (note n)	7 762
Adjustment January to June 2005	10 794

As derivative financial instruments did not qualify for hedge accounting under IFRS, they are reclassified in other finance income / (expense), net. Furthermore, derivative financial instruments are valued at their fair value and the difference impacting the profit and loss account is shown in note c. The total adjustment includes kCHF 106 realized gain and kCHF 10 900 unrealized loss under previous GAAP.

k) Under IFRS, other operating income is adjusted reflecting a different accounting of the developments of new products:

CHF'000	January/June 2005
Change in connection with intangible assets (note b)	-5 372
Reclassification of the profit on the sale of a subsidiary (note n)	35
Adjustment January to June 2005	-5 337

l) Under IFRS, employee benefits are adjusted as follows:

CHF'000	January/June 2005
Stock option plan expense	-330

Stock option expenses were fully recognized at grant date in 2003 under Swiss GAAP FER. However, under IFRS stock option expenses are recognized pro rata over the vesting period. Hence, the charge of kCHF 330 corresponds to this pro rata allocation of expenses.

m) Under IFRS, interest expense is adjusted as follows:

CHF'000	January/June 2005
Impact of the convertible bond treated as a compound financial instrument (note d)	-3 360

n) Under IFRS, other finance income / (expense), net is adjusted as follows:

CHF'000	January/June 2005
Reclassification of derivative financial instrument (note j)	-7 762
Fair value change of conversion option (note e)	1 664
Goodwill on sale proceeds not recycled through income statement	523
Reclassification of the profit on the sale of a subsidiary under other operating income (note k)	-35
Impact of change in functional currency - Exchange difference (note e)	-141
Impact of change in functional currency - Exchange difference (note d)	1 114
Impact of change in functional currency – Currency translation impact	-16 906
Adjustment January to June 2005	-21 543

Functional currencies of two companies were changed to meet IAS 21 requirements. Thus, translation differences impact the income statement in IFRS as opposed to the currency translation adjustment reserve as in Swiss GAAP FER.

In Swiss GAAP FER, goodwill of a company disposed of was recycled in the income statement. Using the business combination exemption of IFRS 1, it is no longer deducted from the income statement.

Reconciliation of material adjustments to the cash flow statement for the period January to June 30, 2005

kCHF 2 449 of interest paid on the 2002 convertible bond have been reclassified from financing to operating activities. Developments costs of kCHF 5 372 have been reclassified from investing to operating activities (note b). There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under Swiss GAAP FER.

Agenda 2007

Release of 2007 financial results	16 February 2007
Annual general meeting	24 May 2007

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